

Service Agreement 2016/17

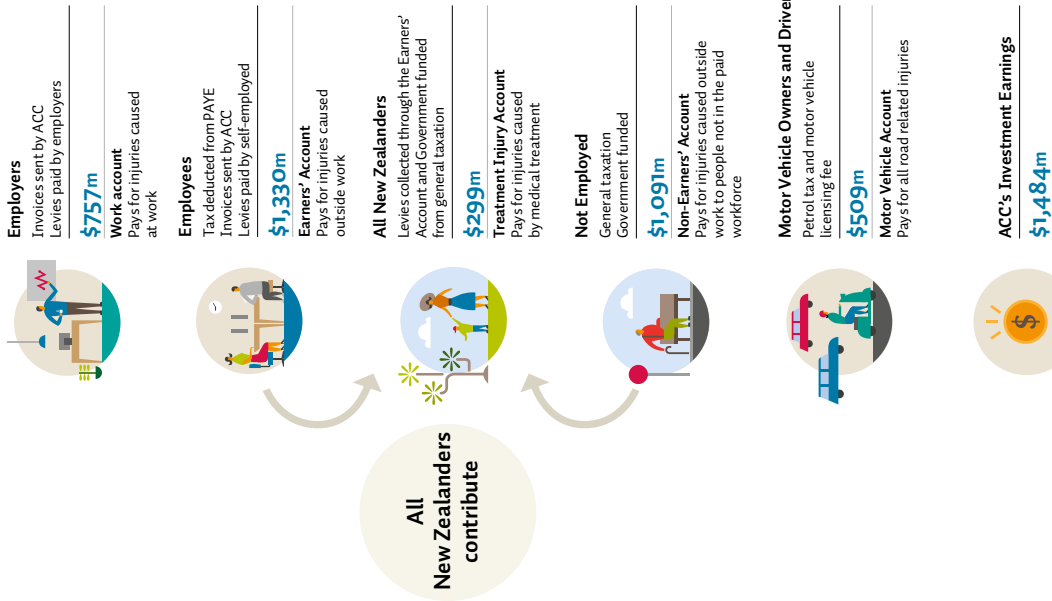
Minister for ACC and the Accident Compensation Corporation



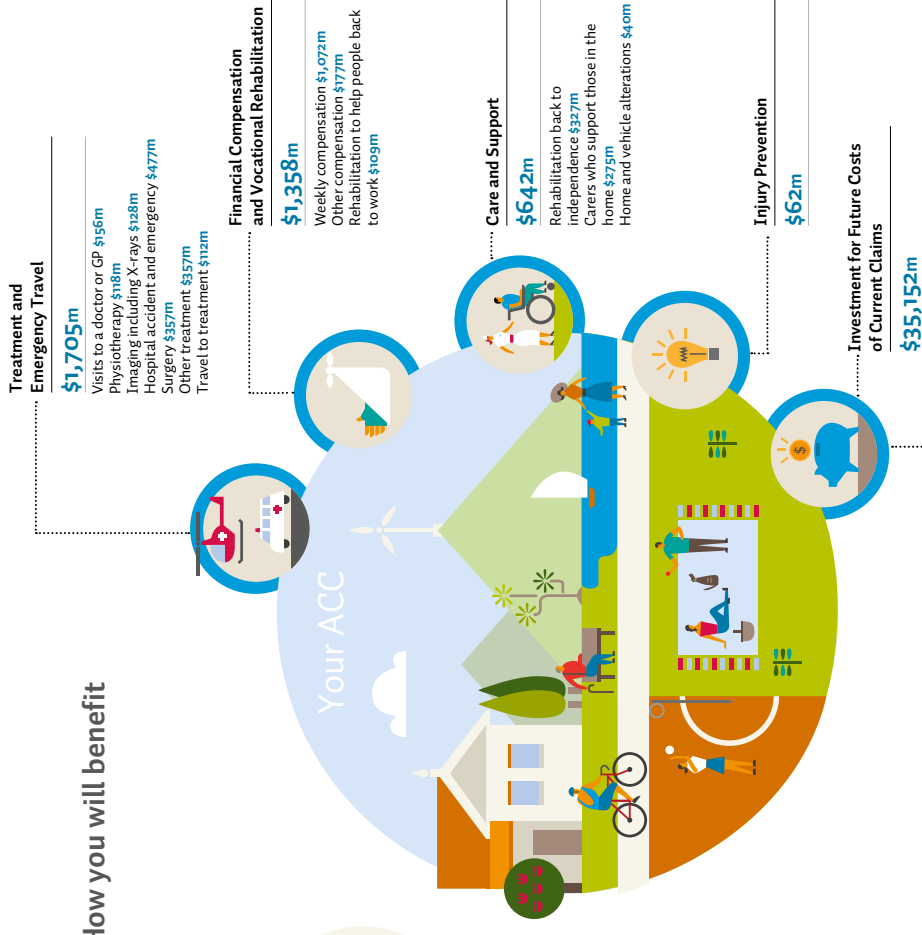
How the Scheme works for you

2016/17 Forecast

How you will contribute



How you will benefit



What everyone is covered for and entitled to is prescribed in the Accident Compensation Act 2001

ACC's financial position at 30 June 2017

\$35,057m	—	\$35,793m	=	-\$736m
Assets and investments that ACC currently has (net assets excluding outstanding claims liability)		The amount ACC needs to cover the cost of current claims (outstanding claims liability)		The gap between what ACC has and what ACC needs (net liabilities)

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Service Agreement

For the year ending 30 June 2017 between the Minister for ACC and the Accident Compensation Corporation

This Service Agreement is required under the Accident Compensation Act 2001 (the AC Act) and it also constitutes the annual Statement of Performance Expectations for the purposes of the Crown Entities Act 2004 – both as amended by the Crown Entities Amendment Act 2013.



Hon Nikki Kaye

Minister for ACC

Dated 23 June 2016



Dame Paula Rebstock DNZM

Board Chair

Dated 23 June 2016



Trevor Janes

Deputy Chair

Dated 23 June 2016

How the Service Agreement aligns with our other accountability documents

We have three key accountability documents:



Purpose of the Statement of Intent

Our Statement of Intent summarises our strategic intentions for the next four years. It includes our medium term outcomes, our vision, our areas of focus and how we assess our performance overall using a public value measurement approach. Our Statement of Intent also summarises how we maintain our organisational health: our people, our systems and our risk management framework.

Our Statement of Intent 2015-2019 can be found at www.acc.co.nz

Purpose of the Service Agreement

The Service Agreement (the Agreement) is between the Minister for ACC (the Minister) and the Accident Compensation Corporation (ACC).

The Agreement outlines for the forthcoming year:

- what we will have delivered by June 2017 to demonstrate progress against our strategic intentions
- the quality and quantity of services to be provided by ACC
- the expected cost of delivering those services
- the performance measures, targets and related information necessary for the Minister to assess our performance
- the nature and frequency of the reporting requirements against this Agreement
- how we will deliver our outputs: injury prevention, levy setting and collection, investment management and claims management.

The Agreement outlines the initiatives and outcomes that ACC will deliver. It does not impose corresponding obligations on the Minister.

Purpose of our Annual Report

Our Annual Report provides information on our progress in relation to our strategic intentions (as per our Statement of Intent) and reports on our progress during the year. The Annual Report also provides a summary of our actual results against all of the performance measures included in this Agreement.

Our Annual Reports can be found at www.acc.co.nz

The Government's key priorities

The Government's key priorities for ACC are outlined in the letter of expectations to ACC from the Minister. These are to:

- understand drivers of rehabilitation performance to plan effective strategies
- continue to build an effective and scalable injury prevention strategy
- ensure the success of Shaping Our Future.

ACC will respond to the Minister's other expectations including:

- collaborate effectively with the health sector to build a coordinated strategy to address the growing risk of treatment injuries, and progress the elective services review in an efficient manner so that positive outcomes can be realised
- support Ministry for Business, Innovation and Employment (MBIE) to develop solutions on vehicle risk rating and motorcycle levies to minimise complexity and maximise fairness for motor vehicle users, including possible legislation
- work constructively on the development and implementation of an Accident Compensation Amendment Bill, which is expected to be introduced in 2016 to enhance Scheme settings
- report more clearly on privacy breaches so as to be consistent with the standards set by the Government Chief Privacy Officer as well as internal ACC standards
- set stretch performance targets to drive improvements, particularly targeting the critical few factors that can affect Scheme sustainability. Performance indicators should be representative of both leading and lagging profiles
- utilise benchmarking to assess Scheme performance and drive improvements
- continue to support initiatives for fair, timely and cost effective dispute resolution
- communicate long-term investment plans in accordance with Cabinet Circular 15(5)
- coordinate with the Government's Chief Information Office to identify future opportunities for greater ICT (information and communications technology) system collaboration
- successfully manage operational and financial risks and continue to build resilience in Scheme performance, particularly through a period of significant change.

The 2016/17 letter of expectations from the Minister is attached in Appendix 1.

SECTION 1:

Our strategic intentions

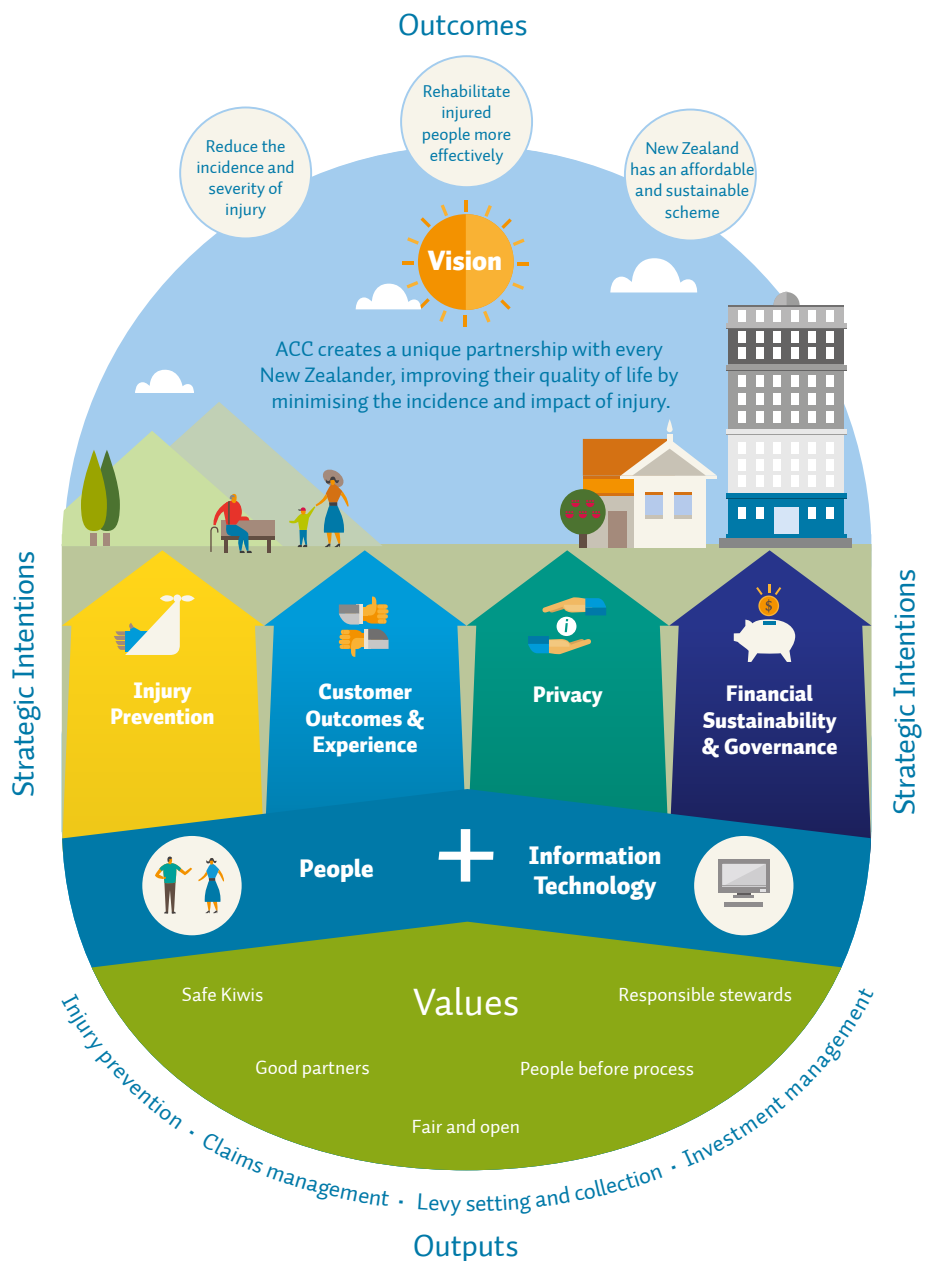
ACC’s vision and values reflect the organisation we want to be.

Our vision, values and outcomes are intended to remain constant over time, while our strategic intentions reflect the areas that we have identified as needing the most focus during the period of the Statement of Intent 2015–2019. There is a strong alignment between our outcomes and our strategic intentions.

These intentions are best expressed as a commitment to achieve:

- more successful injury prevention activities
- improved outcomes and experiences for customers
- the protection of our customers’ personal information
- the maintenance of the financial sustainability and governance of the Scheme.

The transformation of ACC to improve the services we provide to New Zealanders is well underway. Our Shaping Our Future strategy is all about us looking through the eyes of our customers in order to make ACC more effective and efficient, and building the public’s trust and confidence. We will carefully maintain the delivery of the Scheme while we work through this extended period of change.



What we will deliver in 2016/17

This Agreement summarises for each strategic intention what we will have delivered by June 2017 and sets out the performance measures on which we will report quarterly to assess whether our activities are making a difference. These performance measures are the same as those summarised in our Statement of Intent 2015-2019.

We use four categories to provide an assessment of the public value that we have delivered:

- **Reach** – the proportion of the New Zealand population served
- **Customer** – the quality and effectiveness of the services provided
- **Impact** – how effective we are at delivering the desired outcomes
- **Cost effectiveness** – value for money and financial sustainability.

Each measure has a target for each year from 2016/17 to 2019/20.

Increase the success of our injury prevention activities

What we want to achieve	What we will have delivered by June 2017
We understand which areas will have the most impact on reducing the severity and incidence of injury for New Zealanders and this is where we focus our activity.	<p>We will have collaborated effectively with the health sector to build a coordinated strategy to address the growing risk of treatment injuries, we will have understood where treatment injuries occur and what causes them and we will be implementing targeted programmes to reduce the severity and incidence of treatment injury in New Zealand, contributing to a positive return on investment.</p> <p>We will have developed a product strategy that re-focuses all workplace related products, tools and interventions to ensure they are working well together to reduce workplace injuries effectively.</p>
We use our partner's expertise and reach to deliver and design effective injury prevention interventions.	<p>Together with WorkSafe New Zealand, we will have established and implemented an agreed plan that outlines all workplace injury prevention programmes and funding that will be undertaken by the two agencies (jointly and separately).</p> <p>We will have worked with our partners, using their expertise and reach, to help us design and deliver effective injury prevention interventions that reduce the incidence and severity of injuries:</p> <ul style="list-style-type: none"> • in sport and recreational activities • on our roads • in our communities • caused by sexual or family violence • caused by falls, particularly falls in the elderly and working age population.
Injury prevention interventions are assessed to ensure they contribute to an overall reduction in the outstanding claims liability.	We will be using a broad social marketing approach to change people's behaviour around injury prevention.

How we will know we are on track

	Measure	Rationale	Actual		Target			
			2014/15	Mar 16	2016/17	2017/18	2018/19	2019/20
Cost effectiveness	The portfolio of injury prevention investments will have an assessed positive return on investment.	<p>We take a portfolio approach. This means overall we expect our injury prevention programmes to deliver positive returns on investment.</p> <p>Taking a portfolio approach means we are able to invest in a wide range of injury prevention activities with a mixture of higher and lower expected returns across the individual activities.</p>	\$1.34:\$1	\$1.63:\$1	\$1.35:\$1	\$1.6:\$1	\$2:\$1	\$2:\$1
Reach	The number of people directly impacted by injury prevention programmes.	The success of our injury prevention programmes relies on our ability to connect with a large number of New Zealanders.	New measure	New measure	250,000	275,000	320,000	360,000

Improve our customers' outcomes and experiences

What we want to achieve	What we will have delivered by June 2017
New Zealanders understand what we do and how we can help them.	We will be better organised to understand our customers' experiences and we will be using that knowledge to develop our services to meet their needs.
Customers receive the services they need, when they need them.	<p>We will have measurement and performance tracking in order to create stretch targets to improve operations performance.</p> <p>We will have rationalised the set of metrics to focus on those that will truly drive success and Scheme sustainability.</p> <p>We will be continuing to use data to gain greater insights into the relationship between external factors and our internal performance. These insights will enable robust decision-making on priorities as part of our Transformation Programme and business as usual activities.</p> <p>We will have fully embedded our Operations group model creating a better alignment of goals, functions and accountabilities to improve performance and prepare for our Transformation Programme.</p> <p>We will have undertaken a full review of rehabilitation performance and have developed a strategic response to performance that will enable improvements in outcomes.</p> <p>We will have worked collaboratively with the Minister and officials through the detailed design phase of our Transformation Programme and sought guidance where legislation is found to be an impediment to the implementation of good process through the Programme.</p> <p>We will have successfully delivered, or be well underway with, the Programme's initiatives identified for the first stage, including:</p> <ul style="list-style-type: none"> • Increased access to online self-service tools for business customers • Better client service as a result of improved processes and systems • Improved relationships with providers, including the ability to receive information digitally and increased uptake of digital registration • Provision of improved data to claims staff to better understand individual client needs • Increased staff access to customer feedback. <p>We will have met the planned milestones and delivered the targeted initiatives.</p> <p>We will continue to support initiatives to deliver fair, timely and cost effective dispute resolution and we will have considered and appropriately responded (currently in progress) to the findings of the independent review by Miriam Dean.</p> <p>We will have continued to apply an investment approach to the design of customer interventions (and related injury prevention initiatives) to ensure our customers get the right care at the right time. We will do this while also ensuring we maintain or improve Scheme sustainability.</p> <p>We will have worked constructively with MBIE and the Minister for ACC to support the development and introduction of an Accident Compensation Amendment Bill as required.</p> <p>We will have an increasingly diverse and inclusive workforce that listens to, values and respects our customers' unique needs.</p> <p>We will have improved the way we engage with and deliver services to Māori.</p> <p>We will have continued to provide a client self-management programme for selected, long-term clients.</p>
We empower providers to deliver the right care, at the right time, by building effective trust and partnerships.	<p>We will have increased the scale and effectiveness of the health sector engagement approach to encourage providers to deliver the right care at the right time for our injured clients, supporting their return to work and independence.</p> <p>We will have aligned our goals with those of providers to deliver an efficient, effective and affordable service for clients to help them back to pre-injury life.</p> <p>We will have designed improved ways for ACC to purchase and support the delivery of quality, integrated, cost effective elective services that lead to better overall client experiences and outcomes.</p>
We take customer feedback seriously and improve services as a result.	<p>We will have improved processes in place through which we can listen to and understand customers' experiences, and be using those insights to deliver services better tailored to meeting customer needs.</p> <p>We will have used our customer advocacy network to support us to understand customer experiences and be using their feedback to improve our services.</p>
Partnering is the essence of what we do and how we engage with others.	We will be continuing to support the Better Public Services Result 9: Improving Businesses' Interactions with Government programme, including our commitment to recognise the New Zealand Business Number by the end of 2017.

How we will know we are on track

Measure	Rationale	Actual		Target			
		2014/15	Mar 16	2016/17	2017/18	2018/19	2019/20
Customer satisfaction – clients.	The best measure of how well we are tracking in our efforts to improve the customer experience is by asking our clients and levy payers.	76%	75%	76%	77%	80%	80%
Customer satisfaction – levy payers.		69%	70%	71%	72%	75%	77%
Public trust and confidence. ¹	The way the public views ACC is a useful indicator of how effectively we have communicated the value that ACC delivers, and demonstrated this in our interactions with levy payers, clients, providers and stakeholders.	58%	61%	62%	65%	70%	72%
Cover decision timeliness.	We try to make cover decisions and payments as quickly as possible in order to reduce uncertainty for our clients.	1.2 days	1.1 days	1.2 days	1.2 days	1.2 days	1.2 days
Average time to commence weekly compensation payments.		9.2 days	8.5 days	<9.0 days	<8.5 days	<8.0 days	<6.0 days
Formal reviews as a percentage of entitlement claims.	If we make the right decisions and communicate effectively with our clients during the process, we can expect most of our decisions to be accepted and understood.	2.7%	2.7%	2.6%	2.4%	2.3%	2.3%
Percentage of ACC reviews upheld.	If most independent reviews find in our favour, this suggests that we are usually making correct and fair decisions the first time around.	84%	85%	≥85%	≥85%	≥85%	≥85%
Average time to resolution for claims with reviews.	When a client asks for a review of an ACC decision, early resolution is important as this is likely to be a stressful time for them.	92 days	88 days	<90 days	<90 days	<89 days	<89 days

¹ From 2016/17 on we will be reporting the rolling four quarter trust and confidence result. Previously we have only reported the June quarter's result. This means these 2014/15 results differ from those reported in the Annual Report 2015.

	Measure	Rationale	Actual		Target			
			2014/15	Mar 16	2016/17	2017/18	2018/19	2019/20
Impact	Return to work within 10 weeks.	Research confirms that when people make rapid returns to independence or work after injury, their overall health and wellbeing is significantly improved. These measures evaluate how effectively we are supporting our clients to return to work or independence, and whether their returns are sustained.	67.3%	67.3%	67.5%	68.6%	69.5%	70.1%
	Return to work within nine months (273 days).		93.2%	92.8%	92.8%	93.0%	93.3%	93.3%
	Durable return to work rate. ²		80%	Annual measure	1% above previous year Australian average	1% higher than Australia's	1% above previous year Australian average	1% higher than Australia's
	Return to independence for those not in the workforce.		86%	86.8%	86%	86%	86%	86%
	Number of long-term clients returned to independence in the previous 12 months.	We continue to work with long-term clients so they can have as full a role in society as possible.	2,467	2,610	2,950	3,410	3,793	4,320
Reach	Percentage of population who receive compensation or rehabilitation services.	This measure provides context for our services by indicating the proportion of the New Zealand population served.	30.5%	30.7%	30.6%	31.7%	32.5%	32.9%

Improve the way we protect our customers' personal information

What we want to achieve

What we will have delivered by June 2017

Our people respect and protect customer information as if it were their own.

We will have improved our system-wide privacy capability, demonstrating greater maturity against the Government's Privacy Maturity Assessment Framework.

We will have aligned our privacy breach reporting with the guidance set by the Government Chief Privacy Officer and with a greater focus on the 12 Information Privacy Principles.

Processes and systems are designed to minimise the possibility of privacy breaches occurring.

We will have used a privacy by design approach to embed privacy improvements into the design of ACC's systems.

How we will know we are on track

	Measure	Rationale	Actual		Target			
			2014/15	Mar 16	2016/17	2017/18	2018/19	2019/20
Customer	The number of category 3, 4 and 5 privacy breaches and near misses (as defined by the Government Chief Privacy Officer's privacy matrix).	We deal with confidential and sensitive information for a large number of people and entities. Our customers expect us to protect this information and maintain our progress in reducing privacy breaches.	New measure	New measure	<5 per year No category 5 privacy breaches	<5 per year No category 5 privacy breaches	<5 per year No category 5 privacy breaches	<5 per year No category 5 privacy breaches

² Australian schemes are now only assessed every two years, with the most recent in 2013/14 and the next scheduled for 2015/16. Our result of 80% in 2014/15 is 3% higher than the 2013/14 Australian average of 77%.

Maintain the financial sustainability and governance of the Scheme

What we want to achieve	What we will have delivered by June 2017
We optimise our performance and resources are aligned with our strategic priorities.	We will have worked collaboratively with the corporate centre to implement the requirements of Cabinet Circular 15(5) and communicate our Long Term Investment Plan.
	We will have refreshed our cascade of performance measures to improve the visibility of and access to meaningful performance information for the Executive.
	We will have completed our transition to the Christchurch Integrated Government Accommodation as a leader in the Government's commitment to Christchurch and its central business district.
We enable a stable and transparent levy path.	We will have an ACC strategy that enables us to make informed property decisions about future sites with regard to location, size and function to meet customer need and create better efficiencies.
	We will have worked with MBIE to develop an enhanced vehicle risk rating system and designed motorcycle levies to minimise complexity and maximise fairness for motor vehicle users.
	We will have an improved understanding of our cost drivers to improve our forecasting, influence the way we work with providers, drive value-for-money initiatives and provide cost pressure transparency to the corporate centre.
We maintain our investment performance above benchmarks.	We will have increased levy stability by enhancing the clarity and transparency of the levy setting approach.
	We will have continued to manage our investments efficiently with the objective of obtaining the best possible balance of return and risk.
	We will have a clear understanding and consideration of risks when making decisions.
Risk management is embedded in our culture and systems.	There will be consistent and quality risk management practices across ACC.
	We will have improved the quality and impacts of risk reporting.

How we will know we are on track

Measure	Rationale	Actual		Target			
		2014/15	Mar 16	2016/17	2017/18	2018/19	2019/20
Cost effectiveness	Percentage of total expenditure paid directly to clients or for services to clients.	82.1%	86.6%	86.3%	87.1%	87.4%	88.0%
	Total levies and appropriations as a percentage of gross domestic product.	1.8%	Annual Measure	1.6%	1.5%	1.5%	1.5%
	Change in average treatment cost per injury.	3.4%	3.2%	≤4.0%	≤4.1%	≤4.1%	≤4.2%
	Ratio of this year's total levies to the total claims incurred for this year's accidents over time.	1.0	Annual Measure	0.9-1.1	0.9-1.1	0.9-1.1	0.9-1.1
	Investment performance after costs relative to benchmark.	0.49%	0.23%	0.30%	0.30%	0.30%	0.30%
	Return from insurance operations.	This measures our internal operational performance, excluding gains and losses driven by external economic factors.	\$320 million	\$203 million	(\$135) million	\$42 million	(\$11) million

Organisational health and capability

To deliver on our strategic intentions we need high performing, customer focused teams that are supported by modern, reliable and secure systems. This section sets out the actions we intend to take during 2016/17 to improve our organisational health and capability.

Workforce profile and equal opportunities (as at March 2016)



* This information is voluntarily reported by staff.

We are committed to being an equal employment opportunity (EEO) employer through our organisation-wide EEO good employer practices relating to the recruitment and selection, development and retention of all staff.

Our people are engaged and feel empowered to make decisions so that we deliver a consistently great customer experience

What we want to achieve	What we will have delivered by June 2017
We have a diverse and high performing workforce empowered to deliver a consistently great customer experience.	<p>We will have defined the core capabilities required for frontline roles and embedded our behavioural competencies within the business. These will reflect the vision, values and culture required to support transformation and ensure we have the right people in the right roles at the right time.</p> <p>We will be using the talent management framework to inform how we develop and build capability in our key performers and leadership roles.</p> <p>We will be designing and delivering business group changes that are aligned with the Transformation Programme's future requirements and the Shaping Our Future strategy.</p>
Our people are proud to work here and tell others how great ACC is.	<p>We will have defined career pathways for frontline roles which will be supported by a structured learning and development programme and qualifications, making it easier to attract and retain key talent.</p> <p>We will have improved employee performance across the organisation by simplifying the performance development cycle and encouraging greater collaboration among employees and managers.</p> <p>Our people's performance objectives and measures will be better aligned with our organisational priorities, resulting in improved performance.</p>
We are an exemplar in health, safety and wellbeing.	We will have delivered an integrated and mature safety system that not only ensures compliance with legislation but is continually improving health, safety and wellbeing.
We have trusted and capable leaders at all levels.	We will have defined leadership development pathways for leaders and development plans that enhance their capability to lead their teams through transformation.

How we will know we are on track

Measure	Rationale	Actual		Target			
		2014/15	Mar 16	2016/17	2017/18	2018/19	2019/20
Staff turnover.	Overall staff turnover is an important measure of ACC as an employer. Low turnover supports the delivery of improved customer services.	12.1%	12.3%	≤15%	≤15%	≤15%	≤15%
High achiever turnover.	A 'high achiever' is someone who has scored a 5/5 in their annual performance review. Turnover of high performers leads to costs due to lost productivity, recruiting and training, and also to losses of overall organisational knowledge and leadership.	8.1%	7.5%	≤10%	≤10%	≤10%	≤10%
Ratio of engaged staff to actively disengaged staff.	Organisations with highly engaged staff have high levels of performance and productivity.	6.0:1	Annual Measure	7.0:1	7.5:1	7.75:1	8.0:1

ACC is powered by current, reliable and secure information technology

What we want to achieve	What we will have delivered by June 2017
We have simple and modern business systems.	We will have achieved operational efficiencies in our human resources (HR) tools by integrating PeopleSoft with other operational systems and automating key HR processes.
We have secure, private, automated information management practices.	We will have continued to develop and roll out appropriate information management practices, incorporating our privacy by design approach.
We deliver a consistent customer experience across our channels, making better use of digital and modern technologies.	The first stage of our contact centre refresh will be completed, designed to deliver a more consistent customer experience across our multiple contact centres through a better use of our existing and emerging technologies, improved demand management practices and refreshed mechanisms for acting on customer feedback.
We maintain stability across the business systems environment.	We will have delivered our IT maintenance programme to ensure that platforms and technologies remain stable, secure and supportable. We will have actively engaged with the Government's Chief Information Office to identify future opportunities for greater ICT system collaboration.

How we will know we are on track

Measure	Rationale	Actual		Target			
		2014/15	Mar 16	2016/17	2017/18	2018/19	2019/20
Overall operational system availability.	Our systems need to be available so that we can deliver the services our customers expect.	99.7%	99.5%	99.5%	99.5%	99.5%	99.5%

Our Transformation Programme

Work is underway to roll out customer service initiatives following the approval by the ACC Board of our Transformation Programme. ACC will deliver the programme in two stages in a five year period. The first stage focuses on solutions that can be delivered in a relatively short time period. These include service improvements for business customers (levy payers) such as simplified levy invoices.

This first stage, which is underway, builds on existing momentum through simplifying systems and processes for clients and business customers, and improves integration with health provider practice management systems. At the end of this stage, the weekly compensation experience will be improved for clients, and business customers will be able to access on-line levy information through an ACC portal.

The second stage starts in early 2018. It builds on the enhanced digital access provided to all customers in the first stage and gives clients and providers the tools and information necessary to improve rehabilitation and return to work outcomes. At the end of this stage clients will be able to have further digital access, in particular to their claim information, including viewing and sharing their rehabilitation pathways. Providers will be able to adjust clients' rehabilitation pathways based on clinical best practice, and business customers will have greater visibility of how their levies contribute to return to work outcomes.

There are six investment objectives for the programme:

Investment objective	Description	Related measures ³
Improve the productivity of ACC.	Improve the productivity of ACC by increasing claims processed per full-time equivalent.	Percentage of total expenditure paid directly to clients or for services to clients. Return from insurance operations.
Reduce total weekly compensation days paid.	Reduce the number of productive days lost to injury that are attributable to ACC's management of cases.	Return to work within 10 weeks. Return to work within nine months. Durable return to work rate.
Improve levy collection through better quality information, reducing time to payment and lowering bad debt.	Increase levy revenue collection by improving the timing of levy invoicing and cash collection for business customers, and transition to a self-service digital channel to resolve customer queries quickly.	Customer satisfaction – levy payers. Return from insurance operations.
Improve customer trust and confidence in ACC.	Improve customer experiences, while delivering services through a simplified business operating structure and enhanced technology platform.	Public trust and confidence. Customer satisfaction – clients. Customer satisfaction – levy payers.
Empower and engage ACC staff to deliver ACC's core services more effectively.	Equip staff with the right tools and capabilities to enable them to be high performing employees.	Ratio of engaged staff to actively disengaged staff.
Reduce the exposure to operational failures through improving the operational resilience of our people, processes and technology.	Reduce the exposure to operational failures through improving the operational resilience of our people, processes and technology.	Measures currently under development.

³ The expected impact of the Transformation Programme has been accounted for in the performance measure targets.

SECTION 2:

ACC's statement of performance expectations by output

This section sets out the outputs that we are funded to provide. Outputs are the actual products and services that ACC provides to its stakeholders.

The information includes:

- the link between our strategic intentions and outputs
- a brief explanation of what is intended to be achieved within each output
- an explanation of how performance under each output will be assessed – where possible these measures evaluate our performance in terms of quality, cost and timeliness. There is duplication between the measures reported against our strategic intentions and those reported within the outputs. Additional cost effectiveness measures are included within the output measures
- activity information – this is contextual or service demand information to provide greater context for our performance measures. Significant variations in demand can influence the achievement of our performance measures' targets.

Breakdown of budget against output classes

Budget 2016/17 (\$million)	Administration	Claims paid	Revenue
Output class 1 – Injury prevention	62		
Output class 2 – Levy setting and collection	41		3,987
Output class 3 – Investment management	64		1,484
Output class 4 – Claims management	417	3,724	
Total	584	3,724	5,471
Other operating costs	70		
Total ACC	654	3,724	5,471

Aligning our strategic intentions to the outputs

There is a clear relationship between our strategic intentions and outputs.



OUTPUT 1:

Injury prevention

What is intended to be achieved?

ACC is one of a number of government agencies with a responsibility to reduce the incidence and severity of injury in New Zealand.

We can only undertake an injury prevention activity if it is likely to result in a cost effective reduction in actual or projected levy rates or the Non-Earners' appropriation. This requirement means that we focus our effort on injuries that affect the Scheme, such as high cost and high volume claims that affect claim costs, the outstanding claims liability and levies.

We work with non-government organisations, community groups and other government agencies so that the activities and funding are effective. This coordination role is as important as directly funding injury prevention interventions.

How will we know we have achieved this?

Output 1 – Injury prevention

	Measure	Rationale	Actual		Target			
			2014/15	Mar 16	2016/17	2017/18	2018/19	2019/20
Cost effectiveness	The portfolio of injury prevention investments will have an assessed positive return on investment.	We take a portfolio approach. This means overall we expect our injury prevention programmes to deliver positive returns on investment. Taking a portfolio approach means we are able to invest in a wide range of injury prevention activities with a mixture of higher and lower expected returns across the individual activities.	\$1.34:\$1	\$1.63:\$1	\$1.35:\$1	\$1.6:\$1	\$2:\$1	\$2:\$1
Reach	The number of people directly impacted by injury prevention programmes.	The success of our injury prevention programmes relies on our ability to connect with a large number of New Zealanders.	New measure	New measure	250,000	275,000	320,000	360,000

OUTPUT 2:

Levy setting and collection

What is intended to be achieved?

The Scheme is managed through five Accounts, with each providing cover for a specific grouping of injuries.

In order for us to deliver services we must collect revenue. Through our levy setting process we calculate our future revenue needs for each Account. We recommend levies that are sufficient to cover the costs of claims incurred in that year. The recommendations are consulted on with levy payers and provided to Cabinet for consideration.

How will we know we have achieved this?

Output 2 – Levy setting and collection

Measure	Rationale	Actual		Target			
		2014/15	Mar 16	2016/17	2017/18	2018/19	2019/20
Customer satisfaction – levy payers.	The best measure of how well we are tracking in our efforts to improve the customer experience is by asking our clients and levy payers.	69%	70%	71%	72%	75%	77%
Ratio of this year's total levies to the total claims incurred for this year's accidents over time.	This provides an indicator of how well levies are matched to the costs incurred each year as a result of accidents, ensuring intergenerational fairness.	1.0	Annual measure	0.9-1.1	0.9-1.1	0.9-1.1	0.9-1.1
Total levies and appropriations as a percentage of gross domestic product.	This measure indicates whether the Scheme is becoming more or less affordable and sustainable for New Zealand.	1.8%	Annual measure	1.6%	1.5%	1.5%	1.5%

How we are funded

The Account and who funds it	What's covered	2013/14	2014/15	2015/16	2016/17 forecast
Work Account Employers: Based on wages paid to staff Self-employed: Based on income earned	WORK RELATED INJURIES	\$1.15 per \$100 liable earnings	\$0.95 per \$100 liable earnings	\$0.90 per \$100 liable earnings	\$0.80 per \$100 liable earnings
Earners' Account Employees: Based on income earned Self-employed: Based on income earned	NON-WORK INJURIES TO PEOPLE IN EMPLOYMENT	\$1.48 per \$100 liable earnings	\$1.26 per \$100 liable earnings	\$1.26 per \$100 liable earnings	\$1.21 per \$100 liable earnings
Motor Vehicle Account Vehicle owners: Funded through petrol use and the motor vehicle licensing fees	INJURIES THAT INVOLVE MOVING MOTOR VEHICLES ON PUBLIC ROADS	\$334.52 per motor vehicle	\$330.68 per motor vehicle	\$195.00 per motor vehicle	\$131.00 per motor vehicle
Non-Earners' Account The Government: Funded by general taxation	INJURIES THAT HAPPEN TO PEOPLE NOT IN THE PAID WORKFORCE				
Treatment Injury Account All New Zealanders: Funded by the Earners' and Non-Earners' Accounts	INJURIES CAUSED BY MEDICAL TREATMENT				

Before 1999, ACC was funded on a pay-as-you-go basis. Under the AC Act, ACC is required to be fully funded for all pre-1999 injuries by 2019. The Non-Earners' Account and the Government funded portion of the Treatment Injury Account do not have full funding targets.

Activity information

Income by Account

The table below shows the 2016/17 forecast number of funders, and the levy and appropriation revenue, for each Account.

		2016/17 Forecast
Levy funded Accounts		
Work Account	Number of employed and self employed	2,425,000
	Levy revenue (\$million)	757
Earners' Account	Number of earners	2,425,000
	Levy revenue (\$million)	1,330
Motor Vehicle Account	Number of vehicles	3,403,000
	Levy revenue (\$million)	509
Government funded Account		
Non-Earners' Account	Number of non-earners	2,260,000
	Government appropriation (\$million)	1,091
Mixed funded Account		
Treatment Injury Account	Number of non-earners	2,260,000
	Government appropriation (\$million)	140
	Number of earners	2,425,000
	Levy revenue (\$million)	159

Scheme solvency

Financial sustainability is best shown by Scheme solvency, which is measured as the ratio of net assets to the outstanding claims liability in each of ACC's Accounts and provides an indication of funding adequacy. Year-on-year improvements in Scheme solvency are the measures of ACC's performance against the full funding target for each levied Account.

Each Account operates independently and cannot cross-subsidise another. For this reason we also monitor forecast funding ratios by Account for the year.⁴

As at 30 June (%)	Forecast 2015/16	Budget 2016/17
Motor Vehicle Account	112.0%	113.0%
Non-Earners' Account	43.8%	43.7%
Earners' Account	117.8%	114.0%
Treatment Injury Account	72.5%	73.5%
Work Account	116.0%	117.2%
ACC	95.3%	95.0%

The Non-Earners' and Treatment Injury Accounts' total solvency positions appear low. Both the Non-Earners' Account and the Treatment Injury Account are funded in a way consistent with the AC Act.

⁴ The Work Account funding ratio model shown includes the additional liability for Work Related Gradual Process Claims not yet made. When only including the outstanding claims liability for claims made to ACC (as required by the AC Act and in accordance with accounting standards):

- the total forecast ACC Work Account funding ratio as at 30 June 2016 is 137.3%
- the total forecast ACC funding ratio as at 30 June 2016 is 98.3%
- the budgeted Work Account funding ratio as 30 June 2017 is 138.6%
- the total budgeted ACC funding ratio as at 30 June 2017 is 97.9%

OUTPUT 3:

Investment management

What is intended to be achieved?

The purpose of our investment portfolio is to meet the future costs of claims from long-term injuries without the need for any catch-up contributions from future levy payers. To meet this purpose, we tend to favour long-term investments that we expect to deliver relatively certain income streams for long periods of time. Such investments match our long-term cash flow requirements, and also tend to provide an offset against the risk of declines in interest rates. Interest rate declines mean that future cash claims will cost more and, if not offset by strong investment returns, may create a need for levy increases.

We intend to manage our investments with the objective of obtaining the best possible balance of return and risk. To this end, we:

- review strategic asset allocations to ensure that the benchmark asset allocations provide the best possible balance of risk and expected returns for our objectives
- actively manage our investment portfolios with the objective of obtaining better risk adjusted returns from those portfolios than would be achieved from passive investment.

How will we know we have achieved this?

Output 3 – Investment management

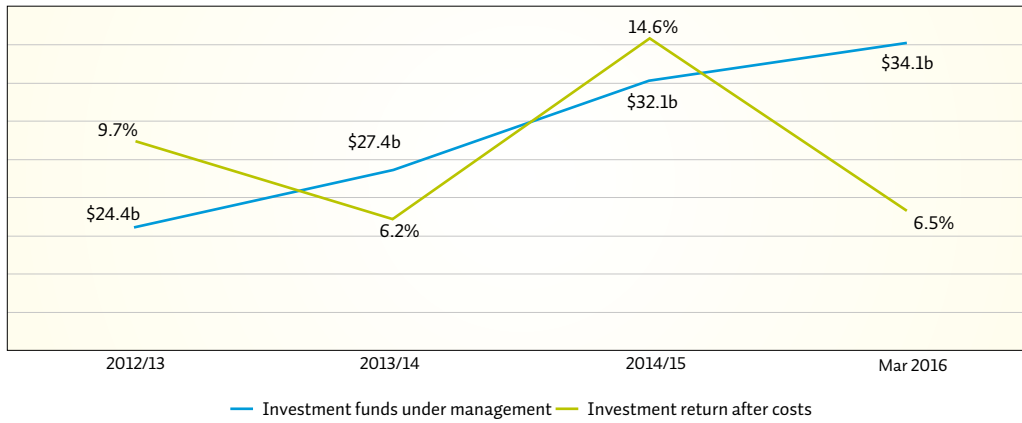
Measure	Rationale	Actual		Target			
		2014/15	Mar 16	2016/17	2017/18	2018/19	2019/20
Investment performance after costs relative to benchmark.	The quality of our investment management can only be gauged by comparing our returns with that of a similar fund (under different management). This is done through the use of a blended market average benchmark, which provides a like with like comparison with other funds.	0.49%	0.23%	0.30%	0.30%	0.30%	0.30%
Investment management costs as a proportion of total funds under management.	The efficiency of our investment management is measured by expressing total investment management costs as a proportion of the total funds under management.	0.12%	Annual measure	0.15%	0.15%	0.15%	0.15%

Activity information

Investments

ACC had \$34.1 billion of investment funds at the end of March 2016 and has returned 6.5% in the 2015/16 financial year to date.

FUNDS UNDER MANAGEMENT AND INVESTMENT RETURNS



OUTPUT 4:

Claims management

What is intended to be achieved?

We help injured people covered by the Scheme get the appropriate medical treatment, social and vocational rehabilitation services and compensation to enable a return to work, independence or everyday life.

We manage claims from the relatively minor, where clients only require primary health services (such as a one-off visit to a general practitioner), to claims from individuals who suffer serious injuries requiring lifelong services and support.

How will we know we have achieved this?

Output 4 – Claims management

Measure	Rationale	Actual		Target			
		2014/15	Mar 16	2016/17	2017/18	2018/19	2019/20
Customer satisfaction – clients.	The best measure of how well we are tracking in our efforts to improve the customer experience is by asking our clients.	76%	75%	76%	77%	80%	80%
Cover decision timeliness.	We try to make cover decisions and payments as quickly as possible in order to reduce uncertainty for our clients.	1.2 days	1.1 days	1.2 days	1.2 days	1.2 days	1.2 days
Average time to commence weekly compensation payments.		9.2 days	8.5 days	<9.0 days	<8.5 days	<8.0 days	<6.0 days
Formal reviews as a percentage of entitlement claims.	If we make the right decisions and communicate effectively with our clients during the process, we can expect most of our decisions to be accepted and understood.	2.7%	2.7%	2.6%	2.4%	2.3%	2.3%
Percentage of ACC reviews upheld. ⁵	If most independent reviews find in our favour, this suggests that we are usually making correct and fair decisions the first time around.	84%	85%	≥85%	≥85%	≥85%	≥85%
Average time to resolution for claims with reviews.	When a client asks for a review of an ACC decision, early resolution is important as this is likely to be a stressful time for them.	92 days	88 days	<90 days	<90 days	<89 days	<89 days
Return to work within 10 weeks.	Research confirms that when people make rapid returns to independence or work after injury, their overall health and wellbeing is significantly improved.	67.3%	67.3%	67.5%	68.6%	69.5%	70.1%

⁵ This includes decisions that are withdrawn, settled or in favour of ACC.

Measure	Rationale	Actual		Target			
		2014/15	Mar 16	2016/17	2017/18	2018/19	2019/20
Durable return to work rate.	These measures evaluate how effectively we are supporting our clients to return to work or independence, and whether their returns are sustained.	80%	Annual measure	1% above previous year Australian average	1% higher than Australia's	1% above previous year Australian average	1% higher than Australia's
Return to independence for those not in the workforce.		86%	86.8%	86%	86%	86%	86%
Number of long-term clients returned to independence in the previous 12 months.	We continue to work with long-term clients so they can have as full a role in society as possible.	2,467	2,610	2,950	3,410	3,793	4,320

Assessing the cost effectiveness of our claims management operations

The costs associated with this output class have the largest bearing on overall Scheme financial sustainability. We must provide quality services to clients in an efficient manner. This requires the responsible management of controllable costs, ensuring that expenditure is necessary and cost effective.

Key cost drivers are influenced by underlying claim numbers, the rate at which those claims access entitlements, the time taken to rehabilitate clients and the medical costs associated with rehabilitation. Health care inflation is also a key driver of costs in this area.

These measures are intended to enable our performance to be evaluated by the types of service provided, e.g. rehabilitation or elective surgery, in the areas that have the greatest impacts on Scheme costs. They align with the measures reported against the customer experience strategic intention, but provide greater detail with which to assess our performance during the year.

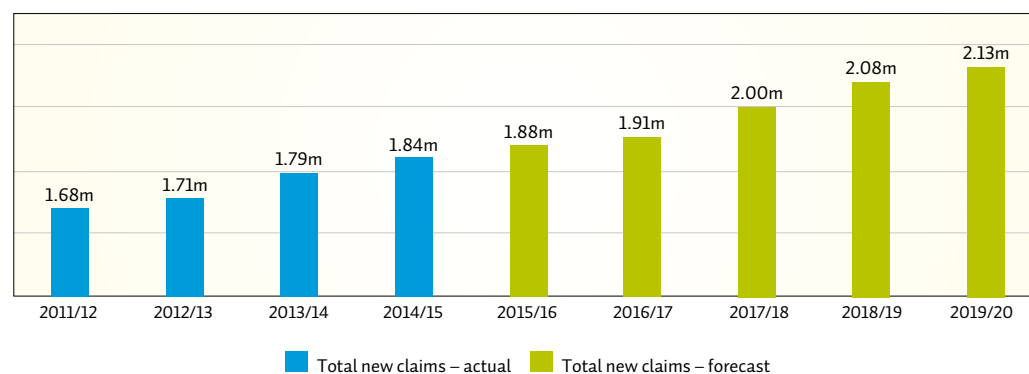
Measure	Actual		Target				
	2014/15	Mar 16	2016/17	2017/18	2018/19	2019/20	
Social rehabilitation for serious injury	Growth in average care hours packages.	2.4%	Annual measure	≤2.1%	≤2.1%	≤2.1%	≤2.1%
	Proportion of clients with care hours significantly above or below benchmarks.	47%	46%	45%	45%	45%	45%
Rehabilitation	Return to work within six months (182 days).	88.6%	88.2%	88.4%	88.7%	89.3%	89.6%
	Return to work within nine months (273 days).	93.2%	92.8%	92.8%	93.0%	93.3%	93.3%
	Net movement in the number of clients receiving weekly compensation for more than one year.	720	874	806	518	405	134
	Abatement rate for long-term clients.	12.6%	11.9%	12%	12%	12%	12%
Elective surgery outcomes	Average time taken by ACC to make surgery decisions – declined requests.	31.1 days	30.7 days	<31 days	<28 days	<26 days	<25 days
	Growth in average elective surgery cost per claim.	5.9%	Annual measure	≤6.9%	≤6.9%	≤6.9%	≤6.9%
	Proportion of clients who go ahead with surgery who are successfully rehabilitated 12 months after being approved for surgery. Note: successfully rehabilitated is defined as no longer receiving ACC support.	86%	85.5%	86%	86%	86%	86%
Efficiency	Average cost per claim. Administration costs less investment management and injury prevention costs/active entitlement claims.	\$2,403	\$2,410	\$2,433	\$2,214	\$2,129	\$2,045

Activity information

Claims activity

Sustained growth in claim volumes has put pressure on rehabilitation performance. Our analysis indicates that claim volumes are closely linked to the economy. We have developed a model to help us to forecast claim volumes in order to ensure that we can respond to the anticipated demand for our services. If actual claim volumes differ significantly from our forecast claim volumes, this may affect our ability to achieve performance targets successfully.

TOTAL NEW REGISTERED CLAIMS BY YEAR



The proportion of claims by Account is largely consistent over time.

The following table shows recent trends in the types of claims we receive and accept. The Scheme is based on legislation and each claim is evaluated to determine whether it meets the requirements of the AC Act. We do not ration our services as demand is determined by the number of covered injuries that occur and the type and amount of services that those who have covered injuries are eligible to receive.

Measure	Definition	2012/13	2013/14	2014/15	Mar 16
Registered claims.	Total number of registered claims in the period.	1,714,588	1,791,253	1,837,922	1,889,256
Medical fees only claims.	Total number of medical fees only claims in the period.	1,514,542	1,573,066	1,595,498	1,517,448
Other entitlement claims.	Total number of entitlement claims (all entitlement claims excluding weekly compensation) that receive payments in the period.	93,401	96,953	105,376	92,298
Weekly compensation claims.	Total number of weekly compensation claims that receive payments in the period.	88,449	89,630	100,754	84,788
Long term weekly compensation claims.	Number of clients receiving weekly compensation for more than one year as at 30 June.	10,398	10,763	11,483	12,214
New serious injury claims.	Total number of new serious injury claims in the period.	233	262	277	157
Fatal claims.	Total number of fatal claims in the period.	1,196	1,171	1,232	746

We enable clients to receive the appropriate entitlements under the Scheme whilst at the same time keeping total expenditure financially sustainable. We monitor expenditure against budget for the key cost drivers of the Scheme.

Expenditure against key cost drivers

(\$million)	Actual		Forecast
	2014/15	Mar 2016	2016/17
Non-fatal weekly compensation	931	773	1,072
Social rehabilitation	514	432	642
Medical treatment	606	489	731
Hospital treatment (elective surgery)	311	240	357
Public health acute services	460	351	477

SECTION 3:

Investment statement

The money we need to provide our services comes from levies on people's earnings, businesses' payrolls, petrol and fees from vehicle licensing and Government funding. The money is collected into one of the five ACC Accounts, with each Account covering a specific group of injuries.

Until 1999 ACC operated on a 'pay-as-you-go' basis, collecting only enough levies each year to cover the cost of claims for that particular year. In 1999 the Government decided to change the Scheme from 'pay-as-you-go' to a 'fully funded' way of operating. That means we now collect enough money during each levy year to cover the full lifetime costs of every claim that occurs in that year.

Some people who are injured need ACC's help for 30 years or more, so significant reserves must be built up to fund these future costs. This money is invested and earns returns that help to pay the costs of claims. While these claims are expected to far exceed the current value of our investments, we expect to be able to meet the future costs of these claims out of our investments, if our long-term investment returns exceed inflation by at least 2% per annum. In order to reduce the risk that future levy payers may have to pay for injuries that have occurred in the past, we aim to protect ACC against the risk that investment returns could be lower than this, by building an investment portfolio that is both likely to increase in value if real interest rates decline and unlikely to decline significantly in any one year.

As at 31 March 2016, ACC's investment portfolio was worth \$34.1 billion.

Purpose

ACC's investment portfolio exists to ensure that we can meet the future costs of claims as a result of injuries that have already occurred without the need for any catch-up contributions from future levy payers. We tend to favour long-term investments that we expect to deliver relatively certain income streams for long periods of time. Such investments match our long-term cash flow requirements, and also tend to provide an offset against the risk of declines in interest rates. Interest rate declines mean that we need to put aside more money in the present to fund every dollar of future claim costs. Accordingly, if not offset by strong investment returns, a decline in interest rates may create a need for levy increases.

Governance

The ACC Board Investment Committee is responsible for ensuring the development of, and approving, our investment strategy, policies and guidelines and for approving the appointment of any fund manager or investment consultant. The Investment Committee reports to the full Board on a regular basis.

The Committee consists of four members of ACC's Board plus two external appointees, and has full authority to make decisions for ACC in relation to investments. The Investment Committee makes high-level decisions on investment policy, whilst delegating most individual investment decisions to our in-house investment team or to external fund managers.

In delegating investment decisions to internal investment staff, the Investment Committee ensures that investment decisions are made in a manner consistent with our objectives. These include:

- specifying investment benchmarks that are to be used to measure investment performance
- specifying how we should measure and take account of risk when measuring investment performance
- setting various limits and controls governing the scale and nature of the investment decisions that we may make
- ensuring that there is clear accountability for the various aspects of investment performance

- making sure that we have a strong control environment to ensure that the limits and controls are enforced and that conflicts of interest are minimised.

The key decisions that our Board's Investment Committee does not delegate include the:

- approval of asset allocation benchmarks and establishing the default allocation between investment markets for each of ACC's Accounts
- approval of policy documents, discussing how we will approach various aspects of our investment operation (such as how we set the strategic asset allocation and the approach that we will take to managing a particular investment portfolio)
- approval of changes to our Investment Guidelines, which specify limits to and controls of all aspects of the investment operation
- appointment of external fund managers or custodians
- approval of any investment transactions that fall outside the limits and controls specified in the Investment Guidelines.

Risk management

We manage risk through our Investment Guidelines and risks are reported to the Investment Committee. Our Investment Guidelines limit how much risk we can take by placing constraints on how ACC's investments may be managed. We employ a number of rules to govern the types of investment we can make, the way in which we invest and the way in which we measure and manage performance.

We use credit limits, exposure limits and market risk limits to manage the risks of dealing with market counterparties, trading in and across various asset classes and sectors, and the size and amount of leverage across our investments.

The ACC Investments Code of Conduct governs how our investment staff must manage any personal investments and any offers of gifts or hospitality. These rules include reporting and approval requirements.

Ethical investment policy

We have an ethical investment policy that requires us to consider the ethical implications of our investments as well as our fiduciary responsibilities.

We seek to avoid investing in entities involved in activities that would be considered unethical by a substantial majority of the New Zealand public. We use New Zealand law and international conventions such as the United Nations Global Compact and the United Nations Principles for Responsible Investment (UN PRI) as a reflection of the principles that are widely held by the New Zealand public. We also aim to avoid investing in entities that exhibit corporate behaviour that seriously breaches ethical/responsible investing standards.

The ACC Board provides overall guidance as to the types of activity that are considered unethical. In providing guidance for ACC's day-to-day investing, the ACC Board Investment Committee has highlighted activities that should be part of ACC Investments ethical considerations: tobacco companies; those involved with the development and/or production of anti-personnel mines, cluster munitions and nuclear explosive devices; and those involved with the processing of whale meat.

We note that distinguishing between companies in legitimate businesses and those acting unethically is inherently subjective. By way of example, we believe that investing in supermarket companies which derive only a small proportion of their income from the sale of tobacco products may not go against our ethical considerations and that a substantial majority of the New Zealand public would not view this as unethical investing. We seek to address any subjectivity that may arise in an open and transparent manner, to the extent commercially possible, by utilising a number of sources and processes.

UN Principles for Responsible Investment

ACC became a signatory to the UN PRI in March 2008. These principles provide investors with a framework to incorporate environmental, social and governance issues into their investment decision making and ownership practices. As a signatory we are committed to adopting and implementing the principles where consistent with our fiduciary responsibilities.

Management strategy

For our internal funds management operation, we aim for continued investment success by employing the best investment professionals that we can, and encouraging them to manage ACC's investment portfolios in an environment that:

- emphasises individual accountability, but also encourages individuals to work together as a team
- encourages open discussion and debate, without requiring team members to buy in to an artificial 'consensus'
- encourages our investment professionals to think about risk as well as long run returns
- empowers our investment professionals to make decisions that could add real value for ACC, whilst recognising that some misjudgement is inevitable.

Our Investment Office team is focused on ensuring that ACC's infrastructure, processes and controls are fit for purpose and that our strategy delivers outcomes aligned to our vision:

- we will build trust and empower all staff to show curiosity and innovation
- we will reduce manual touch points with automated, scalable and standardised processes
- we will embed sustainable and mature frameworks with ownership of risks and independent oversight
- we will deliver an effective and efficient control environment to provide accurate and timely information.

Our investment objective

We manage our investments with the objective of obtaining the best possible balance of return and risk. To this end, we:

- continue to review strategic asset allocations to ensure that the benchmark asset allocations provide the best possible balance of risk and expected returns for our objectives
- actively manage our investment portfolios with the objective of obtaining better risk adjusted returns from those portfolios than would be achieved from passive investment.

Investment strategy

We do not currently anticipate that our next review of strategic asset allocation will result in any significant changes to our overall allocation between investment markets.

We intend to continue actively managing all of our investment portfolios. The majority of our investments are actively managed by our own investment staff, while about 19% of our investments are managed by external fund managers. Changes in the proportion of funds managed internally versus externally would most likely be affected by any decisions to change the allocation of funds between Australasia and global markets as ACC manages most of its Australasian funds internally and uses external fund managers for the majority of its global investments.

We intend to selectively increase the resourcing of the investment team during 2016/17. In particular, we will continue to expand the teams responsible for direct (unlisted) investments and the internally managed global equity portfolio.

We are working on initiatives that could reduce the amount of credit exposure that ACC incurs as a result of its use of derivative contracts.

We intend to hold our investment costs at a similarly low percentage of the portfolio value to that we achieved in 2015/16.

Measuring performance

Our investment performance should ultimately be evaluated by looking at the extent to which ACC's investments have achieved the objectives of enhancing returns and reducing risk, and how performance compares with global investment markets' performance.

Like most institutional investors, we split our investment decision making into 'layers'. While it is important to evaluate our investment outcomes as a whole, it can also be valuable to consider the different layers of investment decision making separately, as different aspects of investment decisions often need to be evaluated over different time-frames.

Inherently, most investment decisions involve a considerable degree of uncertainty, and the outcomes of a few investment decisions in a short period of time could be regarded as being due more to luck than skill. But with enough time and enough distinct investment decisions to consider, we should expect that any unpredictable positive or negative results will average out. Therefore investment performance over a longer time-frame is more likely to reflect mainly the quality of the investment decisions rather than the 'noise' of relatively unpredictable fluctuations in investment markets.

The highest layer of investment decision making involves the setting and review of asset allocation benchmarks. The Board Investment Committee reviews the asset allocation benchmarks on both an annual and interim basis. Setting these asset allocation benchmarks involves a trade-off between risk and expected long-term returns.

There are no near-term measures that can meaningfully be used to evaluate our performance in setting asset allocation benchmarks because:

- the trade-off between risk and return means that we cannot just look at either return or risk in isolation
- the focus on long-term returns and the fact that we only have a few key asset classes to choose from mean that the returns from our asset allocation benchmarks are best measured over a relatively long period of time (at least five years)
- the impacts that our investment policy has on our financial risks need to be measured in the context of the relative scale of our investment assets compared with the Scheme's liabilities and income.

For these reasons, our performance in setting asset allocation benchmarks is best evaluated by studying performance over several years, rather than just assessing performance in relation to a single measure over any single year.

The lower layers of investment decision making involve our investment team (and external fund managers) actively managing investment portfolios with the objective of achieving a better overall return/risk outcome for the Scheme than we could achieve through passively investing in each market according to the benchmark asset allocation weights. As the active management of our investment portfolios involves a large number of investment decisions, it is reasonable to expect that unpredictable positive and negative results will roughly cancel each other out in most years, such that we can expect the realised outcomes of our active management to reflect the quality of the underlying decision making in periods of three or more years. As a consequence, our active management of investment portfolios can be measured in a meaningful way, particularly if considered in a time-frame of at least three years. We measure the performance of each portfolio against a relevant benchmark, and measure our overall investment return against a composite benchmark.

Investment costs are not subject to much uncertainty, so it is meaningful to measure our performance on investment costs on a year-by-year basis. We measure our costs using a standard measure – the Management Expense Ratio – which includes all the investment costs that are not directly deducted from our reported investment returns.

SECTION 4:

Forecast financial information

Introduction

The information below sets out the 2016/17 budgets for ACC. Comparative information is based on the forecast financial results for the year to 30 June 2016, prepared as at 31 March 2016.

Variances are shown as favourable or (unfavourable) to ACC.

Result

The budget for 2016/17 is a deficit of \$135 million compared with the forecast deficit of \$2,103 million for 2015/16. The projected deficit for 2016/17 is less than the 2015/16 forecast deficit mainly due to the increase in the outstanding claims liability in the 2015/16 year as a result of reducing discount rates, which are driving the forecast deficit. Discount rates are not forecast to change during the 2016/17 year.

The budget accumulated deficit (net liabilities) will therefore increase to \$601 million at 30 June 2016.

Statement of comprehensive income

(\$million)	Forecast 2015/16	Total ACC	Budget 2016/17				
			Motor Vehicle Account	Non- Earners' Account	Earners' Account	Work Account	Treatment Injury Account
Total levy and other income	3,901	3,987	509	1,092	1,330	757	299
Investment income	2,447	1,484	438	153	380	353	161
Less investment costs	63	64	19	6	16	16	6
Net investment income	2,384	1,420	419	146	364	337	155
Claims paid	3,472	3,724	507	1,023	1,262	752	180
Change in unexpired risk liability	58	60	49	–	9	1	–
Change in outstanding claims liability	4,296	1,169	194	219	432	56	267
Total claims costs	7,826	4,953	751	1,242	1,703	810	447
Injury prevention costs	53	62	10	18	10	18	6
Operating costs	509	528	48	111	183	159	27
Surplus/(deficit)	(2,103)	(135)	119	(133)	(203)	108	(26)

Statement of changes in reserves (equity)

(\$million)	Forecast 2015/16	Total ACC	Budget 2016/17				
			Motor Vehicle Account	Non- Earners' Account	Earners' Account	Work Account	Treatment Injury Account
Reserve – opening balance (deficit)	1,503	(601)	1,117	(4,026)	1,257	2,351	(1,299)
Net surplus (deficit)	(2,103)	(135)	119	(133)	(203)	108	(26)
Reserve – closing balance (deficit)	(601)	(736)	1,235	(4,159)	1,054	2,458	(1,325)

Funding ratio⁶

(\$million)	Forecast 2015/16	Total ACC	Budget 2016/17				
			Motor Vehicle Account	Non- Earners' Account	Earners' Account	Work Account	Treatment Injury Account
Assets less other liabilities/ outstanding claims liability	95.3%	95.0%	113.0%	43.7%	114.0%	117.2%	73.5%

Levy revenue

Rates

Average levy rates (GST exclusive) and funding bases as detailed below have been used to prepare the budget.

Account	2015/16	2016/17
Motor Vehicle	\$195 per vehicle through licensing fees and petrol levies	\$131 per vehicle through licensing fees and petrol levies
Earners'	\$1.26 per \$100 liable earnings	\$1.21 per \$100 liable earnings
Work	\$0.90 per \$100 liable earnings	\$0.80 per \$100 liable earnings

Revenue

The \$3,987 million levy revenue for 2016/17 is \$86 million higher than forecast for 2015/16. The budgets for levy revenue incorporate:

- levy rates as approved for 2016/17 and forecast rates effective from 1 April 2017
- the current approved Non-Earners' Account appropriation
- earnings in employment derived from economic forecasts accounting for employment growth and earnings' growth. This results in an increase in liable earnings of 2.6% compared with the 2015/16 year's earnings
- changes in motor vehicle registrations and petrol consumption forecast for the 2016/17 year (number of vehicles forecast increase of 1.2%, no change in petrol consumption)
- the Non-Earners' appropriation, including the non-earners' portion of the Treatment Injury Account, which has increased from \$1.091 billion to \$1.231 billion.

⁶ The Work Account funding ratio shown includes the additional liability for work-related gradual process claims not yet made. When only including the outstanding claims liability for claims made to ACC (as required by the AC Act and in accordance with accounting standards):

- the budgeted Work Account funding ratio as at 30 June 2017 is 138.6%
- the total budgeted ACC funding ratio as at 30 June 2017 is 97.9%
- the total forecast ACC funding ratio as at 30 June 2016 is 98.3%

Non-Earners' Account appropriation

The Minister purchases from ACC outputs consistent with the provisions of the AC Act in respect of non-earners (other than motor vehicle injury). This includes the funding requirements of the Treatment Injury Account in respect of treatment injuries to non-earners. This funding is appropriated within Vote Labour Market.

Output expense (\$million)	Budget 2016/17	Relevant ACC activity	Relevant ACC output class
Case management and supporting services.	171	Setting, invoicing and collecting levies – the Vote Labour Market appropriation process. Management of investment assets. Lodgement of new claims and making cover decisions. The costs of determining, processing, paying and monitoring payments to treatment and service providers and clients. Also includes the cost to ACC of managing claims with the goal of returning clients to independence. Development and delivery of programmes to reduce the incidence and severity of injury.	2 – Levy setting and collection 3 – Investment management 4 – Claims management 1 – Injury prevention
Rehabilitation entitlements and services.	706	Payments to providers for services, including social rehabilitation, medical treatment and vocational rehabilitation.	4 – Claims management
Public health acute services.	293	Funding via the Ministry of Health to provide services to injured people in hospitals during the acute phase of their treatment.	4 – Claims management
Compensation entitlements.	61	Direct payments of entitlements to clients including weekly compensation, independence allowances and lump sum payments.	4 – Claims management
Total	1,231		

Claims paid

(\$million)	Forecast 2015/16	Budget 2016/17	Variance F/(U)
Rehabilitation			
Treatment	1,595	1,705	(110)
Vocational rehabilitation	92	109	(17)
Social rehabilitation	581	642	(61)
Total	2,268	2,456	(188)
Compensation			
Income maintenance	1,023	1,072	(49)
Other compensation and benefits	182	197	(15)
Total	1,205	1,269	(64)
Total cash cost of claims	3,472	3,724	(252)

Rehabilitation costs are budgeted to increase by \$188 million (8.3%) to \$2,456 million, driven mainly by increasing claim numbers and inflation.

Income maintenance costs are budgeted to increase by \$49 million (4.8%) to \$1,072 million, reflecting an increase of 3.50% in claim volumes during the year, growth in the labour cost index of 1.60% and an increase in average weekly earnings of 2.76%.

Other compensation and benefit costs are budgeted at \$197 million, an increase of \$15 million (8.2%). This increase is due to forecast claim volume increases and the impact of inflation.

Increase in outstanding claims liability

The future costs of claims incurred are estimated allowing for future inflation (including superimposed inflation for certain benefit types) and payment decay/continuance rates derived from Scheme experience. Those costs are discounted back to present value using a series of forward discount rates. The liability is forecast to increase from \$34,624 million to \$35,793 million during 2016/17, an increase of \$1,169 million. This reflects the 31 December 2015 valuation with adjustments to reflect economic assumptions as at 31 March 2016.

Outstanding claims liability (\$million)	Forecast 2015/16	Budget 2016/17	Variance F/(U)
Value at year open	30,328	34,624	
Value at year end	34,624	35,793	
Increase/(decrease) in claims liability	4,296	1,169	3,127

Increase in unexpired risk liability

A liability adequacy test is performed to assess whether the unearned levy liability is sufficient to meet all expected future cash flows relating to future claims against current insurance contracts. Any shortfall in the unearned levy liability is taken up in the balance sheet as an unexpired risk liability and the movement for the year is recognised in the income statement.

Unexpired risk liability (\$million)	Forecast 2015/16	Budget 2016/17	Variance F/(U)
Value at year open	467	525	
Value at year end	525	584	
Increase/(decrease) in claims liability	58	60	(2)

Operating costs

ACC's operating costs comprise claims handling, levy collection and other operating costs. The 2016/17 operating costs budget of \$528 million is \$19 million higher than the forecast for 2015/16. This increase reflects the current estimate of the impact on operating costs of the Transformation Programme of \$33 million for the 2016/17 year (2015/16 forecast \$21 million) and growth in the size of the organisation in line with the forecast claim volume growth.

Expenditure by classification (\$million)	Forecast 2015/16	Budget 2016/17	Variance F/(U)
Claims handling	406	417	(11)
Levy collection	42	41	1
Other operating	61	70	(9)
Total operating costs	509	528	(19)

Investment income

Investment income is calculated using forecast returns based on a methodology that provides an unbiased estimate of ACC's median returns. The projected changes in rates from year-to-year reflect market expectations about the returns expected in each of the next 20 years.

Investment income for the 2016/17 year has been calculated by Account. The projected rate of return range in 2016/17 is 4.12% to 4.77% per annum.

Statement of financial position

As at 30 June (\$million)	Forecast 2015/16	Budget 2016/17	Variance F/(U)
Total reserves	(601)	(736)	(135)
Assets			
Investments	34,277	35,254	976
Other assets	3,095	3,258	164
Total assets	37,372	38,512	1,140
Liabilities			
Claims liability	34,624	35,793	(1,169)
Other liabilities	3,348	3,455	(107)
Total liabilities	37,973	39,248	(1,276)
Net assets	(601)	(736)	(135)

Capital expenditure

Category (\$million)	Forecast 2015/16	Budget 2016/17	Variance F/(U)
Property, plant and equipment			
Maintenance – IT	5	5	–
Property	6	8	(2)
Motor vehicles, equipment	1	–	1
Total	12	13	(1)
Intangible assets			
Change initiatives	11	69	(58)
Maintenance – IT	6	11	(5)
Total	17	80	(63)
Total capital expenditure	29	93	(64)

The proposed 2016/17 capital expenditure of up to \$93 million is \$64 million higher than the forecast for 2015/16. This reflects the inclusion of the current estimate of \$59 million capital expenditure on the Transformation Programme in 2016/17 (compared with a 2015/16 forecast of \$6 million) included in the change initiatives total. Maintenance – IT is the IT infrastructure expenditure on maintaining and implementing minor enhancements to existing core applications. Property spend is the necessary annual spend to ensure our property is fit for purpose.

Financial risks

As the forecasts are projecting future events, there are risks that actual results may materially differ.

A major risk is the effects of economic factors that are not controlled by ACC (e.g. wage and cost inflation, and interest rates) on future claim payments, investment income and the projected outstanding claims liability.

At this time we are increasingly certain about the nature, timing and magnitude of expenditure related to planned organisation change projects, but it is important to recognise that these figures are estimates only and are subject to the completion of detailed designs and implementation plans.

Statement of cash flows

(\$million)	Forecast 2015/16	Budget 2016/17
Cash flows from operating activities		
Cash was provided from:		
Levy revenue and other income	4,238	3,916
Investment income	1,185	1,270
Cash provided from operating activities	5,423	5,186
Cash applied to operating activities	4,079	4,335
Net cash movement from operating activities	1,344	851
Net cash movement from investing activities	(1,053)	(851)
Net cash movement from financing activities	–	–
Net increase in cash and cash equivalents	291	–
Cash and equivalents – opening balance	303	594
Cash and equivalents – closing balance	594	594

Summary of other important assumptions

Our financial statements are underpinned by a range of assumptions. In addition to those noted in earlier in this section, we adopt a range of forecasts for those indices that drive aspects of our financial performance.

Index	Indices (year to June)				
	2016	2017	2018	2019	2020
Claim volume growth	2.10%	1.90%	4.70%	3.90%	2.30%
Entitlements claim growth	2.80%	3.50%	7.20%	6.10%	2.40%
Population growth	1.83%	1.24%	0.89%	0.89%	0.88%
Consumer price index	0.08%	1.40%	1.40%	1.40%	1.40%
Labour cost index	1.83%	1.60%	1.60%	1.60%	1.60%
Average weekly earnings	3.05%	2.76%	2.77%	2.78%	2.78%

Summary of significant accounting policies

a) Levies

During 1998 and 1999, the basis of setting levies moved from 'pay-as-you-go' to 'fully funded' for all levy payers other than the Government in respect of the Non-Earners' Account. Sustainable levies are recommended by the ACC Board to achieve full funding for the Motor Vehicle, Earners' and Work Accounts, but the Government sets the final levy rates. The Non-Earners' Account has been fully funded by the Government since 1 July 2001 in respect of claims incurred from that date. Claims before that date continue to be funded on a 'pay-as-you-go basis'.

The Treatment Injury Account is funded through levies set for the Earners' and Non-Earners' Accounts in proportion to the earner status of treatment injury claims, and reflects the funding bases of those Accounts.

b) Levy revenue

All levy revenue is recognised in the levy period to which it relates.

Levy revenue relating to levy periods that commenced prior to balance date is accrued if not yet invoiced. This is estimated based on expected liable earnings at the applicable levy rates. The levy revenue is earned evenly during the levy period.

c) Investment income

Investment income consists of, and is recognised, as follows:

- dividends on equity securities are recorded as revenue on the ex-dividend date
- interest income is recognised as it accrues, taking into account the effective yield on the investments
- the realised gain/loss on disposal of an investment asset represents the difference between the proceeds received and its carrying value
- unrealised gains/losses on fair value investment assets represent the difference between the carrying value at the year end and the carrying value at the previous year end or purchase value during the year, less the reversal of previously recognised unrealised gains and losses in respect of disposals made during the year.

d) Unexpired risk liability

At each balance date ACC reassesses whether the levy revenue embodied in the unearned levy liability is sufficient to cover all expected future cash flows relating to future claims against levies received in the current period. This assessment is referred to as the liability adequacy test and is performed for each Account. Gradual process claims are excluded from the liability adequacy test.

If the present value of the expected future cash flows relating to future claims, plus the additional risk margin to reflect the inherent uncertainty in the central estimate, exceeds the unearned levy liability, the unearned levy liability is deemed to be deficient. ACC applies a risk margin to achieve the same probability of sufficiency for future claims as is achieved by the estimate of the claims liability.

The entire deficiency is recognised immediately in surplus or deficit. The deficiency is recorded in the statement of financial position as an unexpired risk liability.

e) Outstanding claims liability

The outstanding claims liability consists of expected future payments associated with:

- claims reported and accepted as at the valuation date that remain unsettled as at the valuation date
- claims incurred but not reported to, or accepted by, ACC as at the valuation date
- closed claims that are expected, on the basis of actuarial projections, to be reopened after the valuation date
- the costs of managing reported but unsettled, reopened and incurred but not yet reported claims.

The accrued outstanding claims liability is the central estimate of the present value of expected future payments on claims occurring on or before the valuation date, plus a risk margin to ensure that the accrued liability is sufficient to meet all the costs of future claim payments 75% of the time.

Future payments associated with gradual process claims that have not yet been reported are not included in the outstanding claims liability. ACC's major exposure to gradual process claims (or latent claims) is in respect of hearing loss and asbestos related injuries. Section 37 of the AC Act states that a person is considered injured when:

- they first report the incapacity, or
- they first receive medical treatment for the incapacity.

The AC Act effectively defines gradual process claims as being consistent with the 'claims made' policies issued by general insurance entities. That is, clients are covered for specified contract periods, regardless of when the event occurred giving rise to a claim. Under 'claims made' policies, an insurer only has liability for reported claims.

f) Investments

All investments, other than investment properties, are designated as financial assets at fair value through profit or loss.

Fair value for investments is determined as follows:

- listed shares and unit trusts are valued at the quoted bid prices at the close of business on the balance date
- non-listed equity investments (private equity and venture capital) are recognised at the initial cost of investment and adjusted for the performance of the business and investment markets since that date
- New Zealand and overseas bonds are valued at bid yield
- unlisted unit trust investments are valued based on the exit prices rather than the entry prices
- for investments with no active markets, fair values are determined using valuation techniques.

g) Changes to accounting policies

There have been no changes to accounting policies.

Letter of expectations



Office of Hon Nikki Kaye

MP for Auckland Central

Minister for ACC

Minister of Civil Defence

Minister for Youth

Associate Minister of Education

- 4 FEB 2016

Dame Paula Rebstock
Chair
Accident Compensation Corporation
PO Box 242
WELLINGTON 6410

Dear Dame Paula

2016/17 ANNUAL LETTER OF EXPECTATIONS

I am writing to convey my expectations of the Accident Compensation Corporation (ACC) as it executes its business planning process for the 2016/17 financial year.

I am aware that ACC developed a statement of intent in 2015, covering the period 2015-2019, and that it does not intend to develop a new Statement of Intent in 2016 as a significant change in strategic direction is not anticipated.

I would like to thank ACC for its work in 2015, in particular the further development of the Shaping Our Future programme. The Target Operating Model endorsed by the Board as the strategic direction for the organisation is an important step in delivering better outcomes for New Zealanders. This is consistent with the four year excellence horizon indicated by the 2014 Performance Improvement Framework review.

The ACC Board has approved the Shaping Our Future programme business case. It is my intention that this will be noted by Cabinet early in 2016. ACC's core challenge will be to maintain effective and efficient delivery of the Scheme whilst undertaking an extended period of change. I expect a balanced focus on long-term success through disciplined programme delivery and demonstrable value drivers in the Scheme's core services of rehabilitation and injury prevention. Claim costs and operating costs have increased significantly above inflation since 2013. While the claim volume increases seen in this period are a contributing factor, I expect the Board to be proactive in recognising and averting any Scheme expansions that would lead to the need for substantive reform.

The Board has a critical stewardship role for ACC, to ensure that the Accident Compensation Scheme operates as intended by its legislation. I expect the Board to show leadership across Government organisations, given the size and central importance of the Corporation within the social sector. This includes full participation in the Better Public Services initiative and, building on a track record of innovation, utilising an investment approach to unlock benefits in social investment.

I look forward to seeing the draft 2016/17 Service Agreement with a clear demonstration of ACC's performance and delivery expectations. By working effectively with its customers, partners and stakeholders, ACC can have a material impact on the cost of injury to New Zealand and the lives and well-being of New Zealanders.

General expectations

As you are aware, the Government's four priorities are: responsibly managing the Government's finances, building a more competitive and productive economy, delivering better public services, and rebuilding Christchurch. I expect the Board to continue to consider ways to contribute to these priorities.

In undertaking its business I expect the ongoing commitment of ACC to continue to work constructively and collaboratively with advisors from my office, MBIE and the Treasury to achieve the Government's objectives and understand ACC's performance. MBIE and the Treasury will collaborate with you to refine the strategic priorities and agree performance targets. ACC should provide to me its draft Service Agreement by 29 April 2016.

It is possible that the Board might consider initiatives that can be funded by reserves held by ACC in some accounts, but which would also impact on expenditure in the Non-Earners Account. As agreed by Cabinet [CAB-15-MIN-0272 refers], I expect officials to report back to the Minister of Finance and me with advice on how ACC can be better integrated into the overall process for Budget 17, including ACC reporting on its cost pressures and non-earners' account funding proposals being considered as part of the Budget process. ACC should assess and communicate the financial and implementation consequences of any proposed legislative amendments to enable effective decision making.

Our communications should be straightforward. If you need to make contact on short notice, you should not hesitate to do so. I expect all priorities to be delivered through a "no surprises" approach. As such, you should inform me of any significant events or set of circumstances, whether positive or negative, that could be considered contentious, attract wide public attention and/or affect the financial position of ACC.

Expectations for all Crown Financial Institutions

- *Returns:* A prime focus for Ministers is that Crown Financial Institutions (CFIs) achieve their long term performance objectives. The Crown has a long term perspective on returns, and acknowledges that returns will vary from year to year, sometimes due to temporary or non-controllable factors. Emphasis will continue to be placed on longer term returns. In circumstances where the longer term return is persistently below the performance objective, I expect the CFI to review the appropriateness of its investment strategy. Furthermore, where active management or other value adding strategies are employed, achieving returns in excess of benchmarks after investment management fees and other operational costs is expected.
- *Crown Asset Liability Management:* The management of financial risks at an aggregate level is of growing importance for the Crown. The Treasury have started a project in this space. I ask that you engage with the Treasury when required to support this work. While work is at an early stage, part of the aim is to determine appropriate risk settings across the Crown balance sheet
- *Investment Management Expenses:* Notwithstanding the expectation for CFIs to outperform investment objectives after investment management costs, each CFI should also ensure that the costs incurred in implementing its investment strategy are appropriate in the context of managing Crown assets
- *Investment Review:* We expect CFI boards to review major past investment decisions to assure themselves that the benefits claimed when such decisions were made are in fact being realised. Our expectation is that such reviews are made available to Ministers. The CFIs are increasing investment in non-listed

investments and we think scrutiny by the owner for the larger investments is warranted

- *Joint Ventures:* While Ministers are supportive of CFIs entering into joint venture (j.v.) arrangements as a way of leveraging expertise and capital, the expectation is that Ministers are informed at an early stage of any j.v. formation, particularly where the j.v. involves another New Zealand government entity or where it includes a foreign government or sovereign wealth fund
- *Use of Derivatives:* The aggregate funds managed within the CFI portfolio continues to grow as a percentage of the overall Crown's balance sheet. There continues to be an increasing use of derivative instruments within the portfolios. Consistent with last year's expectations it is my expectation that CFIs should use derivatives judiciously and that, where relevant, there is a strong case for their use relative to physical exposures, and
- *Collaboration:* While the individual objectives and investment strategies differ across the CFI portfolio there is a material level of crossover in the operational investment activities of the CFIs. My expectation is that the CFIs will continue to identify opportunities and implement strategies to achieve operational synergies and cost efficiencies through sharing of resources and intellectual capital.

Standard Expectations of all Crown Entities

Crown Entities represent a significant proportion of Crown spending, asset ownership and direct engagement with the public and business. While recognising the arms-length relationships, the Government places the same expectations on Crown Entities as it does on departments, these expectations include:

- Agencies should be able to demonstrate what difference they are actually making for their customers
- Agencies should be constantly looking for ways that improve how they do business and deliver value for taxpayers' investment in them
- Investments into the business should be value enhancing and supported by robust business cases, which: evaluate options thoroughly, are based on reasonable assumptions, and take into consideration all risks
- New investment will only be considered where agencies can show a contribution to the Government's programme under the Better Public Services or Business Growth agendas and give Ministers informed choices about trade-offs
- Entities should be clear how they are working with other agencies, owning the sector results and putting the client not agency boundaries first in service design, and
- The provisions of the Enduring Letter of Expectations continue to apply. This can be found on the State Services Commission's website.

PRIORITIES

I expect the Board to:

- understand drivers of rehabilitation performance to plan effective strategies
- continue to build an effective and scalable injury prevention strategy, and
- ensure the success of Shaping our Future.

Understand drivers of rehabilitation performance to plan effective intervention strategies

I expect ACC to develop and communicate a clear understanding of the drivers of rehabilitation performance and therefore be able to i) set challenging performance targets understanding the underlying claims experience and ii) implement effective intervention strategies to manage to these targets. I expect ACC to recognise trends early and return rehabilitation performance to target in a timely fashion.

ACC should demonstrate its capability in delivering effective outcomes for New Zealanders through innovative approaches to ensuring the right care at the right time. I expect that by using centralised data and analytics, ACC should also be a leading influence to providers in ensuring consistent best practice treatments throughout the country for the most common injury types.

As part of ACC's rehabilitation approach, I expect a focus on the most effective interventions and offer to claimants that do not have a realistic opportunity for rehabilitation the ability to manage their own care needs.

Continue to build an effective and scalable injury prevention strategy

A coherent injury prevention strategy has been implemented with early momentum in the roll out of this strategy. ACC should build on this by continuing to focus on the investment approach to a portfolio of initiatives, utilising partner agencies for capability and scale, and ensuring initiatives are truly measurable in order to assess effectiveness. ACC is a central coordinator of data from injury prevention activities and should use this analysis to understand the causes and impacts of unsafe practices.

ACC is a principal organisation in the social sector and must show leadership and innovation in the way it invests for long-term benefits. Partnerships that increase the scale and reach of injury prevention can be specialist delivery partners but ACC should also consider the opportunity for an investment approach in other fields, such as research or product development to expand the potential breadth of impact the Corporation can have for New Zealanders.

I also expect ACC to continue working closely with the health sector to focus on the issue of quality and patient safety of which treatment injury is a part.

Consistent with Cabinet decisions on the joint approach to Injury prevention as part of the *Working Safer* reforms, I expect ACC to:

- Work collaboratively with WorkSafe to ensure that there is a comprehensive *Workplace injury prevention action plan*, required under section 264A of the *Accident Compensation Act 2001* when that provision comes into effect in 2016

- Ensure funding agreements are settled, under section 264B of the *Accident Compensation Act 2001* for workplace injury prevention activities undertaken by WorkSafe or jointly with WorkSafe (noting that it was intended that the majority of funding for the *Workplace injury prevention action plan* would come from the Work Account).

Ensure the success of Shaping our Future

The Shaping Our Future programme business case has been approved by the ACC Board. At the core of the programme is the Target Operating Model that sets out a future state of operational delivery for ACC, putting the customer at the heart of processes. I understand that the delivery period for the programme has been extended to five years, from three years, to de-risk the delivery approach.

I expect ACC to demonstrate the significant discipline required to maintain the appetite for change across this longer programme, and ensure the reporting framework is set up to monitor progress against expectations. While the business owns and drives the benefits of the programme, it is essential that the core services that ACC delivers are maintained to a high standard and performance is not impacted by programme delivery.

Privacy by design should be embedded into ACC's systems to improve the security and management of private information. ACC should consider the whole of Government system in the detailed design of the use of data, particularly incorporating the ease of interaction with Government through Better Public Services results 9 & 10.

I expect that ACC will adopt a learning approach throughout the delivery of Shaping Our Future and be adaptable. Please work proactively with Ministers' officials in the detailed design phase of the programme and seek guidance where legislation is an impediment to the implementation of good process.

Other priorities

It is my expectation that the Board will:

- Collaborate effectively with the health sector to: build a coordinated strategy to address the growing risk of treatment injuries, and progress the elective services review in an efficient manner so that positive outcomes can be realised
- Support MBIE to develop solutions on vehicle risk rating and motorcycle levies to minimise complexity and maximise fairness for motor vehicle users, including possible legislation
- Work constructively on the development and implementation of an Accident Compensation Amendment Bill, which I expect to introduce in 2016 to enhance Scheme settings
- Report more clearly on privacy breaches so as to be consistent with the standards set by the Government Chief Privacy Officer as well as internal ACC standards
- Set stretch performance targets to drive improvements, particularly targeting the critical few factors that can affect Scheme sustainability. Performance indicators should be representative of both leading and lagging profile

- Utilise benchmarking to assess Scheme performance and drive improvements
- Continue to support initiatives for fair, timely and cost-effective dispute resolution
- Communicate long term investment plans in accordance with Cabinet Circular 15(5)
- Coordinate with the Government's Chief Information Office to identify future opportunities for greater ICT system collaboration, and
- Successfully manage operational and financial risks and continue to build resilience in Scheme performance, particularly through a period of significant change.

I look forward to working with ACC to continue to deliver the Government's objectives, and I want to thank you in advance for your continued hard work.

Yours sincerely



Hon Nikki Kaye
Minister for ACC

APPENDIX 2:

Conditions of the Service Agreement

Roles and responsibilities

The Minister for ACC is the Minister responsible for both the Accident Compensation Scheme (the Scheme) and the Accident Compensation Corporation (ACC). The Minister's roles and responsibilities are to:

- make sure an effective board is in place to govern ACC
- participate in setting the direction of ACC
- monitor and review our performance and results
- manage risks on behalf of the Crown.

The Minister exercises this responsibility through the relationship with the ACC Board (the Board) and, in particular, the Board Chair. This Agreement supports that relationship.

The Board is accountable to the Minister for the delivery of the services specified in this Agreement, to the quality and costs specified. ACC remains accountable for the delivery of all outputs, including outputs that have been subcontracted to third parties.

Parties

This Agreement is between the Minister and ACC. Under section 25 of the Crown Entities Act 2004 the Board is responsible for all decisions relating to the operation of ACC. Under section 49 of that Act the Board also has a statutory duty to ensure that ACC acts in a manner consistent with this Agreement.

Term

This Agreement, entered into pursuant to section 271 of the Accident Compensation Act 2001 (AC Act), relates to a one year period from 1 July 2016 to 30 June 2017. This Agreement revokes the Service Agreement for the period 1 July 2015 to 30 June 2016.

ACC's functions and duties

ACC provides accident insurance cover for all New Zealanders and visitors to New Zealand. We receive approximately 1.9 million claims per year. Our core services are:

- injury prevention – we have a key role in promoting a reduction in the incidence and severity of personal injury. The injury prevention programmes are expected to be cost effective and to lead to a reduction in levy rates
- rehabilitation – we aim to restore an injured person's independence to the maximum extent practicable. Specific provisions in the AC Act prescribe the entitlements that clients can access
- compensation – the Scheme provides financial compensation to clients for losses owing to personal injury.

The costs of services for each injury are assigned to the Motor Vehicle, Work, Earners', Non-Earners' or Treatment Injury Account depending on who was injured and/or where the injury occurred. The injury prevention costs are also assigned to the relevant Accounts. There is no cross-subsidisation between the Accounts.

ACC complies with procedures, conditions, restrictions and other provisions in the performance of its duties in relation to the management of each Account as set out in the AC Act. ACC is governed in accordance with the provisions of the Crown Entities Act 2004, the State Sector Act 1988 and the Public Finance Act 1989.

Amendments to this Agreement

This Agreement may be amended with the consent of the Minister and the Board if at any time during its term the work or environment of ACC is materially altered and the contents of this Agreement are no longer appropriate.

Any changes must be signed by the Minister and the Board, and attached to this Agreement. Both parties will hold copies of the original and any amendments to this Agreement.

Payment

The Minister, on behalf of the Crown, will pay ACC up to the amount authorised by Parliamentary Appropriations for 2016/17. The Ministry of Business, Innovation and Employment (the Ministry, acting as the administering agency responsible for Vote Labour Market) will action payments to ACC in accordance with the Public Finance Act 1989. Payments will be made monthly by direct credit from the Ministry to ACC, coinciding with the Ministry's receipt of funding from the Treasury.

Interpretation

The appendices to this Agreement form part of this Agreement, as do any amendments to those appendices signed by the Minister and the Board. The parties agree to discuss and seek to resolve any differences of opinion between them under the Agreement, or any matter not covered by this Agreement relating to the supply of outputs.

Quarterly reporting

We will provide quarterly reports on our performance against this Agreement. Quarterly reports are to be read in conjunction with this Agreement and the reports of any preceding quarters to provide a context for the reporting of our ongoing performance for the financial year 2016/17.

Each quarterly report will include commentary on our performance against the performance targets, progress in implementing key initiatives and, where necessary, an explanation of performance trends, an analysis of those trends, and proposed actions to improve performance. It will also include commentary on our financial performance and an analysis of risks, critical issues and opportunities arising from our performance to date.

Where our performance does not meet targets, we will provide further information that may include:

- an analysis of causes
- strategies and plans to improve performance and meet the specified targets
- forecast performance for the remainder of the financial year, including an assessment of whether and when the performance target(s) will be met.

As necessary we will provide the Minister with:

- any proposals to amend this Agreement due to changed circumstances
- timely advice of any risks that may create a significant exposure for the Crown
- an annual technical report supporting our proposal for funding of the Non-Earners' Account for the following four financial years.

The timeframes for quarterly reporting are:

Quarterly performance report	Timeframe
Quarter 1 report	By 31 October 2016
Quarter 2 report	By 31 January 2017
Quarter 3 report	By 30 April 2017
Quarter 4 report	By 31 July 2017

Our quarterly reports to the Minister will be published on ACC's website.





Te Kaporeihana Awhina Hunga Whara

www.acc.co.nz
0800 101 996

New Zealand Government

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