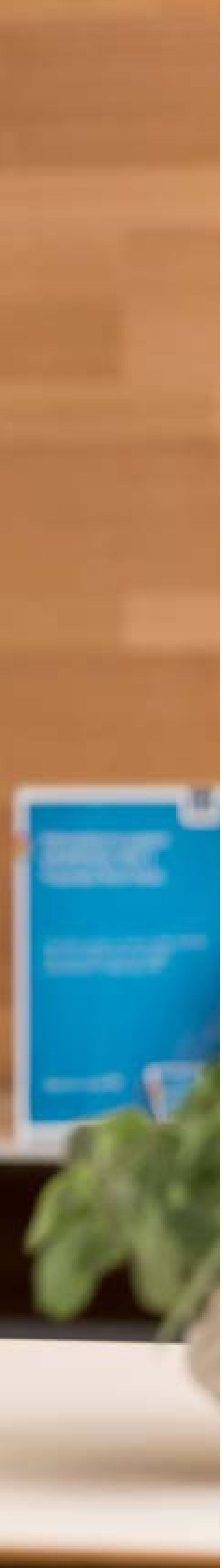
PREVENTION. CARE. RECOVERY.
Te Kaporeihana Āwhina Hunga Whara

Investing in New Zealanders

Annual Report 2017

Accident Compensation Corporation
Te Kaporeihana Āwhina Hunga Whara



Your ACC

No other country in the world has ever provided a comprehensive accident insurance scheme like ACC's.

The ACC Scheme means that whenever an injury happens to anyone in New Zealand, whether it's their fault or not, the cost of their treatment, rehabilitation or compensation is covered.

But there's a lot more to us than that.

It all starts before people are injured. If we can prevent injuries and accidents, be they at home, at work or at play, New Zealanders will need to lodge fewer claims. That's why last year we invested $55 million in injury prevention, and that investment will continue to grow in the coming years.

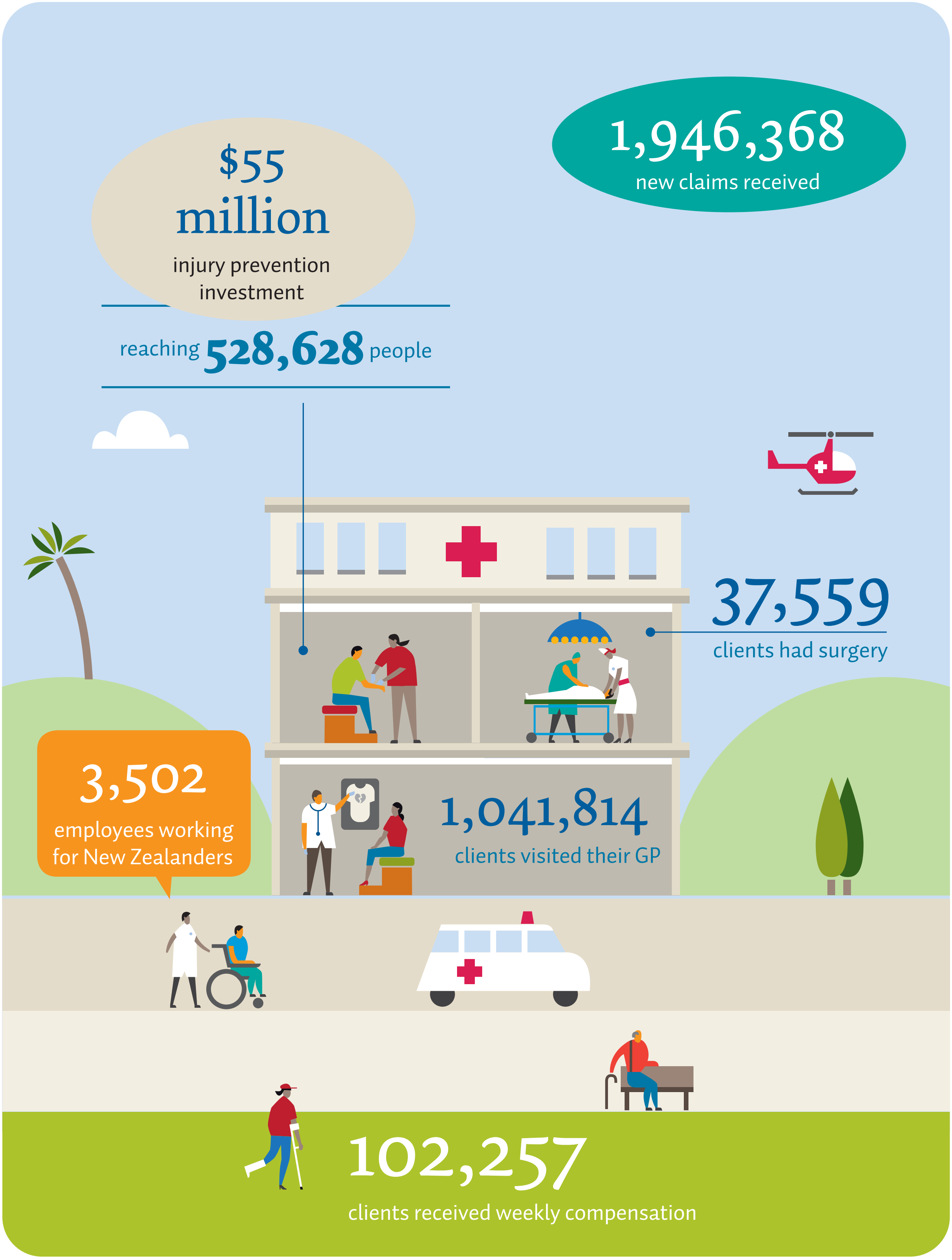
New Zealanders live their lives safe in the knowledge that if they have an accident, their treatment and rehabilitation will be covered. Most claims are for relatively minor injuries: a rolled ankle at football; a cut hand at work; a slip in the kitchen. But we also cover thousands of Kiwis who have long-term requirements and need significant help, such as modifications to vehicles or homes.

So to help pay for the cost of injuries, we oversee one of the largest investment funds in New Zealand.

Our aim is to ensure that these investment funds are used to reduce the incidence and severity of injuries, and cover the lifetime cost of claims we already know about. That could be one visit to a GP or many years of care and support.

It's a scheme for New Zealand and New Zealanders.

By the numbers



Our performance this year

More than **500,000** New Zealanders reached by our injury prevention programmes

62% of New Zealanders have trust and confidence in ACC, a significant improvement on prior years and in line with our target

78% of our clients were satisfied with the service we provided, **2%** higher than last year

1.2 days average to decide on cover on **1.95** million new claims received

Seven days to make first weekly compensation payments, **16%** quicker than last year

80% of clients surveyed were still back at work nine months after being rehabilitated. This durable result is **1%** better than last year

85.8% of clients not in the workforce were no longer requiring support from ACC after 12 months

68.4% of clients were back at work within 10 weeks, **0.9%** ahead of target

$55 million invested in injury prevention. For every dollar invested, we project a return of **$1.63**

One category 3 privacy breach and a **21%** reduction in all privacy breaches

Levied accounts (Earners', Work and Motor Vehicle) are now **121.7%** funded

Investments team beat benchmark for **22nd** year, and generated **$2.1 billion** of income

Our reserves portfolio returned **5.7%** this year, **1.4%** better than benchmark

Surplus of **$607 million** to support the Scheme

Levy reductions in the three levied accounts of more than **$2 billion** in the past five years

Seven engaged employees for every disengaged employee, **17%** better than last year

How your ACC is funded

Government

$1,088m

The **Non-Earners' Account** is for people not in the workforce, such as children and retirees

Employers

$791m

The **Work Account** is for injuries at work

Employees

$1,397m

The **Earners' Account** is for injuries outside work, eg at home or while playing sport

Motor vehicle owners and drivers

$552m

The **Motor Vehicle Account** is for all road-related injuries

Where the money comes from

Government and employees

$278m

The **Treatment Injury Account** is for injuries caused by medical treatment

Investment earnings

$2,052m

Income from our investments

Costs

$737m

Operating and other costs

Surplus

$607m

The surplus helps support the Scheme

Outstanding claims liability

$1,076m

Additional funds to cover the future costs of claims

Financial compensation and vocational rehabilitation

$1,377m

Payments for people who are injured and can't return to work, and helping people back into work

How the money is used

Injury prevention

$55m

Helping the community understand how to stay safe and healthy

Treatment and emergency travel

$1,659m

Includes visits to GPs, x-rays, surgery and associated travel

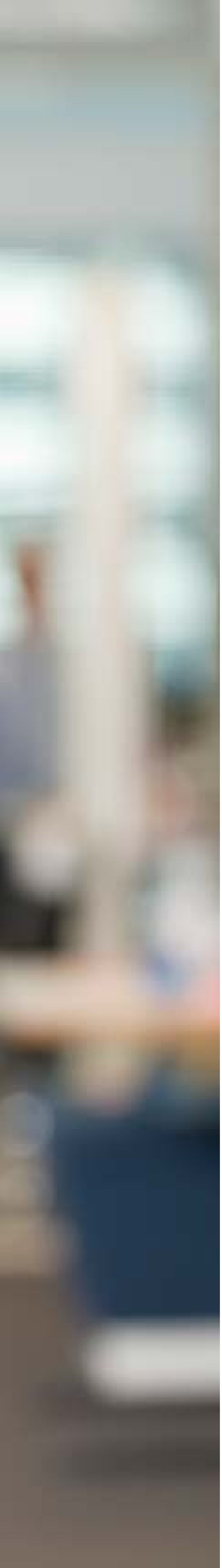
Care and support

$647m

Helping people back to independence, eg through having carers or home alterations

Contents

An online version of this Report can be found at www.acc.co.nz/about-us/corporate



Overview

From the Minister

New Zealanders can be justifiably proud of ACC, our no-fault accident insurance scheme that provides cover to all New Zealanders and visitors to our country.

This year the Government was able to confirm a further $126 million of reductions in ACC levies for motor vehicle, work and earners' levy payers. These reductions reflect the strength of the Scheme's financial position. The solvency of each of the levied accounts is above the target level of 100-110%, despite more than $2 billion of levy cuts in the last five years.

The levy reductions are more remarkable when considering the pressures on the Scheme. The record number of new claims received put upward pressure on the costs to provide the treatment and rehabilitation services delivered to ACC's clients. The Government is pleased that the operational controls implemented by the Board, coupled with favourable movements in economic factors and global markets, allowed ACC to record a surplus of $607 million.

ACC's performance this year has further reinforced the sustainability of the Scheme and demonstrated how the investments in transformation are making a positive impact on all aspects of the Scheme's performance.

This year saw ACC further increase its investment in injury prevention to $55 million, in line with the ACC Board's strategy to prioritise the reduction in the incidence and severity of injuries. ACC also collaborated with WorkSafe New Zealand to develop the Harm Reduction Action Plan, a milestone in the prevention of workplace injury.

ACC has continued to progress its five-year programme to transform its people, processes and technology. The Government is pleased with the improvements that have been made to date, all of which reflect the ambition to create a modern, integrated and customer-focused ACC. The business community in particular has seen improvements through simplified invoices and online access to their information. The programme will now increasingly focus on transforming the client experience.

It is reassuring to see this transformation is being delivered without compromising ACC's day-to-day performance. ACC received nearly two million claims this year, an all-time high. Despite the pressure created by those volumes, rehabilitation performance for clients in work has improved, and the public's satisfaction, trust and confidence levels have remained largely stable.

The Board has recognised the need to improve reviews performance. The Government is confident this will improve, with the Board already making considerable progress in implementing the recommendations of the Government-commissioned Miriam Dean QC review of dispute resolution.

The Government expected ACC to be a lead agency in the commitment to Christchurch and particularly its central business district. During the year ACC was able to complete its transition to the Christchurch Integrated Government Accommodation – another important milestone in the ongoing rejuvenation of central Christchurch.

I would like to thank the ACC Board and particularly the Chair, Dame Paula Rebstock, for their work this year. I also extend my thanks to ACC staff for their dedication to making a positive difference to New Zealand.

Finally, I would like to acknowledge the work of the Honourable Nikki Kaye and Honourable Nathan Guy, who both served as Minister for ACC during the year, for their stewardship, and my Associate Minister, the Honourable Jacqui Dean.

Hon Michael Woodhouse
Minister for ACC

From the Board

ACC's role starts with injury prevention, and we have continued our strategy to invest more in preventing injuries as well as reducing the severity of injuries that do occur. This year our investment totalled $55 million. We partnered with organisations and community groups across the country to reach more than 500,000 New Zealanders through our programmes. And we achieved an estimated claims cost reduction of $1.63 for every $1.00 we invested, our highest return ever.

For those New Zealanders who do suffer injury, we provide support so they can return to work and everyday life. Our Shaping Our Future strategy is an ambitious and challenging programme of change that aims to put the customer at the heart of everything we do, and to find new ways to make it easier for New Zealanders to deal with us. Our progress against the 2014 performance improvement framework was independently tested this year, and it was pleasing that the review highlighted the significant progress made towards meeting the aims of our Shaping Our Future strategy.

The review also noted other positive changes we have made, including the way we interact with our customers. These changes are reflected in New Zealanders' increased satisfaction and trust and confidence in the past three years.

We have a strong focus to ensure disputes are resolved fairly, and we are continuing to consult with a wide range of New Zealanders to ensure outcomes are fair and transparent. We are part of the way through making the necessary improvements to our dispute resolution activities, and are working hard to complete this as soon as possible.

ACC BOARD (FROM LEFT TO RIGHT)
ANITA MAZZOLENI, PROFESSOR DES GORMAN, KRISTY MCDONALD QC, TREVOR JANES (DEPUTY CHAIR), DAME PAULA REBSTOCK (CHAIR), LEONA MURPHY, JAMES MILLER, GILLIAN SPOONER.

This year we took care of a record number of new claims, while the cost of providing the range of treatment and rehabilitation services to our clients continued to increase. Despite these challenges, the Scheme maintained a strong financial position. The solvency of each of our levied accounts remained above the target level of 100-110%. Our investment team again delivered a performance that beat their benchmarks for a remarkable 22nd consecutive year. The Scheme delivered a surplus of $607 million, yet we were still able to deliver levy reductions for the third consecutive year.

We would like to thank Scott Pickering, the Executive team and all of ACC's people for their continued dedication to our vision of creating a unique partnership with every New Zealander, and improving their quality of life by minimising the incidence and impact of injury.

Paula Rebstock

Dame Paula Rebstock DNZM
ACC Chair

Trevor Janes

Trevor Janes
Deputy Chair

From the Chief Executive

This year we celebrate 50 years since the Royal Commission produced its ground-breaking report which would give rise to the establishment of ACC seven years later.

The unique nature of the Scheme – a scheme for all New Zealanders – means we have a responsibility to nurture it through careful investments. We do this by investing to prevent injury and reduce the impact of injuries that do occur, to shape a future of improved outcomes and experiences for all our customers, and by managing our investment funds to pay for the future costs of injuries. Through these investments, we are protecting the Scheme for New Zealanders now and in the future.

Despite our prevention investments, our customers need our support to return to work and independence after injury. Last year we supported more than 93% of people to return to work within nine months, and our short-term rehabilitation performance improved with 68.4% of people returning to work within 10 weeks. What was pleasing was that 80% of people who returned to work were still in work a year later. These improvements demonstrate that our investment in improving client outcomes is making a positive difference.

Our transformation is continuing to gain momentum. We have invested in improving our customers' digital experience through initiatives like the MyACC business portal and our new website. Weekly compensation processes have been streamlined to ensure clients can access entitlements faster. Our redesigned, easy to understand levy invoices have been rolled out. We are easier to get in touch with through changes to our contact centre hours.

More changes are planned, and we are transitioning to a new case management approach. Our model has not been updated in 20 years, and has not kept pace with changes in how customers want to receive services. The new approach will see clients receive a more tailored experience designed to ensure they receive the right treatment and rehabilitation services at the right time. We are confident this will improve outcomes for clients and help to meet their expectations.

Increasing public trust and confidence remains a priority. Our trust and confidence results remain the same as last year, the highest result since 2008.

Having a diverse workforce with a broad range of experience and cultures provides better service as they represent and understand the customers they serve. This is a long-term area of focus. That's why we partnered with Paralympics New Zealand, TVNZ and Attitude Pictures to support the most extensive, free-to-air coverage ever shown in New Zealand of the Paralympic Games in Rio de Janeiro.

It's also why we developed Whāia Te Tika, to deliver what's right for Māori. This strategy aims to achieve equitable outcomes for Māori by delivering services that are appropriate, and in a manner which best meets the needs of Māori. For example, this year we joined forces with iMOKO, a telehealth provider, to promote injury prevention messages in Northland, and with Te Whanau o Waipareira and Plunket to promote child safety in cars in West Auckland.

We continue to be in a strong financial position which has allowed us to reduce levies for the third consecutive year. Our surplus position is the result of good operational control, increases in market interest rates, and our investment performance.

Finally, I would like to thank our people. It is a pleasure and an honour to lead an organisation that is so much a part of the fabric of New Zealand. Our people's sense of duty to do the right thing for customers is one of ACC's greatest strengths. I applaud them for it.

Scott Pickering
Chief Executive

Delivering on our outcomes

We have three outcomes that we aim to achieve in the long term.

Reduce the incidence and severity of injury

Injuries are a serious and costly issue. The impacts of injury go beyond the individuals' pain, loss of earnings and reduced quality of life, to their families, their employers, our health system and our communities.

We help to reduce the number of injuries by investing in programmes that encourage individuals, businesses, families and communities to reduce the risk of injury to themselves and others.

The importance of partnerships for injury prevention cannot be understated. They mean we can work with specialist organisations in areas as diverse as forestry, the elderly, sports and reducing the impact of sexual violence.

We have grown the number of initiatives from 20 in late 2014 to 115 today. And we have increased our investment from $30 million to $55 million in the past two years.

That increase in investment reaches New Zealanders throughout their lives, from toddlers to the elderly, whether at home, on the sports field, working or at school.

And we know we are having a meaningful impact in reducing the incidence and severity of injury, with our return on investment being $1.63 for every dollar spent.

Rehabilitate injured people more effectively

Research shows that when people make a rapid return to independence after injury, their overall health and wellbeing is significantly improved, and the social and economic impacts of their injuries on their families, communities and New Zealand are greatly reduced.

Therefore delivering high-quality rehabilitation services to clients is critical to the Scheme's success.

Our goal is to ensure that people with injuries receive the rehabilitation they need to return to work or independence as quickly as possible.

This year, new claims reached almost two million. Despite this challenge, we exceeded our targets for our key 10-week and nine-month return-to-work measures.

We also demonstrated that we are effectively supporting our clients to return-to-work by measuring the durable return to work rate. This increased from 79% to 80% this year, a mark above the Australian benchmark of 77%[1], a trend we aim to continue in 2017/18.

New Zealand has an affordable and sustainable Scheme

We ensure we are financially sustainable each year by collecting levy revenue, and earning investment income on that levy revenue, sufficient to cover the lifetime cost of injuries incurred in that levy year. This means the Scheme is fair to current and future generations, and affordable for all New Zealanders.

The target ratio of this year's total levies to the total claims incurred for this year's accidents was between 0.9 and 1.1. The actual ratio for this year of 0.8 reflects lower levy collections (to reduce solvency in our three levied accounts towards their target funding band of between 100% and 110%), and higher claims growth. However, we expect to meet the target ratio in the medium term.

1 *The Australian benchmark is measured every two years and was last set in 2015/16.*

Our role and strategic direction

A scheme for New Zealand

The Accident Compensation Corporation (ACC) is the Crown entity set up under the Accident Compensation Act 2001 (the AC Act) to deliver New Zealand's accident insurance scheme (the Scheme).

The purpose of the Scheme is to deliver injury prevention initiatives and no-fault personal injury cover for everyone in New Zealand, including overseas visitors. Under the Scheme, individuals forgo the right to sue for compensatory damages following injury, in exchange for comprehensive accident insurance cover and compensation.

Our strategic direction reflects the Government's priorities for ACC as well as how we contribute to the long-term Government outcomes for New Zealand, including Better Public Services Result Areas 9 and 10, which relate to improving digital interaction with the government.

Our vision and values

As a Crown entity, we need to demonstrate that we're improving outcomes for New Zealanders.

Our vision is to create a unique partnership with every New Zealander, improving their quality of life by minimising the incidence and impact of injury. We will deliver on our vision by delivering on our outcomes and strategic intentions.

The values we have adopted as we set about achieving our vision are:

- putting people before process
- being good partners
- promoting safe Kiwis
- being responsible stewards
- being fair and open in all our dealings.

Our outcomes

Our outcomes articulate what we are delivering in relation to our core role: supporting a healthy and prosperous New Zealand.

The *Statement of Intent 2015-2019* outlines the three outcomes that we aim to deliver for New Zealanders:

- reduce the incidence and severity of injury in New Zealand
- rehabilitate injured people in New Zealand more effectively
- ensure New Zealand has an affordable and sustainable scheme.

Our strategic intentions

Our strategic intentions outline the areas where we are concentrating our efforts. Our strategic intentions reflect our outcomes and the Government's priorities for ACC. These are:

- increase the success of our injury prevention activities
- improve our customers' outcomes and experience
- improve the way we protect our customers' personal information
- maintain the financial sustainability of the Scheme.

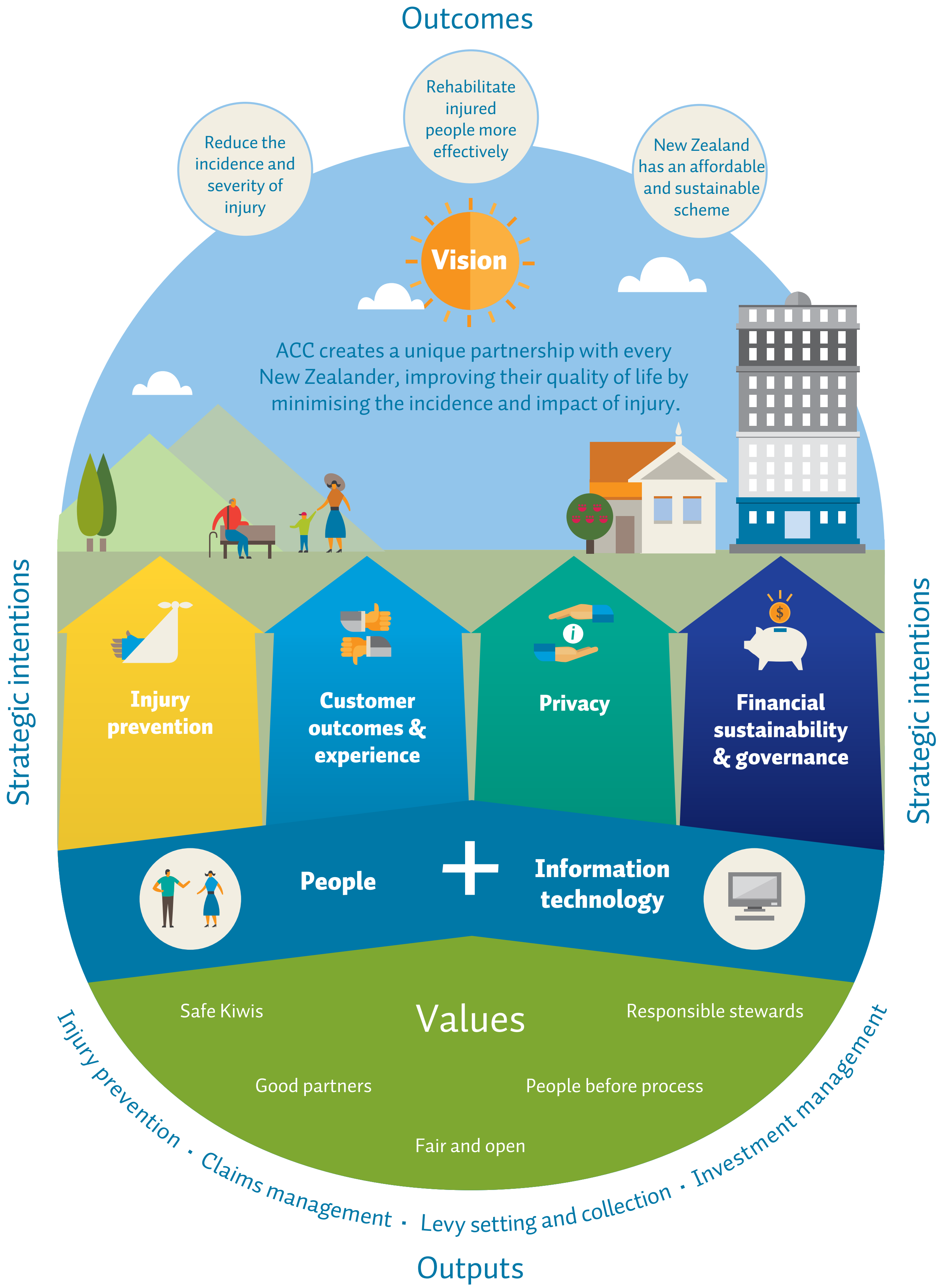
Our outputs

Our outputs translate how we will seek to deliver our outcomes, in our four key business areas:

- injury prevention
- levy setting and collection
- investment management
- claims management.

Our annual performance against the Service Agreement 2016/17 is reported in the statement of performance which can be found on page 79.

Outputs and outcomes



Transforming ACC

Did you know...

This year we received 1.95 million new claims. We also paid for more than one million people to see their GP and half a million to visit a physiotherapist. At the same time, we continued investing in a significant transformation programme, the largest in our 43-year history. It's part of our Shaping Our Future strategy aimed at putting the customer at the heart of everything we do.

It's being done carefully and methodically so that, over time, we can deliver better services and outcomes for New Zealanders.

Beginning our transformation

The Transformation programme is the result of asking 5,500 providers, clients, business customers and employees what they thought and felt about ACC, and what they'd like us to do better. That's a lot of people with a lot of different experiences, and a lot of opinions.

> **Kiwis told us we needed to be more responsive, more transparent and easier to deal with.**

But it had to happen. We knew we had become an incredibly complex organisation and we'd been hard to deal with in the past. What we didn't really know was how New Zealanders perceived us when they had to deal with us.

Kiwis told us we needed to be more responsive, more transparent and easier to deal with. And from these insights we developed a programme of work to deliver better services by integrating and aligning our people, processes, technology, and information.

And that's the point. While undoubtedly technology underpins much of our evolution, it's about transforming the whole organisation, from our culture to how we deliver services to customers.

What happened this year?

One of the core principles of the Shaping Our Future strategy is to question what we do now and how we could make it better for customers.

For example, the model we use for case management has not fundamentally changed for 20 years. So we are building a client-centred process that will help clients receive faster access to support services that will allow them to recover from, or manage, their injuries.

Mishaps and accidents affect more than the injured people. Their employers and health providers also have parts to play in their recovery and return to work. To make this process more transparent, we're starting to invest in a client-centred rehabilitation plan that will give visibility and control to clients and their providers to view, update and access services they need to assist with recovery.

Last year we streamlined our weekly compensation processes to make it faster for clients to access compensation, and allow case managers to focus on client rehabilitation.

We're finding ways to use technology and data to improve customers' access to our services. For example, we know our business customers want to deal with us online, so we're improving our digital services and the processes and systems that sit behind them.

Our website has also been completely changed. We've removed a large number of pages that were out of date, duplicated or contained information our customers didn't want or need. The website now has an intuitive, customer-friendly design that makes navigation simpler – it's accessible and available on mobile devices, streamlined and fit for purpose. Importantly, it allows people to find what they want more easily.

Last year we redesigned our levy invoices. The new version was rolled out throughout this year, meaning all business customers are now receiving the new, shorter, simpler version. The feedback has been that the simplicity and clarity of the information are much appreciated.

Getting it right

The investment in the Shaping Our Future strategy is organisation-wide, and there is no denying the central role technology plays. How people prefer to interact with us will continue to evolve and we need to be flexible to accommodate that.

That is what customer centricity is all about. That's why we have to be flexible in our delivery, but strong on our commitment – to deliver better services to, and for, our customers.

Data transfer to new systems for such a large transformation is always going to provide its challenges. We must ensure we plan carefully and keep a close eye on how we are doing, especially when looking to maintain accuracy and privacy.

At the end of the day, what we are doing is for our customers, so making sure what we do is of the highest quality is imperative.

Where to from here?

Our next big milestone is the launch of a new policy and levy management system. This will mean our business customers will be able to manage their levy accounts more easily, and with greater online and mobile capabilities.

Another strand of our initiative is the ability, over time, to integrate what we are doing with government departments such as Inland Revenue and the Ministry of Social Development. Again, this is solely aimed at making it easier for New Zealanders to deal with one entity that can interact with others, thereby streamlining many activities. However at all times, it is critical that we protect the integrity of our clients' data.

Our clients, our business customers and our people have all said we need to change. We have listened to them and embarked on a massive transformation. We know it will not always be easy. But we also know that we are doing the right thing and that we are focused on continuously improving what we do.

How people prefer to interact with us will continue to evolve in the next three years and we need to be flexible to accommodate that.

A total transformation

How we all do business, get information and interact will change markedly in the future, just as it has in the past 20 years.

That's why our Shaping Our Future strategy aims to look holistically at everything we do, from our technology to how we need to train our people for the challenges of the future.

Critically, it has allowed us to challenge the way we interact with all our stakeholders – clients, providers, businesses and the public – and how we might do things differently to make that experience better, quicker and easier.

But our transformation is not just about technology, systems and processes. Most importantly, it's about giving our people the tools they need to serve our customers.

And the thinking and planning needed for transformation can't be done by a machine. It needs people, our people.

The changes mean they will be doing their jobs differently and, quite possibly, have different jobs. So while the way we train, recruit and select our people will change, one thing will never change – our people will still be at the heart of ACC, and our focus will always be on the customer.

Our performance this year

Increase the success of our injury prevention activities

Cost effectiveness

Were we fair and affordable?

Performance scorecard	2015/16	2016/17 Target	2016/17 Actual	2016/17 Target met?
The portfolio of injury prevention investments approved will have an assessed positive return on investment	$1.60:$1	$1.35:$1	$1.63:$1	✓

Did you know...

When Sir Owen Woodhouse released the report of the Royal Commission on Workers Compensation in 1967, he noted that the most important aspect of the proposed scheme was to prevent injuries.

That's why injury prevention is, and will continue to be, a cornerstone of the Scheme. And that's why we've increased our investment in this area and partnered with more organisations, and reached more New Zealanders, than ever before.

And that's why we're committed to continuing our strong focus on injury prevention by investing further. We'll add more programmes and discontinue those that have run their course.

By preventing injuries, we help New Zealanders enjoy the things they love in this remarkable country of ours.

How do we choose the initiatives?

Based on the severity of injuries, the number of claims and the cost, and our research into what works for our different target groups, we currently focus on seven areas: falls, work, road, treatment injury, sexual and family violence, sport and community. Injuries from these seven areas account for about 85% of new costs to the Scheme.

Some of our initiatives reach thousands of people and span the generations. Our SportSmart portfolio covers specific programmes targeting injury reduction in rugby, football, netball, league and touch, and is aimed not just at players, but also coaches, referees and health care providers. Within the programme there are also some generic messages around issues such as concussion protocols, and the importance of warming up.

Other initiatives are much more discrete, but no less important to the people they assist. An example is Gandhi Nivas, a programme that offers emergency housing, counselling, and social service referrals for men involved in family violence, which aims to keep their families safe.

The importance of partnerships

ACC has a duty to reduce the incidence and severity of injuries by actively promoting injury prevention in New Zealand communities.

We are not a sports association, a road safety group or a health provider. These types of organisation are the experts we partner with to reduce the impact of injuries across the country.

We are not a sports association, a road safety group or a health provider. These types of organisation are the experts we partner with to reduce the impact of injuries across the country. And we are now working with several of these partners to explore social marketing as a way of communicating our injury prevention programmes.

A good example is our work with the forestry industry. Since 2013 the forestry sector has moved from having a poor safety record to achieving significant reductions in injury rates, down from 80 per 10,000 workers three years ago to 70 this year.

Our work with the forestry sector and unions on Safetree, a programme that developed resources for all parts of the sector, from forest owners and managers to tree fallers and machine operators, helped the sector in its early work to improve safety. From there we have grown our involvement with an investment of $1 million over three years with the Forest Industry Safety Council, which is leading the ongoing change across the sector, a great example of an industry taking ownership for improving safety from within.

Last year, along with the Ministry of Health, the Health Quality & Safety Commission (HQSC) and district health boards (DHBs), we made a commitment of $30 million to reduce the number of falls and fractures amongst the older population. This programme is our single largest injury prevention investment.

What happened this year?

In April, for the first time, we published data on treatment injuries (injuries that occur during or as a result of health care) from all DHBs. This will be updated every six months, and will include private surgical hospitals in the next iteration.

This was part of another, broader, collaboration with the DHBs and other clinical providers, and the Ministry of Health and the HQSC. The aim is to help reduce the number and the impact of injuries that occur as a result of treatment. This initiative is being supported by a significant investment over the next five years. We have specific initiatives that will run for several years to reduce harm from surgery, prevent health-care-acquired infections, improve medication safety, reduce pressure injuries, and to reduce birth injuries (neonatal encephalopathy).

Sexual violence is one of the most damaging crimes, with the Ministry of Social Development in 2013 estimating it costs the New Zealand economy $1.8 billion each year.

But more than that. It indelibly affects those involved, so the more prevention there is, the greater the benefits to people and communities.

With this in mind, we continued to invest in a range of programmes such as our work with the New Zealand Union of Students' Associations to prevent sexual violence, on and around, student campuses. This provides continuity with the secondary schools initiative Mates & Dates, which promotes respectful relationships between people, as well as an understanding of behaviours that underpin violence.

In the workplace, our role is to design and deliver effective injury prevention programmes, help businesses have better health and safety practices, and support them in rehabilitating employees when injuries do occur.

On top of seven generic workplace programmes for health and safety, we have 13 that target specific industries, and three creating new channels for health and safety information. These all support the joint Harm Reduction Action Plan with WorkSafe.

Our partnership with WorkSafe New Zealand has seen the launch of *Around the Block* – an online tool that helps businesses identify and manage their health and safety risks.

We are also developing an economic incentives strategy for employers, and introducing targeted financial incentives to encourage improvements in health and safety performance.

There are many existing partnerships that continued to deliver great results for us and New Zealanders, such as our association with St John to provide injury prevention and first-aid training to primary and intermediate school children, and our agreement with New Zealand Police that looks at working on common areas of safety for families and communities.

And we know our investments in injury prevention are delivering results. Over and above a reduction in the impacts that injuries are having on people, their families and employers, our overall injury prevention programme had a return on investment of an estimated $1.63 reduction in claim costs for every dollar spent, against a target of $1.35.

Where to from here?

In a busy year, we invested in programmes as diverse as motorcycle safety and young driver education, the health and wellbeing of the rural sector, and supporting our Paralympians.

Next year, we will continue working with our partners to develop and deliver new initiatives. Key areas of focus will be doing more around treatment injuries, growing our SportSmart programme, and workplace safety.

We are committed to developing more partnerships that will reduce the incidence and severity of injuries, while continuing to deliver a positive return on our investment.

Crucially, we will continue to do more and more online so that resources are available to whoever needs them at the click of a mouse or swipe on a tablet.

Finally, we will continue to monitor and track our programmes closely to ensure the best outcomes for our customers and the communities we serve, and take action if we are not achieving the best possible results.

Starting early

Ten thousand children, 1,500 coaches and thousands of supporters.

What better audience to introduce to injury prevention?

The annual AIMS (Association of Intermediate and Middle Schools) Games in Tauranga in September 2016 were for 11- to 13-year olds from more than 275 schools from across New Zealand.

But the key to getting them there was making sure they were fit and raring to go, and we are a long-term partner in this. So in June and July this year, we ran free coaching workshops around the country for all AIMS Games coaches, parents and teachers in preparation for the 2017 event.

In our SportSmart programme, we have resources for coaches and athletes, activities to keep competitors motivated in the run up to the event, and a dedicated ACC SportSmart Warm Up zone at the Games to drive home the message of good preparation.

These children are our sports stars of tomorrow – it's best for them, their coaches and supporters to have them learn early for life.

Improve our customers' outcomes and experience

Customer

Did we meet expectations?

Performance scorecard	2015/16	2016/17 Target	2016/17 Actual	2016/17 Target met?
Customer satisfaction – clients	76%	76%	78%	✓
Customer satisfaction – levy payers	69%	71%	68%	✗
Public trust and confidence	63%	62%	62%	✓
Cover decision timeliness	1.1 days	1.2 days	1.2 days	✓
Average time to commence weekly compensation payments	8.3 days	<9 days	7 days	✓
Formal reviews as a percentage of entitlement claims	2.5%	2.6%	2.7%	✗
Percentage of ACC reviews upheld	84.2%	≥85%	81.7%	✗
Average time to resolution for claims with reviews	88 days	<90 days	94.8 days	✗

Did you know...

ACC was formed in 1974. That same year, colour TV was still a novelty and TV was a key means of electronic information exchange. And very, very expensive.

Websites, social media and smartphones were still decades away, yet today they are at the core of how we need to operate. And while we will always have a customer focus, and interact with customers in the most appropriate manner, technology is becoming more and more embedded in all our lives.

Impact

Did we deliver?

Performance scorecard	2015/16	2016/17 Target	2016/17 Actual	2016/17 Target met?
Return to work within 10 weeks (70 days)	67.6%	67.5%	68.4%	✓
Return to work within nine months (273 days)	92.8%	92.8%	93.1%	✓
Durable-return-to-work rate	79.0%	78.0%	80.0%	✓
Return to independence for those not in the workforce	86.7%	86.0%	85.8%	✗
Number of long-term claims returned to independence in the previous 12 months	2,796	2,950	3,340	✓

What motivates us?

Our focus is on putting customers at the heart of everything we do, be they clients, health providers, or business customers.

We're always looking for new ways of doing things to make it easier for New Zealanders to deal with us.

This translates into the public trust and confidence in the Scheme and how we manage it on the public's behalf. This year we were able to maintain our trust and confidence levels as well as customer satisfaction, a significant feat given the scale of change we're undertaking.

This year we were able to maintain our trust and confidence levels, as well as customer satisfaction, a significant feat given the scale of change we're undertaking.

We also invest in the future of the Scheme so all New Zealanders can benefit. This is why we are investing in our people and new technologies to make the Scheme better, simpler and easier to navigate.

What happened this year?

FOR OUR CLIENTS

For the past couple of years we have not reached the targets we set for our key 10-week and nine-month return-to-work measures.

This year we exceeded both targets.

There was an increase in claim volumes this year, driven by factors such as strong economic growth, higher levels of immigration, and a greater number of kilometres travelled on our roads. New claims rose 0.9%, to 1.95 million.

After accepting a claim, our role is to get the injured person back on their feet and back to work as soon as possible. For the past couple of years we have not reached the targets we set for our key 10-week and nine-month return-to-work measures.

This year we exceeded both targets, despite the increase in claim numbers. Our 10-week rate was 68.4% against a target of 67.5%, while our nine-month rate was 93.1% against a target of 92.8%. This indicates that people were being rehabilitated faster.

We have started work to launch client self-service. This will be the first digital ACC experience for people who have injured themselves. Client self-service will give greater control to people who have suffered injuries by allowing them to manage aspects of their recovery themselves. This project was developed in conjunction with our clients, and focuses on how we engage with them to ensure they get the outcomes that are right for their particular circumstances.

When a client gets injured, they may be entitled to compensation for loss of earnings if they are off work for a period of time. We spend a lot of time supporting injured clients who are often with us for a long period of time. This year the number of clients who received weekly compensation for more than one year grew by 401, less than half the increase in 2015/16. We also helped 3,340 existing long-term clients back to independence.

In March, we unveiled an initiative to make weekly compensation payments simpler and faster. Since then, we have made a 1.3 day improvement in the time to set up payments, and achieved 97% customer satisfaction for this initiative.

Often clients need to return to work gradually. When this happens, an arrangement has to be made between ACC, the client, and their employer as to the level of the client's continuing compensation. We have streamlined this process so there are no weekly forms to fill in, clients suffer no interruption to their incomes, and there is a lower administrative burden for employers and our staff.

We know all of our decisions are open to challenge and review, and we do our best to make quality decisions and help our clients understand our rationale for these. However, our formal reviews volumes increased this year and we are taking longer to resolve them. We have been working to create a clearer pathway for resolving issues prior to formal review.

We are also focussed on reducing the time taken to work through the reviews process and increasing the transparency of decisions for our clients. This focus is consistent with the findings of the Miriam Dean QC report. We implemented a number of the recommendations to address the report findings during the year.

FOR OUR PROVIDERS

Our providers are a varied group that includes, amongst others, GPs, physiotherapists, acupuncturists, chiropractors, osteopaths, nurses, carers and occupational therapists.

They all have different roles to play and need different information from us to help them best meet our mutual clients' needs.

That's why we developed *Your ACC Dashboard: Data Driven Insights* for each provider group. These reports are individualised to practice level so a provider can see how their statistics compare to national averages. This is useful as it allows providers to identify the types of injury they are treating, the costs, and the way they fit into their clients' overall rehabilitation.

Our new Provider Service Delivery operating model will enable us to build new capabilities and ways of working that support our ambition to be a strategic, effective and valued partner to the health sector.

Our aim is to become a customer-centric organisation, and that means building strong relationships with all our providers. This can be a difficult task if we don't have a consistent way of recording data, especially if customers are dealing with several people within ACC.

We have therefore been working on a customer relationship management system. The first phase, which involved setting up the new system and migrating data to it, is complete and we are now testing the system with 100 of our top providers. We hope to have it available for all providers within the next year.

FOR BUSINESSES LARGE AND SMALL

In April we launched a new digital service for self-employed business customers, MyACC for Business, which can be used on a smartphone, tablet or computer.

It allows customers to self-register, view their levy and invoice information, and pay their levies. We will be adding more features throughout 2017.

All our business customers received the new, simplified levy invoices this year, and to date the feedback has been that they are much easier to understand.

The ShapeYourACC website has created a more open and user-friendly feedback channel for levy payers. We received 1,081 submissions this year, which significantly eclipsed previous submission numbers.

The new two-year cycle for levy setting also offers greater cost stability and surety for levy payers for a longer period.

We have also been an active participant in the development of the New Zealand Business Number (NZBN) since its inception.

As a participating agency for Better Public Service Results 9 & 10, we are committed to the implementation of the NZBN and the programme objective of 'working together we can provide easily accessible, seamless and integrated services that are valued by businesses'. The NZBN has been implemented so that it is recognised as part of the levy invoicing.

FOR ALL NEW ZEALANDERS

We have made reductions totalling $162 million in 2016/17 in the work and motor vehicle levies, which takes the total savings for New Zealanders to more than $2 billion in the past five years.

We have extended our contact centres to operate from 7am to 7pm – previously it was 8am to 5.30pm for clients, and 8am to 6pm for business customers and providers. We launched a post-contact survey to get direct feedback from our customers to help further improve the customer experience and our processes.

We are making reductions totalling $126.2 million per annum in the work and motor vehicle levies, which takes the total savings for New Zealanders to more than $2 billion in the past five years.

OUR COMMITMENT TO MĀORI

We continue to seek improvements in the way we engage with, and deliver services to, Māori, and in July 2016, the Board approved our Whāia Te Tika ('Pursue what is right') strategy. The strategy was developed, in part, due to the fact that Māori are more likely to sustain serious injury, but less likely to access ACC services. Further, some Māori find our services difficult to access.

By endorsing Whāia Te Tika, we committed to a new way of working with Māori that will also be applied to other cultures where appropriate. The initiative not only covers ACC and its people. It is also aimed at working with clients, providers and other stakeholders, such as Māori organisations and iwi, to ensure we are delivering our services in the most suitable way possible. Already we have a three-year partnership with TupuToa to take in Māori and Pasifika interns during each Christmas period.

WE LISTENED

We do take customer feedback seriously and we do try to improve services as a result.

Every year thousands of New Zealanders tell us what they want their ACC to look like, how they want to deal with us, and where, from their perspective, we can improve.

One example is our investment in an Experience Centre in Manukau, which opened in January 2017. The Centre allows us to examine key issues that affect our customers, and design and test potential solutions. Pivotal to this process is the involvement of our customers both in the identification of issues and in the testing of improvements.

And we are changing the way we communicate by making greater use of Twitter, Facebook, and webforms, as we know they are increasingly popular channels that complement more traditional ways of communicating with our customers.

Where to from here?

The investment in our Shaping Our Future strategy is at the core of our future development. From it will come a range of initiatives all with one aim of improving our customers' outcomes and experiences, while at the same time delivering a financially sustainable scheme.

For example, we will be redefining our case management model to give it a stronger focus on where resources will have the greatest impact in terms of helping our clients. Our case management teams are helping with this work, and of course we will be seeking plenty of customer feedback before making any final decisions.

And we are changing the way we communicate by making greater use of Twitter, Facebook, and webforms, as we know they are increasingly popular channels that complement more traditional ways of communicating with our customers.


RICON

Right place, right time

While injury prevention is at the core of what we do, accidents do happen.

And when they do, our job is to help those people back to health and independence.

Any amount of research will tell you that when people make a speedy recovery after injury, their overall health and wellbeing is significantly improved.

That's great for them, but it is also good for their friends and families, the community and New Zealand.

To make sure this happens, we need to be able to tap into myriad networks, from health providers to tradies, spreading the injury prevention message, and helping those who have been injured.

Your injury could mean a couple of trips to a physiotherapist. It could also mean home and car modifications.

Your Scheme is about what is right for you if you get injured, your circumstances, and how quickly we can help you to get on the road to recovery.

It's about recognising that every customer is an individual with specific needs.

Improve the way we protect our customers' personal information

Privacy
Did we meet expectations?

Performance scorecard	2015/16	2016/17 Target	2016/17 Actual	2016/17 Target met?
The number of category 3, 4 and 5 privacy breaches and near misses	New measure	<5	1	✓

Did you know...

Every day our people deal with confidential and sensitive information relating to providers, employers and our clients. In fact we handle nearly 90,000 pieces of information every work day. In a year that's about nine million letters, 12 million emails and 1.5 million phone calls.

And in every instance, our people aim to respect and protect that information as if it were theirs. Backing them up are processes and systems that are designed to minimise the possibility of privacy breaches and improve our privacy performance.

Our people aim to respect and protect information as if it were theirs. Backing them up are processes and systems that are designed to minimise the possibility of privacy breaches and improve our privacy performance.

How do we measure privacy?

This year we changed how we measure privacy breaches to align with guidance provided by the Government Chief Privacy Officer (GCPO) (below). The new method gives us a better insight into the impact that breaches have on clients and customers.

Impact score	Description
1	Small number of people affected, with little or no potential or actual harm to the individual(s).
2	Small number of people affected, with minor potential or actual harm to the individual(s).
3	Either the information is not sensitive/highly sensitive and the potential or actual harm to the individual(s) is more than minor, or the information is sensitive/highly sensitive and the potential or actual harm to the individual(s) is minor.
4	Breach of sensitive or highly sensitive information, with serious potential or actual harm to the individual(s). The incident may imply a system failure that could undermine agency systems.
5	Breach of sensitive or highly sensitive information, with serious potential or actual harm to the individual(s). It is likely that more than one type of harm has occurred, and that harm is likely to be ongoing.

Our limit was for fewer than five category 3 or 4 impact score breaches, and no category 5 breaches for the year.

Our four-year Privacy Maturity Plan will guide us to our goals for the year 2020. To ensure that we continue improving our privacy performance in line with the Plan, we commissioned an independent assessment of our maturity against the GCPO's privacy maturity assessment framework (PMAF).

We managed to improve our performance in all nine dimensions of the PMAF since our last assessment in 2015, and have already met some of the targets for 2020.

What happened this year?

This year, we reported one category 3 breach, against a limit of fewer than five, and none at categories 4 or 5. This is a positive result, reflecting our focus on protecting our customer information.

Our breach and near miss totals are generally tracking lower than in previous years, and the significant majority are rated as category 1. This means we are reducing breaches that have a major impact on customers.

Our Privacy Officer visited all branches to discuss reporting, trends and privacy maturity. This was done in conjunction with launching the Privacy Ambassador network, where some staff volunteered to promote privacy actively in their local offices. The network was developed because the clear message from staff was that they wanted a privacy champion onsite to raise awareness and establish better links with the central Privacy team.

Embedding 'privacy by design'

Across the business, we continued to embed 'privacy by design', an approach, when designing systems and business processes, that takes privacy into account throughout the whole development process. This included privacy assessments at four branches, which highlighted our excellent privacy culture at the front line.

Customers, and their privacy, are also at the heart of our Transformation programme. We are ensuring that the Transformation programme team and our partners incorporate 'privacy by design' in the work they do.

Customers, and their privacy, are also at the heart of our Transformation programme. We are ensuring that the Transformation programme team and our partners incorporate 'privacy by design' in the work they do.


EXPERT
Plumbing & Gas

Online and personal

There must be hundreds of John Smiths and Pat Henares in New Zealand.

Plumbers, bus drivers, lawyers and goat farmers. Newborns, teens, hipsters and retirees.

And when the Johns and Pats deal with us, they need to be assured their personal information is secure and confidential.

Which is a big challenge, especially as we rely more and more on technology.

We are offering more online services for providers, clients and businesses, so we need to be vigilant about how we collect, store and distribute that data as well.

For example, our new policy and levy management system will let our business customers manage their levy accounts with much greater online and mobile capabilities. They can verify or change their personal details in the office, at home or on site.

Technology empowers Johns and Pats, but their information is private.

Our challenge is to ensure that as we become more IT based we remain people-centric, and are sensitive to individuals' information.

Maintain the financial sustainability and governance of the Scheme

Cost effectiveness

Were we fair and affordable?

Performance scorecard	2015/16	2016/17 Target	2016/17 Actual	2016/17 Target met?
Percentage of total expenditure paid directly to clients or for client services	86.0%	86.3%	85.8%	✗
Total levies and appropriations as a percentage of gross domestic product	1.6%	1.6%	1.6%	✓
Change in average treatment cost per injury	1.7%	≤4.0%	3.4%	✓

Performance scorecard	2015/16	2016/17 Target	2016/17 Actual	2016/17 Target met?
Ratio of this year's total levies to the total claims incurred for the year's accidents over time	0.8	0.9–1.1	0.8	✗
Investment performance after costs relative to benchmark	0.55%	0.30%	1.47%	✓
Return from insurance operations	–$581m	–$135m	–$1,198m	✗

Did you know...

The Scheme is a very significant undertaking, and it has grown considerably in the past 10-15 years.

The future cost to meet current claims is $78.3 billion (with a present value of $37.7 billion), and we have delivered better than benchmark returns on the portfolio for 22 consecutive years.

How your Scheme works

One of our four strategic intentions is to ensure the financial sustainability and governance of the Scheme. We need to make sure it is fair for New Zealanders today and the generations to come.

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. We allocate the money collected into five accounts, each account covering a specific group of injuries. Each account operates independently and cannot cross-subsidise another.

Our broad financial sustainability objective is to ensure each levied account is in a fully funded solvency position. Full funding means that, at any point in time, the value of our investment portfolio is enough to pay for the future costs of every claim we have received to date.

The exception to this full funding objective is the costs of Government-funded non-earners' injuries incurred prior to 1 July 2001. These are funded on a pay-as-you-go basis.

We contribute to achieving this fully funded position by delivering the most appropriate rehabilitation and independence outcomes for our clients while carefully managing our controllable costs to minimise the burden of levies on all New Zealanders.

One of our four strategic intentions is to ensure the financial sustainability and governance of the Scheme. We need to make sure it is fair for New Zealanders today and the generations to come.

What happened this year?

The Scheme recorded a surplus of $607 million, compared with a deficit of $3.4 billion in 2015/16. Details of the variances between the two years are on page 39.

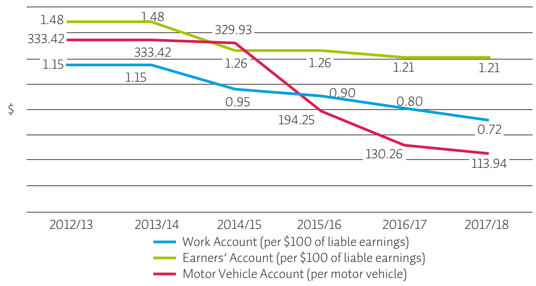
LEVY INCOME

In 2016/17 we reduced work and motor vehicle levy rates and held earners' levy rates steady:

- The average Work Account levy, paid by employers, fell from 80 cents to 72 cents per $100 of liable earnings. This was the fourth consecutive year of levy reductions for this account.
- In the Motor Vehicle Account, we reduced the average motor vehicle levy from $130 to $114. We have also reduced the petrol levy from 6.9 cents per litre to 6 cents from 1 July 2017. By comparison, the average motor vehicle levy in 2014/15 was $330.

We have been able to reduce these levies because of the strength of the Scheme and the fact that the levied accounts are fully funded.

Levy rates by year



The impact of these levy rate reductions, by themselves, was to reduce our levy income by $162 million in 2016/17.

However, our total levy income was higher because we collected $187 million in additional income due to higher economic activity than expected. This higher economic activity created:

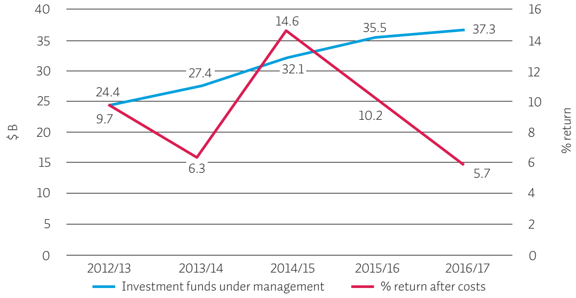
- more people in the workforce than we expected
- an increase in the size of the motor vehicle fleet, which meant New Zealanders drove more kilometres.

INVESTMENT PERFORMANCE

Once again our investment performance was a highlight.

For the 22nd consecutive year, our investment team delivered returns that were better than benchmark. We achieved a 5.7% investment return this year, 1.4% better than benchmark. This generated $2.1 billion of income, and helped our investment portfolio grow to $37.3 billion.

Funds under management and investment returns



CLAIMS VOLUMES AND COSTS

The financial impact of claims is driven by volumes, the cost per claim, the services we offer, and legislative changes or legal rulings.

We aim to manage these costs by:

- investing in injury prevention to reduce the frequency of accidents
- partnering with providers to effectively deliver the best outcomes for clients
- managing claims efficiently
- managing the scope of the Scheme.

This year claims costs increased by 6% to $3.7 billion. These costs were affected by a combination of claim volumes, rehabilitation performance, our efforts to mitigate the impact of inflation, and the wider scope of the Scheme.

Claim volumes grew again in 2016/17

New claims rose 0.9% to 1.95 million, a record number of new claims.

The growth was driven by the strength of economic activity:

- more people in work
- more vehicles on the road
- more kilometres driven.

New Zealand's growing and ageing population also had an impact on the number of claims.

The number of claims is a strong indicator, but it is the frequency of claims that is more important. If frequency rises, the longer-term cost of the Scheme increases.

This year, claims frequency in the Motor Vehicle, Non-Earners' and Work Accounts remained relatively flat, and decreased in the Earners' Account. This result reflects the combined impact of a number of initiatives:

- our injury prevention initiatives
- improvements in vehicle safety and road networks
- driver training for commercial and young drivers, and motorcyclists
- the Health and Safety at Work Act 2015 reforms.

Over a longer period claims frequencies have been increasing. This reflects economic activity (particularly gross domestic product growth and workforce participation), and the impact of our ageing population.

Claim frequency is rising fastest for people over 65 years old. We know that the majority of these claims relate to falls in the home. In response, we launched a significant nationwide injury prevention programme to reduce the number of falls and to improve the resilience of clients to recover from falls.

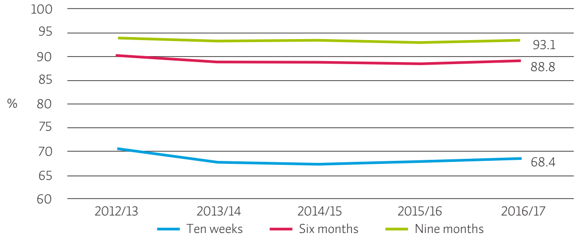
This population shift will continue to be a challenge for us.

Rehabilitation performance improved

Our continuing focus on rehabilitation is aimed at getting our clients back to work or independence as soon as possible. We know that a rapid return to work or independence makes a big difference to people's health and wellbeing, and reduces the negative impacts of injury. It can also reduce the future costs to the Scheme and levies.

This year, our rehabilitation performance for all durations has improved, particularly for long-term clients.

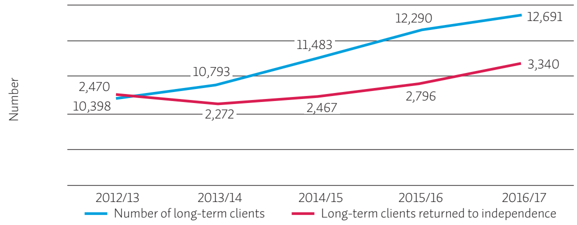
Rehabilitation rates



The longer people are receiving support from ACC, the harder it can be to return to work or independence.

This year, the number of clients who received weekly compensation for more than a year increased by 401 to 12,691, well below expectations.

Long-term claims

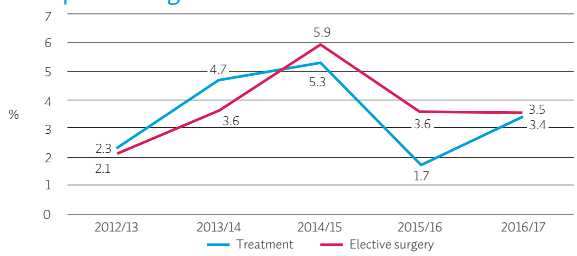


Cost per claim increased

This year saw an increase in the average treatment cost per claim.

While the cost increases in elective surgery were in line with last year, there was an increase in the overall average treatment cost to 3.4%.

Cost per claim growth rates



Our treatment cost increases are largely driven by two factors:

- inflation, which is often much higher for the medical-related services we purchase than the more widely published baseline inflation rate
- demand to broaden our service offerings.

It is important that we respond to both of these pressures to mitigate the impact on long-term Scheme sustainability.

We work hard to minimise the impact of inflation by working closely with our providers to manage costs. Together we are working on ways to better purchase outcomes for our clients rather than discrete services. We are also working with providers to redesign the supply chain for elective services to improve client outcomes while delivering a more cost-efficient service.

This year we saw an increase in the number of care hours we provided to injured clients, a factor which has led us to review our processes. We are now better at assessing the appropriate hours of support to provide to these clients. We aim for the right level of care each client requires for their individual injury-related needs.

We are constantly faced with the demand to broaden our service offerings or ensure we are meeting the reasonable needs of our clients.

Sensitive claims are a good example of this. Internal and external reviews of sensitive claims showed that we had not been adequately supporting people who had suffered mental or physical injury as a result of sexual abuse. In response, we are now providing a better range of support services which will improve the outcomes for our clients, but which will also increase the cost per claim.

Our investment in vocational rehabilitation services to help clients return to work earlier has increased. In the past three years, this investment has increased by 9.7% or $8 million.

We purchase a wide range of capital items for our clients, from small independence aids through to extensive home and vehicle modifications. These costs have been increasing for the last three years (an increase of $11 million in 2016/17) as we work to enable our clients to return to work or independence, and as we replace older equipment for our longer-term clients. We have also seen a greater proportion of higher-value items being purchased for our most seriously injured clients.

We are constantly faced with the demand to broaden our service offerings or ensure we are meeting the reasonable needs of our clients.

With the Ministry of Health we have significantly increased our funding of the road ambulance service. This is to ensure that it is able to fund double crewing nationwide and invest further in the service.

It is clear that our claims costs are under pressure from inflation and changes to our service offerings. We need to remain focused on managing these costs while maintaining appropriate services for our clients.

With the Ministry of Health we have significantly increased our funding of the road ambulance service. This is to ensure that it is able to fund double crewing nationwide and invest further in the service.

OUTSTANDING CLAIMS LIABILITY (OCL)

The OCL is a projection of the costs of supporting our clients into the future.

The OCL reflects the future cost of our current claims. At the end of 2016/17, the OCL is valued at $78.3 billion, discounted to a present value of $37.7 billion ($36.7 billion in 2015/16) in today's money by using a long-term interest rate.

The size of the OCL is influenced by a range of factors:

- the maturity of the Scheme
- claim volumes and claim costs
- interest rates and inflation
- legislative changes.

The Scheme is not yet mature as each year there are more people entering the Scheme than leaving. This growth will continue for decades, because the Scheme is still relatively young.

At the start of each year, we project the impact of this effect on the OCL. For 2016/17, we expected the impact of this Scheme growth to add $1.4 billion to the OCL.

This year, we experienced more claims and an increase in the average lifetime cost per claim than we had projected. As a result, our independent actuaries increased the value of the OCL by $830 million.

If interest rates increase, the value of the OCL decreases and vice versa. This year, the single effective interest rate we used to discount the OCL rose from 3.22% to 3.80%, reducing the OCL by $3.5 billion.

This impact on the OCL was offset to some extent by higher inflation expectations, which increased the OCL by $1.2 billion.

In 2017 a change in legislation was enacted that introduced pay equity for care and support workers. This had an immediate impact on our OCL of $1.1 billion, reflecting the expectation that the average future cost of care per hour for our current clients will increase by approximately 20% in the next four years.

SOLVENCY

Solvency is an indicator of the extent to which the future costs of the Scheme are matched by the investment portfolio we hold.

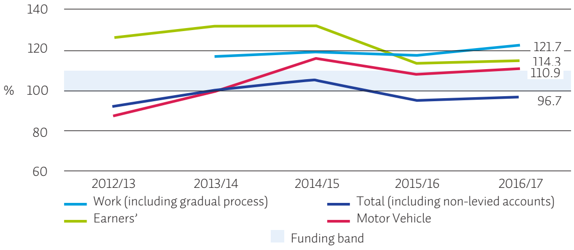
A key goal of the Scheme is to maintain our solvency levels within a target range of 100–110% over a 10-year period to limit levy rate volatility.

The solvency level for the levied accounts represents the combined impact of:

- levy revenue
- investment performance
- claim volumes and costs
- rehabilitation rates
- movements in the OCL.

For 2016/17, all levied accounts had solvency levels above the target range despite the reduction in levy rates.

Solvency by levied account



Where to from here?

In a context of growth in claim volumes and costs, we must have a strong platform from which we can provide the right balance of quality, efficiency and effectiveness of services to our clients and levy payers while maintaining a robust financial position.

Underpinning this financial position is the need to have a consistent focus on:

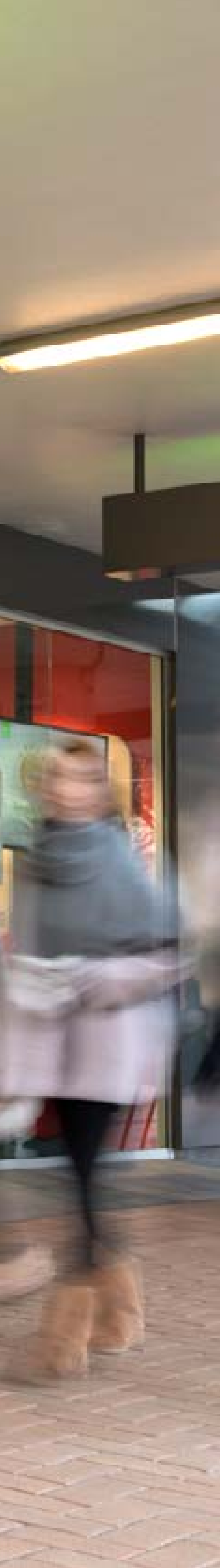
- reducing harm and long-term costs through our investment in injury prevention
- prudent cost management
- strong investment performance
- delivering the benefits from our investments in transformation.

Year-on-year change in financial result

	$M	
30 June 2016 deficit	(3,367)	
Income		
Levy rates	(162)	Lower levy revenue due to reductions in the Work, Earners' and Motor Vehicle levy rates compared with 2015/16.
Gross domestic product growth	187	Higher levy revenue because of more people in employment, increases in salaries and wages, and more registered motor vehicles.
Appropriation	155	Increase in recorded income from the Government appropriation to cover the costs of injuries to people not in paid employment, and who were not injured in motor vehicle accidents.
Investment income	(1,206)	Total investment income, although higher than budget, was lower than the income achieved in 2015/16. The ACC investment team achieved an annual return of 5.7% after costs, outperforming benchmarks by 1.4%, a higher level of outperformance than was achieved in 2015/16.
Cash cost of claims		
Treatment costs	(64)	Increase in expenditure for providing medical and other treatment services to injured people, due to increased claim volumes and higher provider costs.
Rehabilitation costs	(62)	Increase in expenditure for providing vocational and social rehabilitation services to injured people, due to increased claim volumes and higher provider costs.
Compensation costs	(69)	Increase in expenditure for providing compensation for loss of salaries and related support to injured people due to increased claim numbers and higher wage levels compared with 2015/16.
Miscellaneous	(8)	
Injury prevention costs	(4)	Increased investment in injury prevention initiatives to reduce the incidence and severity of new injuries.
Transformation costs	(39)	Increased expenditure on ACC's Transformation programme as we increase our transformation activities.
Other operating costs	(6)	Increased expenditure to manage the greater number of injured people.
Outstanding claims liability (OCL)		
Economic factors affecting the OCL	7,088	During 2016/17, interest rates rose, reducing the OCL by $9.8 billion compared with 2015/16. Inflation rates increased in 2016/17, increasing the OCL by $2.7 billion compared with 2015/16.
Legislative changes	(1,437)	The impact of the pay equity legislation increased the OCL by $1.1 billion.
Other factors affecting the OCL	(392)	The increase in the OCL for reasons other than economic factors reflects a range of factors, such as the number of injured people in the year and the experience of those claims.
Unexpired risk liability (URL)		
Annual change in the URL	(7)	The calculation of the URL reflects a number of factors, including projected future levy income, injury rates and claims costs, as well as external economic factors such as interest rates.
30 June 2017 surplus	607	

A detailed analysis of performance versus budget can be found in the statement of performance on page 79.


ATM
Kiwi bank.
Kiwi bank.



Investing in New Zealand for New Zealand

We have more than $37 billion in investments, the largest investment portfolio in the country.

And more than two-thirds of all our investments are in New Zealand. And it's a diverse lot, from cash to bonds, shares to property.

In October 2016, we added another national brand to our list – Kiwibank.

We think Kiwibank has a bright future. From humble beginnings 15 years ago, it is now the fifth-largest bank in New Zealand. It has three shareholders – New Zealand Post, the New Zealand Superannuation Fund and ourselves.

And we're in it for the long run. While we obviously see Kiwibank as a good investment, we also see it becoming more and more a part of the fabric of New Zealand life. It's made in New Zealand for New Zealanders, for the future.

And we're proud to be a part of that.

Organisational culture, capability and capacity

People

Did we meet expectations?

Performance scorecard	2015/16	2016/17 Target	2016/17 Actual	2016/17 Target met?
Employee turnover	12.10%	≤15%	11.40%	✓
High achiever turnover	7.50%	≤10%	7.50%	✓
Ratio of engaged employees to actively disengaged employees	6.00:1	7.00:1	7.00:1	✓

Did you know...

We have an interesting workforce profile. Our people are younger than the public service average, and stay with us for longer.

We've got a good mix. It means we have new ideas and fresh thinking from our younger people, and stability and knowledge throughout the organisation in what is a complex environment.

That's why what many organisations call Human Resources, we call Talent.

Why our people are important

Our business stretches from Cape Reinga to Stewart Island, and we need to have capacity across our network at all times. So when the earthquake hit Kaikoura in the early hours of 14 November 2016, it had a huge impact on our Wellington offices in particular.

Our corporate offices, which house most of our IT infrastructure, were damaged, with some areas being closed for more than a week. For the rest of the country, it was largely business as usual as our people made sure that the systems were still there.

It's this planning and investment in our people and systems that ensure, even in times of emergency, we are able to continue serving our customers.

Information technology

Performance scorecard	2015/16	2016/17 Target	2016/17 Actual	2016/17 Target met?
Overall operational system availability	99.60%	99.50%	99.90%	✓

What happened this year?

Key to any development of our people is the underlying understanding that through our Shaping Our Future strategy, we are moving towards new ways of working, and therefore better ways of doing the right thing at the right time for our customers.

While technology will drive much of this change, it is imperative that our people are well prepared to meet our customers' needs.

Fundamental to this is making sure the talent model we use is fit for purpose now and in the future. To do this we consulted our people and have been able to reduce the complexity in our processes.

During the year we defined the core capabilities required for frontline roles now and in the future. These 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. We also implemented a workplace planning tool to assist with organisational change and role-based design.

Key to any development of our people is the underlying understanding that through our Shaping Our Future strategy, we are moving towards new ways of working, and therefore better ways of doing the right thing at the right time for our customers.

Part of this was the launch of an online career tool for all of our people, and having career coaching available to permanent employees who have been with us for a year or more.

We also started to use a leadership approach to help us develop and build capability for our high achievers and for those going into management roles.

To support this we developed a succession framework and identified critical roles and potential successors across the organisation, thereby embedding knowledge about our business.

We are committed to improving continually the health, safety and wellbeing of our people. This year saw the roll-out of *Thrive – Maximise your potential*, a programme designed to build emotional strength and resilience, and give all our people the opportunity to maximise their potential at work and in their personal lives. We also improved the management of off-site safety risks through the implementation of an online risk assessment, an offsite register, and duress alarms to ensure assistance to people working off-site.

And we continued to invest in our people by offering to sponsor graduate and postgraduate qualifications in both health science and business administration through our partnership with Auckland University of Technology. We have now had 95 of our people graduate, and have a further 69 progressing through the qualifications.

Each year we hold an employee pulse survey that tracks how our people feel about working at ACC, and for assessing our employees' levels of engagement.

This year the overall employee engagement score, calculated by the annual Gallup survey, was 4.06, the same as in 2015/16. It is typically challenging for organisations to maintain strong engagement results, so this highlights that our people are optimistic about the future.

The ratio of engaged to actively disengaged employees increased to 7:1 in 2016/17, up from 6:1 the year before. This means for every seven team members who are engaged, there's only one who's disengaged, a pleasing result.

INCREASING CULTURAL AWARENESS & CAPABILITY

Being able to connect with Māori, and promote awareness of our support in Māori communities, is a key focus for us. It's imperative that we continue to improve how we engage and partner with iwi and Māori community organisations to co-design effective services and injury prevention initiatives.

Our Whāia Te Tika ('Pursue what is right') strategy describes how we are embedding Māori and cultural considerations across our activities and building our cultural capability.

We have recently adopted four behaviours to shape how we interact and engage as an organisation. The first of these, 'I am inclusive' ('He tangata kotahitanga'), encourages all employees to respect different perspectives and collaborate. We are seeking to embed Te Reo Māori in our communications and have supported employees with language classes. Our recruitment processes continue to be refined to attract Māori candidates, and we are now seeking to appoint a Head of Māori & Cultural Capability to lead our existing team working in this area.

Where to from here?

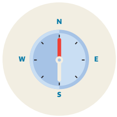
In the coming year we will be reviewing, with our people, our performance development cycle to simplify the process and provide greater clarity, involvement and support.

This will include having each employee's performance objectives and measures better aligned with our priorities, and our future needs.

We will also be designing and delivering business group changes that are aligned with the Transformation programme's future requirements and the Shaping Our Future strategy.

Employer performance

Our activities under the seven elements of being a 'good employer' are set out below.

Element	Our activities this year
 Leadership, accountability and culture	• Graduate and postgraduate qualifications offered in leadership/management. • Targeted leadership courses offered for future leaders and new and experienced managers. • Manager and new senior leader induction and on-boarding programmes. • Developed a talent management toolkit aligned to the State Services Commission (SSC) framework. • Enterprise leadership and Tika leader workshops embedded. • Designed a new leadership approach aligned to the SSC Leadership Success Profile. • Developed and delivered a 'leading through change' suite of offerings. • Partnerships with TupuToa and Workbridge will improve our diversity and inclusion performance.
 Recruitment, selection and induction	• Robust recruitment and selection processes are in place, including regional assessment centres and candidate pipeline to ensure consistency. • Use of broad assessment and selection tools to encourage diversity of age, ethnicity, gender and disability. • Our partnership with Workbridge continues to improve our disability initiatives. • Implementing actions to support our diversity and inclusion approach.
 Employee development, promotion and exit	• Performance development and remuneration framework in place. • A review of our performance and development process has led to a launch of more engaging tools and resources with clearer expectations for employees. • Graduate and postgraduate qualifications offered in health science for case management. • Comprehensive range of training programmes available to staff, provided by both inhouse and by external providers. • Our Tika programme continues to develop our culture and customer experience.
 Flexibility and work design	• We have a policy that supports flexible working arrangements for our people. • Parent rooms in some locations. • Christchurch office opening provided insights into how our people will work in the future.
 Remuneration, recognition and conditions	• Our people have access to a range of recognition options, including transparent and equitable job evaluation practices. • We support staff participation in contractual arrangements as part of collective bargaining with the Public Service Association and the Association of Salaried Medical Specialists.

Element	Our activities this year
Harassment and bullying prevention	• ACC has a bullying and harassment policy. • Employee Code of Conduct and relevant policies available at all times and feedback encouraged from employees. • We actively seek and encourage employee participation in all equal employment opportunity-related matters, particularly as part of collective bargaining.
Safe and healthy environment	• Our commitment to providing staff with a safe workplace and supporting their wellbeing is delivered through a range of support services, including: – emotional strength and resilience programme to maximise employees' potential at work and in their personal lives – dedicated workplace wellness programme, including the provision of on-site health checks, hearing tests and flu vaccinations – Employee Assistance Programme – professional supervision support programme – ergonomic workstation assessments and sit/stand desks – reviews of all third-party sites – front office layout – building configuration assessments at all sites – health and safety/WorkSafe policy and training for all staff – developed further an interactive health and safety workshop called the 'Reality room' to help our people manage disruptive clients.

Full-time equivalent

3,397

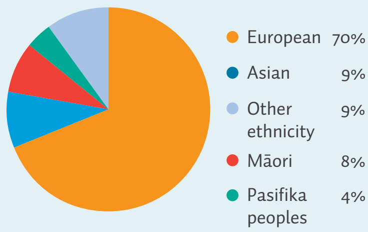
3,397 permanent and temporary staff
2,066 direct frontline staff
564 frontline support staff

Headcount

3,502

3,502 permanent and temporary staff

Ethnic profile*



Ethnic diversity remains stable

Age profile

41.4

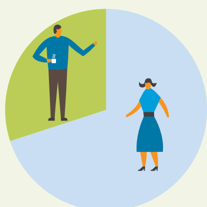
Average age 41.4 years

Disability profile*

1.1%

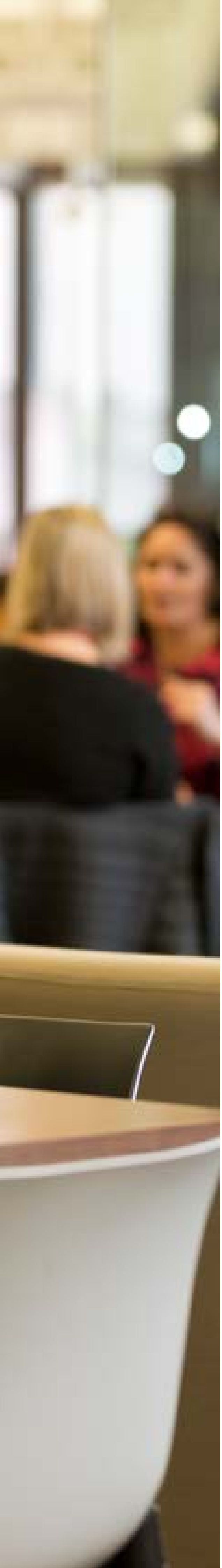
Our proportion of employees with disabilities is 1.1% (permanent staff)

Gender profile



Women make up the majority of our workforce, with 70% females compared with 30% males

* This information is voluntarily reported by staff.



The more things change

We are a team of more than 3,500 people.

Like any team, we need to keep training, learning and refining our skills and, in our case, services.

And while we need to invest in our infrastructure, processes and technology, none of these can progress without our people, so honing their skills is paramount.

This starts on day one for new employees. Lime and Sauce are foods to most people, but for our people, they are the names of the online learning and information tools they use from day one. They will all have and develop individual and specialist skills, but we lay down the markers of what is important for us right up front.

But we also develop learning solutions to meet our unique and ever-changing business needs. We have a diverse workforce, from medical specialists to call centre members, investment experts to case managers, so the range of skills we need to improve is, well, as diverse as our workforce.

What we are doing is making sure we can provide the best services possible, so we invest in our people and help 4.8 million other people – New Zealanders.

Governance and managing risk

Governance

ACC Board and governance framework

ACC is governed by a Board of up to eight non-executive members, each appointed by the Minister for ACC for up to three years. The Minister can reappoint a Board member, or shorten their term.

The Board has the authority to exercise ACC's statutory powers and perform its functions. The Board may only act for the purpose of performing ACC's statutory functions.

Board members are accountable to the Minister and also to ACC for the performance of their duties.

The Board's governance role is largely governed by the provisions of the:

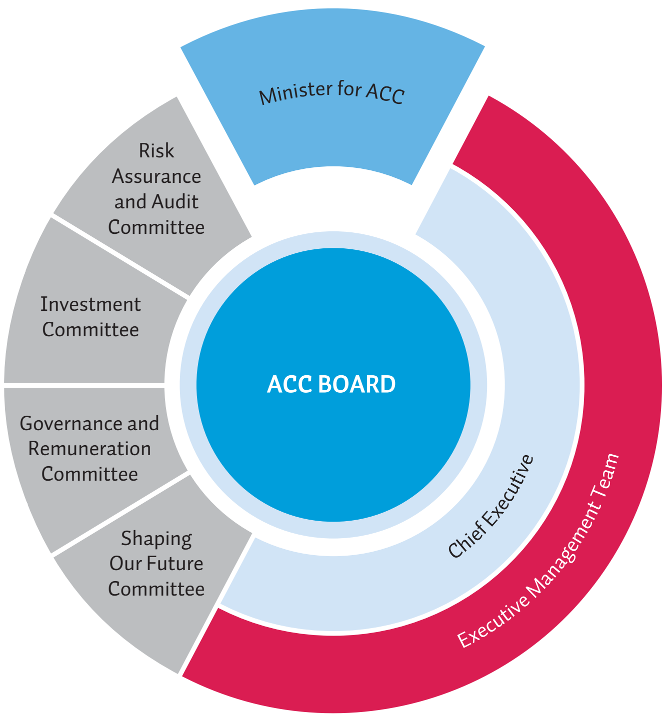
- Crown Entities Act 2004
- Accident Compensation Act 2001
- State Sector Act 1988
- Public Finance Act 1989
- Health and Safety at Work Act 2015.

These Acts include the following elements:

- maintaining appropriate relationships with the Minister, Parliament and the public
- ensuring ACC's compliance with the law, ACC's accountability documents and relevant Crown expectations
- ensuring that ACC is a good employer and creates a supportive environment that promotes the highest standards of safety and wellbeing, both for its employees and for the communities it serves
- setting strategic direction and developing policy on the operation and implementation of the legislation
- maintaining the financial viability and security of ACC and its investments
- appointing the Chief Executive of ACC
- monitoring the performance of ACC and its Chief Executive
- exercising due diligence to ensure that ACC complies with its obligations and primary duties.

All decisions relating to the operation of ACC must be made by, or under the authority of, the Board.

The Board delegates to the Chief Executive the day-to-day management and leadership of ACC. In particular, this includes matters relating to ACC's responsibilities as an employer.



ACC Board committees

RISK ASSURANCE AND AUDIT COMMITTEE

The Risk Assurance and Audit Committee assists the Board to fulfil its responsibilities for risk assurance and audit reporting relating to ACC and its wholly owned subsidiary. The Board may delegate to the Committee responsibilities associated with the sign-off and publication of the ACC *Annual Report* and financial statements.

INVESTMENT COMMITTEE

The Board Investment Committee assists the Board to monitor ACC's investment responsibilities. The Board has delegated the Committee authority for investment decisions.

GOVERNANCE AND REMUNERATION COMMITTEE

The Governance and Remuneration Committee assists the Board to fulfil its responsibilities for Board and executive succession planning, executive remuneration and monitoring ACC's Talent Strategy.

SHAPING OUR FUTURE COMMITTEE

The Board established the Shaping Our Future Committee in 2015 to assist the Board by overseeing the Shaping Our Future strategy and target operating model. The Board has delegated the Committee final decision-making authority on programme implementation and IT component obligations under the Transformation programme up to a maximum approved budget of $100 million whole-of-life-cost for projects and $5 million whole-of-life-cost for consultants.

Remuneration

Board and external committee members are remunerated in accordance with the rates set by the Government under the Cabinet Fees Framework (the Framework). On 23 May 2017, the Cabinet Appointments and Honours Committee endorsed the Minister for ACC's proposal to increase the ACC Board's fees from 1 June 2017. The fees were last increased on 1 July 2013.

These fees rely on the exemption clauses set out in the Framework. The external committee members' remuneration is set under the grandparenting provisions of the Framework.

The Board Remuneration Committee reviews the performance and remuneration of the Chief Executive, senior management and other critical roles at ACC.

BOARD AND SUB-COMMITTEE ATTENDANCE AND FEES[1]

Board members	ACC Board	Risk Assurance and Audit Committee	Investment Committee	Governance and Remuneration Committee	Shaping Our Future Committee	Annual remuneration
Dame Paula Rebstock	12/13		9/9	5/5		$98,204
Mr Trevor Janes	13/13		9/9	5/5		$61,378
Prof Gregor Coster[2]	8/9	1/3				$32,667
Prof Des Gorman	11/13	2/4		3/5		$49,102
Ms Anita Mazzoleni	12/13	4/4			6/6	$49,521
Ms Kristy McDonald QC	11/13	4/4		4/5		$49,102
Mr James Miller	12/13		8/9		6/6	$49,521
Ms Leona Murphy	0/1					$4,604
Ms Gillian (Jill) Spooner	13/13		9/9	1/1	6/6	$49,102
Mr Pat Duignan[3]			9/9			$30,000
Mr David Hunt[3]			7/7			$23,333
Mr Murray Jack[3]					5/6	$30,000

1. *Attendance at committee meetings is recorded for committee members only. If a Board member is not a member of a committee but attended a meeting as an observer, their attendance has not been noted here.*
2. *Prof Coster's term ended on 28 February 2017.*
3. *External committee members.*

Disclosure of interests

The Board has a conflict of interest process through which Board members are required to disclose their interests on a monthly basis.

Section 68(6) of the Crown Entities Act 2004 requires the Board to disclose any interest to which a permission relates in its *Annual Report*, together with a statement of who gave the permission, and any conditions or amendments to, or revocation of, the permission. The following table sets out the details of the interests and permission granted.

DISCLOSURES

Board member	Interest	Date of disclosure	Details of permission
Professor Des Gorman	Chair of the ACC Toxicology Panel	October 2012	The Cabinet Appointments and Honours Committee granted permission for Professor Gorman to continue to hold roles as both ACC Board member and Chair of the ACC Toxicology Panel.
Professor Gregor Coster	Chair of the WorkSafe New Zealand Board	1 December 2013	Professor Coster's conflict is managed according to the Letter of Expectations between ACC and WorkSafe.
Mr James Miller	Chair of NZX	21 May 2015	Mr Miller's conflict is managed according to the Letter of Expectations between ACC and NZX.

The ACC Board

Dame Paula Rebstock, DNZM – Chair

APPOINTED CHAIR: SEPTEMBER 2012
CHAIR, GOVERNANCE AND REMUNERATION COMMMITTEE

Chair, Vulnerable Children's Board, Insurance and Financial Services Ombudsman Commission, Auckland District Health Board's Finance, Risk and Assurance Committee.

Deputy Chair, KiwiRail Holdings Ltd.

Member, Auckland District Health Board's Human Resource Committee, University of Auckland Business School Advisory Board, Synergia Limited Advisory Board, Auckland Transport Board, New Zealand Defence Force Governance Board.

Lead reviewer, State Services Commission's Performance Improvement Framework.

Trevor Janes – Deputy Chair

APPOINTED DEPUTY CHAIR: SEPTEMBER 2012
CHAIR, INVESTMENT COMMITTEE

Chair, KiwiRail Holdings Ltd, Abano Healthcare Ltd, Certus Solutions.

Member, New Zealand Markets Disciplinary Tribunal, Postal Network Access Committee, International Development Commercial and Advisory Panel, Tokelau International Investment Fund.

Professor Des Gorman, Ngāpuhi

APPOINTED: SEPTEMBER 2012

Professor of Medicine and Associate Dean, University of Auckland's Faculty of Medical Health and Sciences.

Executive Chair, Health Workforce New Zealand.

Member, National Health Board, Health Capital Investment Committee.

Anita Mazzoleni

APPOINTED: JULY 2014
CHAIR, RISK ASSURANCE AND AUDIT COMMITTEE

Chair, Ngā Maunga Whakahii o Kaipara Investments Ltd.

Member, Board of the Royal New Zealand College of General Practitioners.

Kristy McDonald, QC

APPOINTED: SEPTEMBER 2012

Chair, Kiwifruit New Zealand.

Deputy Chair, Wairarapa Building Society, Electoral Commission.

James Miller

APPOINTED: MARCH 2013
CHAIR, SHAPING OUR FUTURE COMMITTEE

Chair, NZX Ltd.

Director, Mighty River Power, Auckland International Airport, St Cuthbert's College.

Leona Murphy

APPOINTED: JUNE 2017

Chair, Royal Brisbane and Women's Hospital Foundation.

Director, Liberty Financial Ltd, Stone & Chalk Ltd.

Jill Spooner

APPOINTED: APRIL 2011

Member, Nominating Committee for the Guardians of the New Zealand Superannuation Fund.

For further information about our Board members and ACC's Executive Team, go to ***www.acc.co.nz/about-us/who-we-are/acc-board/***

ACC corporate responsibility

The Board recognises that ACC's activities and investments affect New Zealand communities, and therefore it seeks to avoid activities that would be regarded as unethical by a substantial majority of the New Zealand public. The ACC Board is guided by New Zealand and international laws, Treaty of Waitangi obligations, global ethical practices, and its roles in the public sector and investment community. The Board commits to:

- conducting ACC's investment and procurement activity in a lawful manner
- considering environmental, social and governance issues when making decisions on investment and/or procurement activities
- providing overall guidance as to the types of activity that are considered unethical, and setting ACC's ethical investment policy to ensure that ACC meets its ethical investment objectives and fiduciary responsibilities as a trustee in a manner that is transparent
- avoiding prejudice to New Zealand's reputation as a responsible member of the world community.

Our Code of Conduct specifies business standards and ethical considerations, as well as the expectation that all employees will promote the principles of equal opportunity in employment.

Whole-of-government directions

On 22 April 2014 the Minister of State Services and the Minister of Finance issued directions to apply whole-of-government approaches to information communication technology (ICT), property and procurement. A further direction was issued in 2016 for the New Zealand Business Number.

Whole-of-government area	Date applies from
ICT	19 June 2014
Property	1 July 2014
Procurement	1 February 2015
New Zealand Business Number	1 January 2018

Subsidiary company

Shamrock Superannuation Limited (Shamrock), a wholly owned Crown entity subsidiary of ACC, was established in 1991 to act as the corporate trustee for the ACC Superannuation Scheme. Shamrock's role is to act in the interests of members by being an independent supervisor and custodian of the Scheme's assets. Shamrock is bound by the ACC Superannuation Scheme's Trust Deed.

Te Tiriti o Waitangi

E mōhio ana mātou ko te Tiriti o Waitangi te pepa whai tikanga o te kāwanatanga, i noho pūmau ai tātou i te motu nei o Aotearoa. Ko ta mātou whāinga ki te tautoko i te Karauna ki ngā kaupapa whanaungatanga o te Tiriti. Na tēnei ka taea te tuku a mātou ratonga hei whakamana ki a tōkeke ai ngā tukunga iho mo te iwi Māori.

Treaty of Waitangi

We recognise that the Treaty of Waitangi is a founding document of government in New Zealand, and established the country as a nation. We aim to support the Crown in its Treaty of Waitangi relationships and deliver our services in ways that enable equitable outcomes for Māori.

Managing risk

Our risk environment

ACC is exposed to a range of external risk factors including economic cycles, changing societal trends and customer expectations, developments in treatment technologies, and threats to our people's workplace health and safety.

Managing risk facilitates the achievement of our objectives, operational effectiveness and efficiency, protection of our people and assets, informed decision-making, and compliance with applicable laws and regulations. We are committed to embedding risk management principles and practices into our culture, governance and accountability structure, performance management, planning and reporting processes, business transformation, and improvement processes.

Risk management is embedded in our culture and systems

All staff members take responsibility for identifying and managing risk. The Board sets the risk appetite for ACC. Our risk framework outlines our commitment, responsibilities, processes and practices that enable people to manage risk as part of our day-to-day decision-making and business practices. Our risk management policy supports the achievement of our objectives, operational effectiveness and efficiency, protection of people and assets, informed decision-making, and compliance with applicable laws and regulations. Our risk management objectives aim to support us to achieve our business objectives by:

- developing an enterprise culture of risk awareness and continuous improvement
- educating and empowering staff to make informed decisions
- maintaining ACC's reputation and demonstrating its social responsibilities
- making risk management practical and accessible to enable the achievement of our business objectives.

Our risk framework, process, principles, definitions and vocabulary are aligned to ISO31000:2009 Risk management: principles and guidelines. In May 2017 ACC decided to evolve from the current 'three lines of defence' to the 'five lines of assurance' (5LOA) model. 5LOA extends beyond the three lines of defence as it identifies and manages risks and ensures risk management is fully integrated in the normal course of business activities, and is more actively undertaken by the Executive and the Board.

The 5LOA can be described as:

- Board – sets risk policy and appetite, identifies and assesses risks related to ACC's most important objectives, and reviews management reports on actions to treat these risks
- Chief Executive and Executive leaders – primary responsibility to identify and manage risks related to ACC's most important objectives
- Operational management – identify and manage risks within business groups, ensuring that risk management is fully integrated into the normal course of business
- Specialist management – maintain relevant, up-to-date policies reflecting risk appetite, use processes to ensure policies are complied with, and assist the Chief Executive and Executive leaders to assess and report on risks
- Assurance Services – independent from the activities reviewed, and provides assurance to the Board on residual risk status, and reports to the Board.

The Executive and the Board Risk Assurance and Audit Committee monitor and evaluate the effectiveness of our risk management framework and internal control system. Assurance Services and external auditors provide input to this evaluation.

Our risk strategy

ACC has recently reviewed and refreshed its risk strategy to further embed risk management and enhance our risk maturity profile. By doing this, staff, the Executive and the Board are empowered to make better-informed decisions in support of ACC's organisational objectives.

This year we have delivered on our risk strategy as outlined in the table below.

Initiative	Management response
Enterprise risk operating model	The operating model for the Risk & Compliance function is now fully in place. It consists of a centralised Risk & Compliance team, working with the wider network of risk and compliance professionals embedded in business groups to build comprehensive and consistent risk management practices.
Risk appetite	The Executive and Board are reviewing our risk appetite to help guide how we invest, plan and make day-to-day decisions.
Compliance	We have a process to assess compliance against our legal obligations, and this is periodically reported to the Board.

Priority risks

We adopt a structured approach to understanding and managing risks through regular Executive and Board engagement. The Executive has prioritised the top-level risks, and our Board regularly reviews the most significant risks faced by ACC. The quality and impact of enterprise risk reporting has improved, particularly at the Board and Executive level. Specific focus is placed on the risks that are of most concern, the actions management has taken or is planning to take, and any further gaps that need addressing. This has improved the risk conversation at the Executive and Board levels, and ongoing improvements will continue to ensure reporting remains relevant and insightful. The following seven risks are the highest-priority risks at the present time.

Risk	Management response
Delivering the enterprise change Risk that we do not deliver the enterprise change due to misalignment of programmes or failure to create an appropriate culture	Established a dedicated role of Chief Change Integration Officer to strengthen our understanding of, and control over, all the planned enterprise change, and lead the effort to ensure the changes we are implementing deliver the expected benefits and outcomes.
	Continue our plan to lift change management capability across ACC, and maintain an enterprise view of change and prioritisation.
Health and safety Risk that we fail to take reasonable and practicable action to prevent harm to employees and third parties	Monitoring is carried out through our 5LOA assurance model.
	Enhance current proactive efforts to promote staff health, safety and wellbeing, such as recognising and rewarding safe behaviours.
	Appointed a senior staff member to manage third-party health and safety risk.
Outstanding claims liability (OCL) Risk that we fail to understand and/or manage adequately the drivers of the OCL that are within our control or influence	Strengthen our engagement with providers, and contract for outcomes that will lead to lower overall costs.
	Increased focus on key controllable drivers of OCL changes, with timely identification and investigation of potential issues and opportunities.
Customer expectations Risk that changing client expectations could lead to higher claim costs. Additionally, the risk that ACC fails to adapt sustainably to changing service level expectations	Develop a performance scorecard to better inform how we align customer expectations, financial sustainability and the OCL.
	Develop a long-term strategy for ACC's role in the broader health and social system.

Risk	Management response
Cyber security Our systems and information are vulnerable to attack	Our Information Security Plan is being refreshed to reflect our activities to 2020.
	Develop a cyber security policy including sub-policies. Develop training modules and an awareness campaign to prepare staff to detect and respond effectively to cyber threats.
	Fully assess and document cyber risk as it relates to the Investment Office, including mitigations for internal and third-party threats.
	Conduct an assurance review of the management of cyber risk in the Investment Office.
External financial shock Events outside of ACC's assumptions with a major financial impact on investments	Our investment policies and strategies are designed to reduce the asset/liability mismatch.
	We periodically subject our asset allocation and other strategies to external review as a check on our assumptions.
	We are developing more formal mechanisms to monitor and evaluate the ongoing creditworthiness of the Australasian banking system and custodians.
Protecting customer information We fail to protect customer information	Continue to implement the initiatives in the Privacy Maturity Plan.
	Strengthen second-line privacy activity as part of embedding a new organisational structure.
	Privacy by design in Transformation programme.
	Dedicated privacy person allocated to the Transformation programme.


OUTH END
MOTORS
Pravin

Investments report

Why ACC invests

ACC holds investments to meet the future costs of injuries that have already occurred. ACC is now fully funded (other than for some pre-2001 injuries that are funded by the Government), which means that our actuaries believe we hold sufficient investment funds to pay all the future costs of the injuries that have already occurred. The actuaries' estimate of the level of funding required depends on assumptions about the future returns that ACC will earn from its investments. We aim to achieve returns that are at least as high as the actuaries have assumed.

On an ongoing basis, we fully fund all new injuries by collecting sufficient levies to provide for all the immediate and future costs of those injuries. For our levied accounts, because ACC is now fully funded, we no longer need to collect further levies to pay for the cost of injuries that occurred in the past.

For most future years, we expect that the costs of running the Scheme and dealing with injuries will be just slightly higher than the levies we collect to pay for the future costs of newly incurred injuries. In practice, ACC tries to avoid unnecessary costs by netting off fund inflows and outflows, and will therefore typically take only a small percentage out of the investment portfolio in most years.

Overview of the past year

Global equity markets were generally strong in the past year, producing gross returns of almost 20% (when measured in local currency terms). The Japanese market was particularly strong, returning more than 30%. During the year equity markets generally favoured stocks that were cheap on standard valuation metrics, while lower-risk economically-resilient stocks fell out of favour. The New Zealand equity market did not perform quite as strongly as most other equity markets.

The New Zealand dollar rose against the US dollar, the British pound and the yen during the year, but it was little changed in relation to the Australian dollar and the Euro. The overall strength of the New Zealand dollar reduced the New Zealand dollar returns from holding unhedged investments in offshore markets.

New Zealand long-term government bond yields rose by about 0.6% in the course of the year. Bond yields rose to an even greater extent in most other developed countries. Rising bond yields lead to existing bonds being valued at lower prices, which adversely affects short-term investment performance. Offsetting this adverse effect on short-term investment performance, rising bond yields also reduced the actuarial value of ACC's outstanding claims liabilities.[1]

Yields on corporate bonds did not rise by as much as yields on government bonds, which meant that returns from longer-term corporate bonds generally outperformed returns from government bonds of similar duration.

1 *The claims liabilities are reduced by higher interest rates when expressed in terms of the amount ACC needs to hold in present day dollars to be able to meet the future compensation and rehabilitation costs of injuries that have already occurred (ie the actuarial value of outstanding claims liabilities). Higher interest rates imply an expectation of higher future investment income, which means that ACC doesn't have to invest so much money today in order to provide for those costs that we expect to be funding several years in the future.*

Investment returns for 2016/17

ACC's reserves portfolios delivered a weighted average return of 5.80% (net 5.70%), outperforming our market-based benchmarks by 1.49%. The net outperformance of our benchmarks was 1.35% after adjusting for investment costs and taxes.[2] This was a pleasing outperformance of our benchmarks.

The return was higher than the long-run return assumptions implicit in the valuation of our claims liability. This was a particularly pleasing result in the context of rising bond yields, which shaved $3.45 billion off ACC's outstanding claims liability (OCL). Because we build an investment portfolio that is designed to protect ACC against the impacts that a decline in interest rates would have on our claims liabilities, we accept that rises in interest rates will reduce near-term investment returns, such that we would normally expect investment returns to be very low in years when bond yields rise by as much as 0.65%.

This outperformance of ACC's investment benchmarks was the combined result of several contributing factors:

- ACC's bond portfolio outperformed its benchmarks, aided by a narrowing in the yield spreads between corporate bonds and government bonds
- all of ACC's internally managed listed equity portfolios outperformed their benchmarks
- the global bond and global equity portfolios that are managed on ACC's behalf by external fund managers also generally outperformed their benchmarks
- ACC's actual allocations between investment markets performed better over the year than the neutral allocation mix established by our asset allocation benchmarks
- ACC's direct property investments significantly outperformed public market benchmarks, with the total return of 10.09% having been boosted by independent end-of-year valuations.

Importantly, there were very few adverse items detracting from ACC's investment outperformance. Two externally managed Australian equity portfolios did, however, underperform their benchmarks.

We think about returns on a risk-adjusted basis, as we believe that we should require a higher return if we are taking greater-than-normal risk, but should also be willing to accept a lower return if we are taking lower-than-normal risk. In our assessment, ACC's reserves portfolios took marginally less risk than the benchmark position for most of 2016/17, principally due to a decision to hold a lower-than-benchmark allocation to equity markets, and the reserves portfolios therefore achieved significant outperformance on a risk-adjusted basis.

2 *Specifically, the reported return of 5.80% is expressed after deducting some direct costs such as broker commissions and property expenses, but is calculated prior to the deduction of 0.14% of other investment-related costs such as investment staff remuneration and fees paid to external managers. Conversely, ACC's reported investment return is affected by the deduction of 0.03% of offshore withholding taxes paid by ACC, whereas our benchmarks are calculated on the basis of gross indices, which make no deduction for withholding taxes. Hence, to measure our relative performance on a net-of-cost basis that is fully adjusted for taxes, we must subtract the 0.14%, and add back the 0.03%.*

		Annual portfolio returns			
		2016/17 financial year		Average past 3 years	
	$M	Portfolio	Benchmark	Portfolio	Benchmark
Cash portfolio	**277**	**2.6%**	**2.2%**	**3.3%**	**2.9%**
Reserves portfolios by asset class:					
Reserves cash	1,963	2.5%	2.0%	3.2%	2.8%
New Zealand index-linked bonds	8,322	–0.4%	–0.5%	6.0%	5.7%
New Zealand bonds	12,134	0.7%	–1.3%	7.8%	7.1%
New Zealand equity	2,813	13.2%	11.0%	16.2%	14.8%
New Zealand private equity[1]	461	9.8%		12.2%	
New Zealand and Australian property & infrastructure	1,504	9.2%	5.2%	14.9%	14.5%
Australian equity	1,426	10.0%	11.8%	8.8%	8.3%
Global bonds	1,550	1.7%	–0.5%	6.6%	5.4%
Global equity	6,224	17.0%	16.2%	13.2%	11.5%
Interest rate derivative overlay[2]	33	–0.2%	–0.3%	0.4%	0.3%
Equity future overlay[1, 2]	72	0.0%		0.3%	
Bond future overlay[1, 2]	2	0.0%			
Foreign currency overlay[2, 3]	124	0.7%	0.5%		
Total reserves	**36,627**	**5.8%**	**4.3%**	**10.2%**	**9.2%**
By funding account:					
Earners'	9,145	6.3%	4.8%	10.0%	9.0%
Motor Vehicle	11,236	5.0%	3.5%	10.1%	9.3%
Work	9,040	5.6%	4.1%	9.8%	8.9%
Non-Earners'	3,412	7.1%	5.8%	11.1%	10.1%
Treatment Injury	3,794	6.3%	4.8%	10.7%	9.8%
Total reserves	**36,627**	**5.8%**	**4.3%**	**10.2%**	**9.2%**

1. *Benchmark returns are not shown, as there is no benchmark allocation for these asset classes.*

   Please note: *For the purpose of this table, traded investments are valued at last sale price. The investments recorded in the financial statements are measured at fair value under PBE IPSAS 29 requirements.*

   This table shows investment returns after the deduction of some direct costs such as commissions (brokerage) and costs directly relating to the management of specific property investments. However, returns are shown prior to the deduction of other investment management costs of $50.6 million, including fees paid to external fund managers and the remuneration of ACC's investment staff, which detracted 0.14% from investment returns in 2016/17. ACC's investment returns are shown net of tax, whereas the benchmarks make no allowance for tax. However, as ACC is not liable for tax in New Zealand, offshore withholding taxes paid by ACC reduced the calculated return by 0.03%.

2. *The percentages shown in the 'Portfolio' columns show the contributions that these overlays made to the aggregate reserves portfolio return, rather than as returns on the funds physically invested in these derivative strategies. The percentages shown in the 'benchmark' columns show the contribution that a benchmark-neutral application of these strategies would have made to the benchmark for the aggregate reserves portfolio.*

3. *Inception date is 1 April 2015. The benchmark is the hedge return represented by the difference between the hedged and unhedged total reserves returns.*

Future investment returns

The rise in New Zealand bond yields reduced the value of our bond investments, and this capital loss reduced our investment return in the past year. However, the rise in bond yields increases the returns that we can anticipate from bonds in the future. This is reflected in a higher discount rate, which has contributed to a reduction in the valuation of our outstanding claims liability. Despite the increase in the past year, bond yields remained much lower than they have been for most of the past 50 years.

Equity markets have risen to valuations from which we believe it is unlikely that equities could continue to deliver returns in the next several years that are as strong as investors have experienced in the past eight years. Nonetheless, ACC continues to hold significant investments in equity markets because low bond yields mean that the alternative of investing in bonds is unappealing, and because equity investments may provide diversification against some risks that could affect bond investments.

Objectives and risks

We manage our investments with the objective of obtaining the best possible balance of return and risk. Higher investment income over time would result in lower levies, but we need to balance our pursuit of higher returns with an objective of limiting downside risks, as a poor financial outcome could cause a need to increase levy rates.

We think about risk from the perspective of ACC's overall financial position rather than just focusing on the investment portfolios in isolation. This perspective on risk has both long-term and short-term aspects:

- the long-term perspective on risk is that ACC could have insufficient funds to pay the future costs that its reserves portfolios were intended to cover, either because long-term investment returns could prove to be lower than expected, or because inflation could prove to be higher than expected. When ACC puts funds aside to meet future costs, our actuaries use government bond yields to derive an estimate of the returns that we might expect ACC to earn on those funds
- the short-term perspective on risk is that we are keen to avoid large increases in levy rates that could be required if ACC strayed significantly 'off-course' in terms of its ability to meet future obligations. Specifically, we measure whether we are 'on-course' for funding our future claim obligations by comparing the value of ACC's assets (mainly investment assets) to the value of our claims liabilities (which we must value at risk-free discount rates, under New Zealand accounting standards), for the levied Accounts that have policies of full funding.

Both perspectives encourage us to minimise the risk of large, adverse movements in the gap between the assessed value of claims liabilities and the market value of ACC's investment portfolios. This means that we need to think not only about financial risks that could affect the value of ACC's investment portfolios, but also about risks that could affect the actuarial value of ACC's claims liabilities. Some of the key risks that could adversely affect the balance of ACC's assets and liabilities, and therefore levy rates, are listed below.

- Poor returns from equity markets. Weak equity markets would be likely to result in a reduction in the value of ACC's investment portfolios without a corresponding reduction in the value of our claims liabilities.
- Declines in real long-term interest rates.[3] If interest rates declined without a corresponding decrease in the inflation outlook, this would lead to an increase in the assessed value of our claims liability, and a decrease in our long-term expectations for investment returns. We aim to offset this risk by holding investment assets that tend to rise in value when real interest rates decline. However, ACC's investment portfolios only provide a partial offset to this risk.
- An increase in the inflation outlook. All of our claims liabilities are sensitive to inflation, but a significant portion of ACC's fixed interest investments do not provide protection against inflation. If the inflation outlook increases and bond yields show a corresponding increase, this would have an adverse impact

3 *'Real' long-term interest rates refer to 'nominal' long-term interest rates minus the anticipated impacts of inflation on investment returns.*

on the value of ACC's fixed interest portfolios. Conversely, if the inflation outlook increased but nominal bond yields did not increase, this would lead to a significant rise in the assessed value of our outstanding claims liabilities.

- Poor investment returns for reasons that are unrelated to either claims liabilities or the general performance of equity markets. These could occur due to widespread credit defaults or a strengthening in the New Zealand dollar against foreign currencies, or if our investment performance was worse than market benchmarks.

ACC's liabilities can also be significantly affected by actuarial factors that have little to do with interest rates, the general level of inflation, or other clearly identifiable economic variables. For example, estimates of ACC's future costs could increase as a result of new, more expensive ways of treating injuries. There is little that investment policy can do to offset these non-economic actuarial risks. The presence of these non-economic risks means that there is a natural limit to how far the investment policy can be used to reduce uncertainty about ACC's future funding position.

Our objective of protecting ACC against declines in long-term interest rates and increases in the inflation outlook means that we tend to look favourably at long-term investments that we can expect to deliver relatively certain New Zealand dollar cash flows that are protected against inflation.

Allocation of funds

Our allocation of funds among different investment markets is directly linked to the objectives and risks discussed in the preceding section.

While it is not possible to offset fully all the long-term risks, we allocate funds among investment markets and set investment policy with an aim of keeping each of these risks at a manageable level. We also need to strike an appropriate balance between reducing these risks and enhancing returns.

The way we think about risk has a significant influence on how we allocate funds between markets. We tend to invest a relatively large percentage of ACC's funds in New Zealand investment markets, particularly fixed interest instruments with a long time to maturity. The main reasons for this are:

- New Zealand investment markets match our claims liabilities better than offshore markets, as our claims liabilities are sensitive to real New Zealand bond yields
- the internal management costs of ACC's New Zealand investments are much lower than the external management costs of offshore investments.

Consequently, ACC makes a significant contribution to New Zealand's capital markets, and is one of the largest investors in New Zealand companies. We own about 2.5% of the market capitalisation of the New Zealand sharemarket, which equates to 3.6% of the available shares if we exclude strategic shareholding blocks (such as the Government's shares in the gen-tailers) from the calculation.

ACC holds an even greater proportion of New Zealand dollar investment-grade bonds. For example, ACC owns 56% of the inflation-indexed bonds that have been issued by the New Zealand Government, and 5.1% of the regular (not inflation-indexed) New Zealand Government bonds.

Each of ACC's Accounts splits its investment funds between an investment in ACC's short-term cash portfolio, used to meet near-term expenditure requirements, and its own longer-term reserves portfolio, set aside to meet the future costs of existing claims.

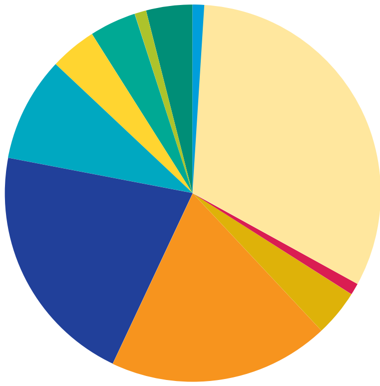
The investment allocations of the reserves portfolios differ by Account, reflecting different funding positions, different projected growth rates, and the different claims liability characteristics of the various ACC Accounts. Generally, rapidly growing Accounts have a higher percentage of their assets invested in equities than those Accounts that have slower projected growth in investment assets.

As ACC's Accounts have investment portfolios that are several times as large as their annual levy income, we must limit these Accounts' exposure to equity markets to avoid investment results causing excessive variability in levy rates. In the past eight years, we have reduced ACC's overall weighting in equity markets by more than would have otherwise been the case, because the aggregate reserves portfolio has grown faster than ACC's outstanding claims liability.

The Board's Investment Committee regularly reviews long-term benchmark investment allocations for each Account's reserves portfolio, based on the advice of the Investment Unit. These benchmark allocations take account of both our long-term expectations for the returns from the various investment markets and the need to limit the Accounts' various risk exposures. Setting benchmark asset allocation involves striking an appropriate balance between the objective of enhancing returns and the objective of reducing risk. ACC aims to maintain a high level of consistency in how it evaluates this trade-off from one year to the next, as an inconsistent approach over time could lead to worse long-term investment results.

Our investment staff may make short- or medium-term decisions to vary from the benchmark allocations, within risk control parameters set by the Investment Committee.

Composition of aggregate reserves



* *The global equity, Australian equity and global bonds slices include effective exposure to equity and bond markets obtained through futures contracts. However, this pie chart has not been adjusted for the effective exposure to bond markets arising from the use of interest rate derivatives as an asset allocation overlay. The benchmark effective exposure of interest rate derivatives represented 5% of total reserves at the end of June 2017.*

How ACC's investments are managed

Practically, we allocate funds between distinct investment portfolios that are focused on different investment markets. We aim to add value in how we allocate funds between different investment markets, and in how the portfolios perform within each investment market.

Our internal Investment Unit directly manages almost all of ACC's investments in New Zealand investment markets, the majority of ACC's investments in Australia, and about one-fifth of ACC's investment in global equities. The manager of each portfolio aims to identify and take advantage of situations where some sectors or securities within their market are being mispriced in relation to their risks and prospects. We aim for consistent outperformance, and seek to avoid exposing ACC to an above-average degree of market risk.

Most of ACC's foreign assets, and a significant proportion of ACC's private equity investments are outsourced to external fund management companies, as this provides more diversity to ACC's portfolio, and allows our internal funds management team to focus on those areas where they have the greatest edge. However, we balance this diversification with the fact that external management is significantly more expensive for ACC than internal portfolio management. Over time, ACC has achieved strong results from both internal and external funds management.

Overlay strategies

Our Investment Unit also actively uses overlay strategies to manage ACC's exposure to different investment markets. These are listed below.

- A New Zealand interest rate derivatives overlay to obtain greater protection against declines in long-term interest rates than could easily be achieved through physical allocation alone. We want to ensure that ACC's investment returns will be strong in situations where long-term interest rates decline, as declines in long-term interest rates would result in increases in the assessed value of ACC's claims liabilities.
- We buy or sell global equity futures to readjust ACC's overall exposure to equity markets on a daily basis, as this is transactionally cheaper than buying or selling equities. However, when we make a long-term decision to allocate funds in or out of equity markets, we ultimately implement this through the purchase or sale of physical equities.
- We use foreign exchange forwards and cross-currency interest rate swaps to manage ACC's foreign exchange exposures. ACC's benchmarks specify a neutral level of unhedged foreign exchange exposure, which is significant but is less than our total allocation to overseas markets. Our Investment Unit may vary the extent to which ACC uses currency hedging (within predefined limits) such that ACC may have net unhedged foreign exchange exposures that are either higher or lower than this neutral position.
- We have also recently started using global bond futures to adjust our overall exposure to interest rates. This can be transactionally cheaper than either allocating funds in or out of bond portfolios or making changes to our New Zealand interest rate derivative position.

We are conscious that ACC incurs credit exposure to counterparties when undertaking derivative transactions such as foreign exchange forwards or interest rate swaps. We aim to only use derivatives when there is no equally good alternative, or when the alternatives would be significantly more expensive for ACC. We also have limits and controls governing derivative use and credit exposures.

Long-term investment performance

ACC has now been measuring the performance of its investment portfolios on a market-value basis for 25 years.

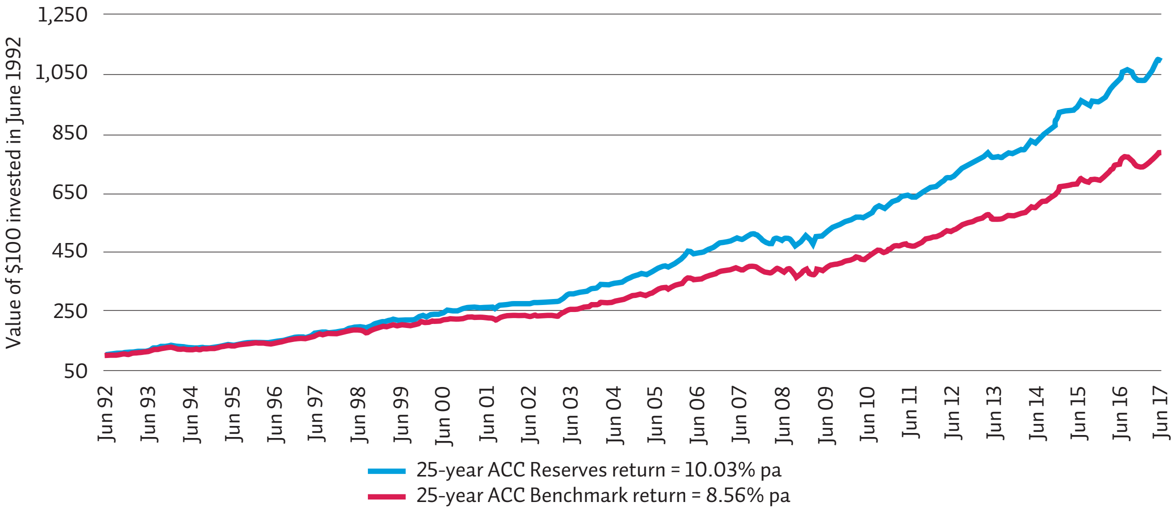
- The New Zealand bond portfolio has outperformed its benchmark in 23 of the past 25 years.
- The combined New Zealand equity portfolio has outperformed its benchmarks in 22 of the past 25 years.
- ACC's overall reserves portfolio has outperformed its composite benchmarks for 24 of the past 25 years, including 22 consecutive years of outperformance from July 1995 to June 2017, but note that in one of these 22 years ACC only performed in line with benchmark after allowing for investment costs.

We are not aware of any other large diversified fund anywhere in the world that can match the consistency of ACC's reserves portfolio's outperformance during this sometimes turbulent period for investment markets.

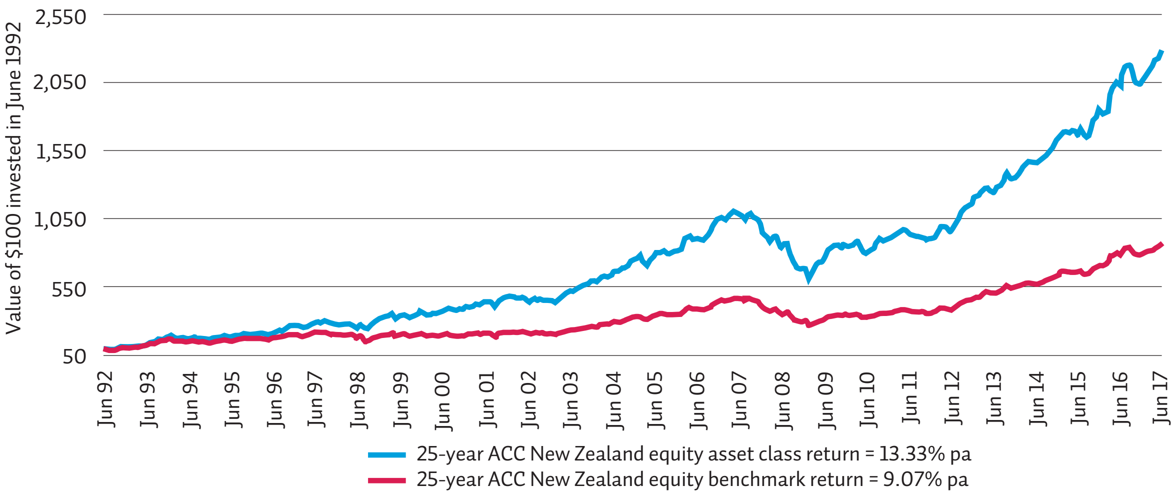
This consistency has helped ACC's reserves portfolio to achieve compound returns of 10% per annum for the past 25 years, which is higher than the returns that ACC could have achieved by passively investing in any significant investment market, or any fixed combination of those markets, in that 25-year period. Through the returns that ACC has achieved, every $100 that ACC invested 25 years ago has effectively grown to be worth $1,091 today. However, we do not expect returns to be so strong in the future.

ACC's unusually strong investment performance in the past two decades may be partly explained by the fact that ACC's internal management avoids many of the distortions cause by poorly aligned objectives that are inherent in traditional models of funds management. Further, ACC has been able to retain a stable and experienced funds management team with very low staff turnover, and the team has generally managed to focus on making investments where they believed they understood something that other market participants did not, while avoiding large risk exposures to investments where ACC's understanding was no greater than that of other investors.

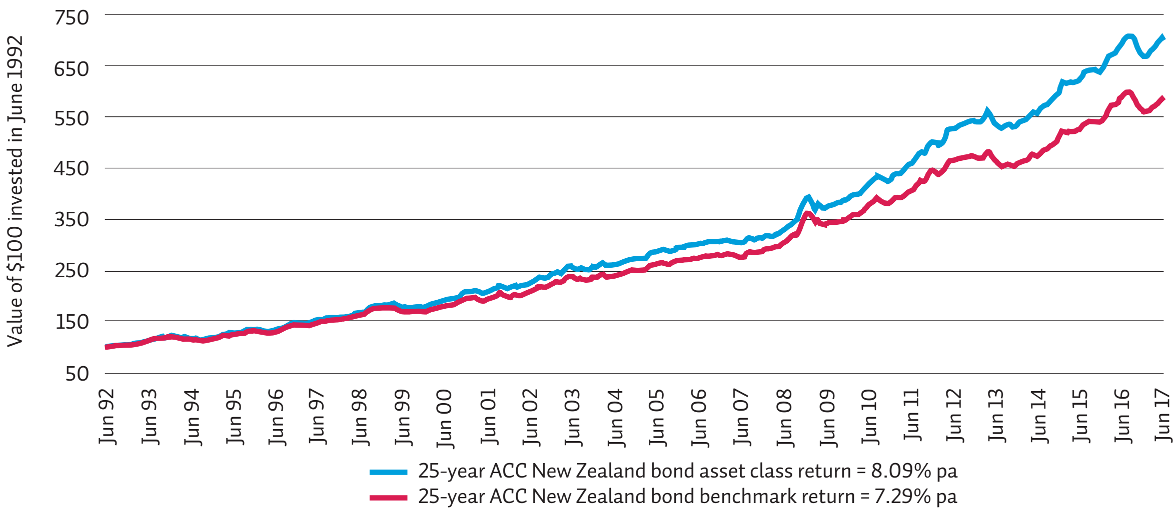
ACC 25-year reserves portfolio returns



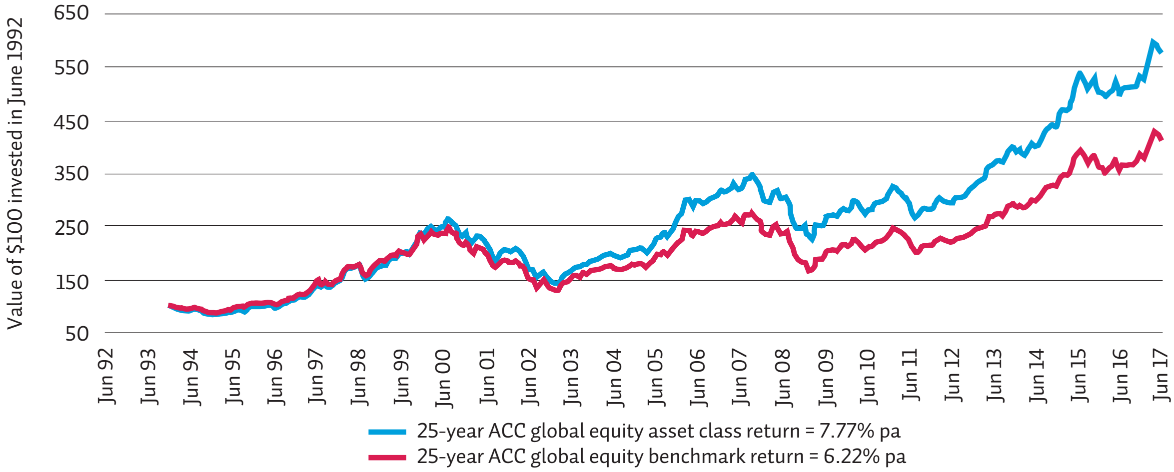
ACC 25-year New Zealand equity returns



ACC 25-year New Zealand bond returns

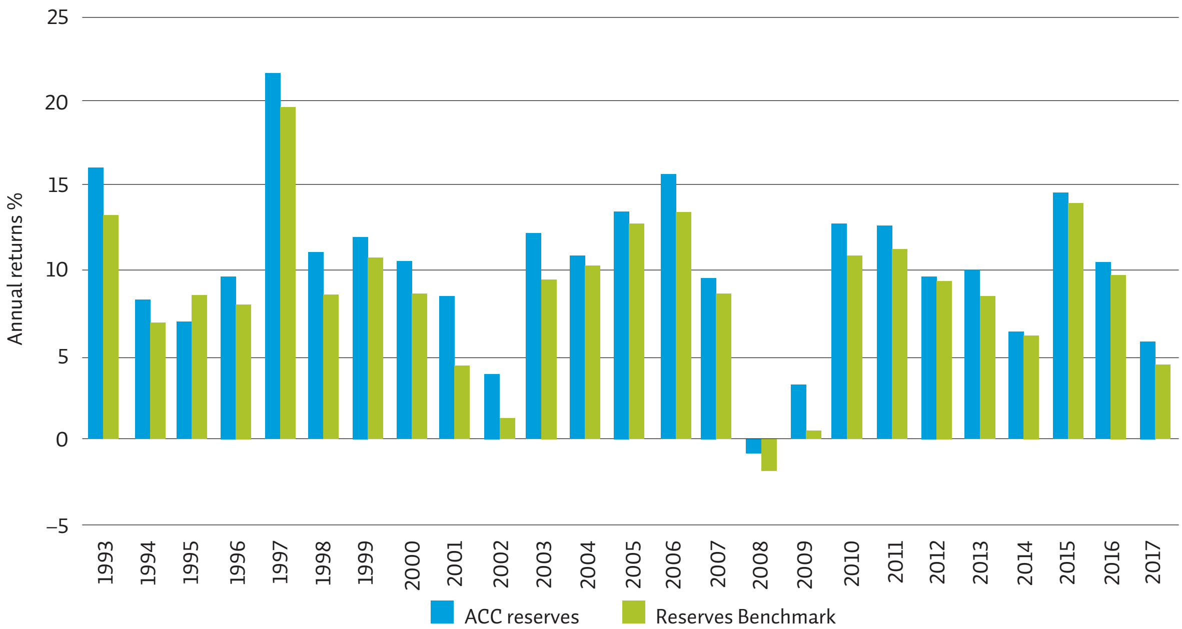


ACC 23-year 5-month global equity returns



Note: Global equity returns are shown on a partially hedged basis up to 30 June 2001, and unhedged after this date. The period of 23 years and five months reflects the full period in which ACC has invested in global equities.

ACC financial year returns against benchmark



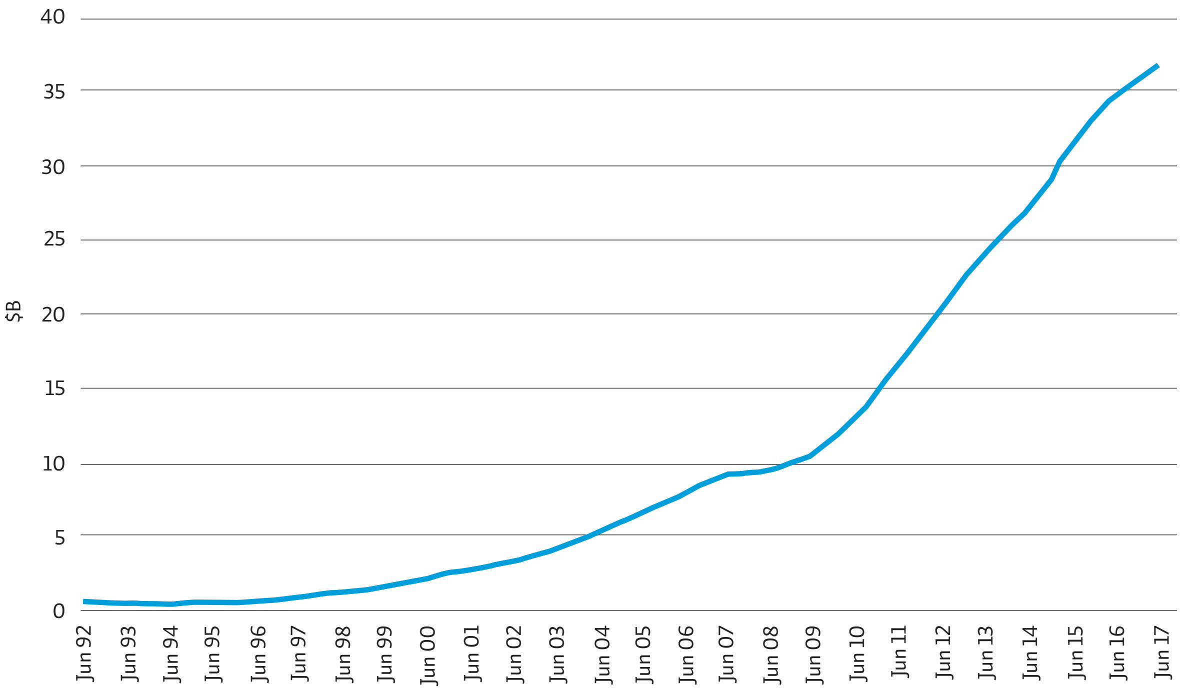
Growth in ACC's investment portfolios

ACC's reserves portfolios increased in value by 5.6% from $34.7 billion last year to $36.6 billion at the end of June 2017. All of this growth came from investment returns. ACC withdrew slightly more money from this portfolio than it contributed during the 2016/17 year.

Most of ACC's Accounts are fully funded, which has resulted in levy rates being dropped to about the rate of Scheme expenditure, such that future growth in ACC's investment portfolios should effectively be funded entirely out of investment income.

Our best guess is that future investment returns will average about 5% per annum (about half what they have been in the past), and our best guess is that ACC will need to grow its reserves portfolios by about 4.0% per annum in order to keep pace with growth in ACC's outstanding claims liabilities, due to factors such as inflation and increasing population. Given the two-sided risks around both of these forecasts, there remains a significant probability that future investment income could be insufficient to match the long-term growth in ACC's claims liabilities.

Total size of ACC reserves portfolio



Investments report

Investment benchmarks

Like most other fund managers, we compare the make-up and performance of ACC's investment portfolios to market-based benchmark indices. These benchmarks indicate how we would expect to invest ACC's funds if we did not have any views on the likely relative performance of different securities within a market. Accordingly, it is important that the benchmarks represent sensible starting points for the construction of portfolios that meet ACC's needs. In many cases a commonly used market benchmark is appropriate for ACC, but in other cases we manage ACC's portfolios against a different benchmark that better reflects our objectives or market focus. For example, the high interest rate sensitivity of our claims liabilities means that ACC needs a highly interest-rate-sensitive bond portfolio, so we manage the New Zealand bond portfolio against a benchmark index that only includes bonds with more than five years remaining to maturity.

As well as indicating a neutral starting point for the management of our portfolios, benchmark indices are useful for assessing portfolio performance, as they allow us to differentiate the elements of a portfolio's returns that are due to generalised market conditions from the relative value that has been added or subtracted in the management of that portfolio.

The returns achieved on the reserves portfolios belonging to ACC's various Accounts are measured against composite benchmarks that represent a weighted composite of the benchmarks for the various investment markets in which those reserves portfolios may invest. The benchmark weightings used for calculating the reserves portfolios' benchmarks are reviewed twice a year, and are intended to reflect a sensible starting point for the allocation of each Account's funds based on the financial position of the Accounts and the pricing of investment markets at the time of each review. Benchmark allocations between investment markets have changed in most of the past 25 years.

It could be argued that changes in ACC's composite benchmarks over time make it more difficult to measure performance than would be the case if ACC had always compared itself to the same unchanging 'reference portfolio', an approach that is taken by many other funds. However, ACC encourages its investment team to think about allocating between markets based on the factors that are relevant today, and to avoid having allocation decisions distorted by a reference portfolio based on factors that may have changed since the reference portfolio was fixed. This has been particularly important for ACC, as large changes in ACC's funding position in the past decade have had a significant impact on the appropriate benchmarks for ACC's investment activities. For these reasons, we have elected not to adopt a fixed reference portfolio.

We believe that our changing asset allocation benchmarks have represented a tougher hurdle for measuring performance than any fixed reference portfolio that we might have adopted in the past. This is supported by the fact that the 25-year returns from ACC's reserves portfolio benchmarks have been stronger than the returns that would have been achieved by passively investing in New Zealand cash, New Zealand bonds, global bonds, or global equities in the 25-year period.[4]

Probability of negative returns

A typical risk analysis based on the past performance of investment markets and the current composition of ACC's portfolio would suggest that each year there is roughly a one-in-six chance of incurring negative returns. In reality, we have had just one financial year of negative returns in the past 25 years (2007/08, when the reserves portfolio returned -0.8%).

Statistical analysis based on current interest levels and the variability of investment markets in the past two decades suggests that in any given year there is less than a 0.5% probability that ACC will record returns of -10% or worse. However, we believe that it is wise to assume that the probability of negative returns of this magnitude could be higher than suggested by this analysis.

There are two primary factors that contribute to the risk of negative returns:

- a rise in bond yields of about 0.9% could result in ACC recording negative investment returns. However, ACC's overall funding position would improve as a result of a rise in bond yields, as the OCL would decrease by an even greater amount than the decline in investment income
- based on current policy, ACC's Accounts will typically have an average of 32% of their reserves funds effectively invested in equity markets. This means that, all else being constant, a generalised decline in foreign and domestic equity markets of approximately 9% or more would tend to result in ACC recording negative overall investment returns.

4 *With the benefit of hindsight, we can calculate that an allocation of close to 100% of the portfolio to New Zealand equities would have produced higher returns than ACC's actual benchmarks. However, such an allocation would not have suited ACC's risk tolerance and would not have been practical as ACC could not invest 100% of its funds in the New Zealand equity market without exceeding takeover thresholds.*

Diversification/size of largest investments

ACC's investments in individual companies and securities are generally too small to endanger total investment returns significantly in a single financial year. Excluding one investment in a diversified global equity fund, ACC holds just three equity investments that individually represent more than 0.5% of the reserves portfolio (ie $183.2 million).

Note that in the table below, the largest holding is now an unlisted investment, in Kiwi Group Holdings, the parent company of Kiwibank. ACC and the New Zealand Superannuation Fund jointly made an investment in Kiwi Group Holdings in October 2016, and contributed further capital to Kiwi Group Holdings in April 2017. ACC views Kiwi Group Holdings as a long-term investment.

Aside from the investment in Kiwi Group Holdings, and ACC's equity investments in Wellington Gateway Partnership (which is building the Transmission Gully expressway north of Wellington) and NX2 (which is building the Puhoi to Warkworth motorway), all of ACC's top-50 equity investments are held in companies or trusts that are listed on public stock exchanges, which provides us with current market values of these investments.

The only individual credit exposures representing more than 1% of the reserves portfolio (ie $366 million) are to the New Zealand Government, the Local Government Funding Agency, four banking groups with strong credit ratings and New Zealand banking licences, the Auckland Council and a AAA-rated development bank guaranteed by the German government.

None of ACC's direct property investments represents more than 0.5% of the reserves portfolio. ACC's largest property investment is a Wiri property leased to The Warehouse for its North Island distribution centre. This property is valued at $160 million.

ACC's 50 largest equity investments	ACC's investment value ($NZM, market value)
Kiwi Group Holdings (parent company of Kiwibank)	285.3*
Auckland International Airport	197.9
Fisher & Paykel Healthcare	187.5
Contact Energy	174.2
Spark New Zealand	172.3
Kiwi Property Group	156.9
Fletcher Building	154.0
Meridian Energy	134.0
Infratil	133.4
Z Energy	129.5
Goodman Property Trust	105.6
The a2 Milk Company	104.0
Alphabet Inc.	101.2
Ryman Healthcare	94.6
Mainfreight	81.8
Chorus	80.8
SKYCITY Entertainment Group	80.5
Wellington Gateway Partnership (Transmission Gully public-private partnership (PPP))	80.3*
Precinct Properties New Zealand	76.0
Xero	70.0
Mercury NZ	69.5
Microsoft Corporation	68.7
CSL	66.1
Nestlé	65.7
Stride Stapled Group	65.1
Transurban Group	64.3
Trade Me Group	59.9
Air New Zealand	59.6
NIKE	56.1
Samsung Electronics Co	53.3
Telstra Corporation	52.9
KDDI Corporation	51.2
Service Corporation International	48.0
AGL Energy	47.9
EBOS Group	47.2
Metlifecare	46.7
Sky Network Television	45.6
Wesfarmers	44.7
Vital Healthcare Property Trust	44.4
Argosy Property	43.9
Anthem Incorporated	43.8
Genesis Energy	42.0
Taiwan Semiconductor Manufacturing Company	39.6
Mastercard	39.5
Teva Pharmaceutical Industries	39.5
NX2 (Puhoi to Warkworth PPP)	39.3*
Freightways	38.8
Sydney Airport	38.5
Oracle Corp	38.0
Commonwealth Bank of Australia	37.7

Note that this table does not attempt to aggregate any known indirect investment exposures incurred through pooled investment vehicles with the direct investments in the various companies shown in the table. ACC has $610 million invested in five pooled investment vehicles that invest in listed equity markets. The bulk of this investment ($515 million) is invested in an unlisted global equity fund managed by Orbis Investment Management.

* *The value shown for Kiwi Group Holdings represents ACC's original purchase cost, whereas the values shown for the Wellington Gateway Partnership and NX2 are based on independent valuations as no observable markets values exists for these untraded equity investments.*

Ethical investment

ACC aims to conduct its investment activities in an ethical manner that avoids prejudice to New Zealand's reputation as a responsible member of the world community.

ACC works closely with the Guardians of New Zealand Superannuation, the Government Superannuation Fund Authority and the National Provident Fund on all aspects of ethical investment, and is a signatory to the United Nations Principles for Responsible Investment (see ***www.unpri.org***).

In addition to carrying out its own investment activities in an ethical manner, ACC avoids directly investing in entities that are engaged in activities that would be regarded as unethical by a substantial majority of the New Zealand public. ACC takes the laws of New Zealand to be a reflection of those principles that are widely held by the New Zealand public. Hence ACC seeks to avoid investing in entities that engage in activities that would be illegal if they occurred in New Zealand. ACC also avoids investing in companies involved in the production of tobacco, recognising that while tobacco is still legal in New Zealand, it is greatly discouraged by New Zealand public policy.

Specifically, ACC will not directly invest in entities that are involved in the following activities:

- production of tobacco or cannabis-based products
- production or sale of anti-personnel land mines that are not compliant with the Anti-Personnel Mines Prohibition Act 1998
- production, design, testing, assembly or refurbishment of nuclear explosive devices
- production or development of cluster munitions
- processing of whale meat.

ACC has a legal requirement to invest as a trustee, which implies a fiduciary responsibility to achieve the best possible mix of long-term return and risk in its investment funds. So while ACC recognises that significant numbers of New Zealanders may believe that various other activities are unethical (for example, involvement in gambling, fast food, sugary soft drinks, alcoholic beverages, factory farming, or coal mining), ACC would be unlikely to impose a blanket exclusion on investing in these activities unless New Zealand's Parliament passed laws to ban these activities in New Zealand. If New Zealand's democratically elected Parliament did ban an activity, ACC would likely presume that Parliament's decision reflected the majority view of the New Zealand public. In addition to avoiding investments in companies that engage in activities that are contrary to New Zealand law, we will never make any form of investment that is in itself illegal under New Zealand law.

In addition to excluding investments in specific types of activity, ACC will occasionally exclude companies that it believes are behaving in an unethical manner if there seems to be little chance that the companies will change their behaviour. In these cases ACC will typically discuss its concerns with the companies before making final decisions to add them to our exclusion list. We hope that, in many cases the board or senior management of a company will seek to improve their company's behaviour when they recognise that some aspect of how they have been conducting their business is attracting unfavourable attention from large investors such as ACC.

Statement of performance and financial statements

Statement of responsibility

(PURSUANT TO SECTION 155 OF THE CROWN ENTITIES ACT 2004)

We are responsible for the preparation of these financial statements and statement of performance and for the judgements made in them.

We are responsible for any end-of-year performance information provided by ACC under section 19A of the Public Finance Act 1989.

We have the responsibility for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting.

In our opinion, these financial statements and statement of performance fairly reflect the financial position and operations of ACC for the year ended 30 June 2017.

Signed on behalf of the Board:

Dame Paula Rebstock DNZM
Board Chair

Trevor Janes
Deputy Chair

Statement of performance

The statement of performance reports against the measures contained in ACC's *Service Agreement 2016/17*. We have provided explanations for performance measures that were not achieved.

Public value scorecard

Section 1 of the statement of performance summarises our performance against ACC's public value scorecard. Public value is an organising principle for public service organisations that is equivalent to shareholder value for private companies. It has been adopted by public sector organisations worldwide.

The public value framework recognises that our activity should:

- create economic or social value for clients as individuals or society at large
- enjoy sufficient support from politicians and the wider public to attract the necessary resources
- be achievable given the capabilities available from ACC and external suppliers.

We use four categories of measure that enable us to assess our overall performance in delivering public value.

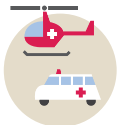
- Reach – the proportion of the New Zealand population served.
- Customer – the quality and effectiveness of the services provided.
- Impact – how effective we are at delivering the desired outcomes.
- Cost effectiveness – value for money and financial sustainability.

Performance against output delivery

Section 2 of the statement of performance includes a brief explanation of what is intended to be achieved within each output and ACC's performance against all other output measures included in the *Service Agreement 2016/17*, excluding those already reported in our public value scorecard.

Section 1: Public value scorecard

Category	Measuring our contribution to New Zealand	Actual 2015/16	Target 2016/17	Actual 2016/17	Target met?
 Reach How many New Zealanders did we help?	Percentage of population who received compensation or rehabilitation services	30.8%	30.6%	30.6%	✓

Category	Measuring our contribution to New Zealand	Actual 2015/16	Target 2016/17	Actual 2016/17	Target met?	
 Customer Did we meet expectations?	Cover decision timeliness	1.1 days	1.2 days	1.2 days	✓	
	Average time to commence weekly compensation payments	8.3 days	<9 days	7 days	✓	
	Formal reviews as a percentage of entitlement claims	2.5%	2.6%	2.7%	✗	**Refer to Note 1**
	Percentage of reviews upheld	84.2%	≥85%	81.7%	✗	**Refer to Note 2**
	Average time to resolution for claims with reviews	88 days	<90 days	94.8 days	✗	**Refer to Note 3**
	Public trust and confidence	63%	62%	62%	✓	
	Customer satisfaction – clients	76%	76%	78%	✓	
	Customer satisfaction – levy payers	69%	71%	68%	✗	**Refer to Note 4**
	The number of category 3, 4 and 5 privacy breaches and near misses	New measure	<5	1	✓	

Category	Measuring our contribution to New Zealand	Actual 2015/16	Target 2016/17	Actual 2016/17	Target met?	
 Impact Did we deliver?	Return to work within 10 weeks	67.6%	67.5%	68.4%	✓	
	Return to work within nine months (273 days)	92.8%	92.8%	93.1%	✓	
	Durable-return-to work rate	79.0%	78.0%	80.0%	✓	
	Return to independence for those not in the workforce	86.7%	86.0%	85.8%	✗	**Refer to Note 5**
	Number of long-term clients returned to independence in the past 12 months	2,796	2,950	3,340	✓	

Category	Measuring our contribution to New Zealand	Actual 2015/16	Target 2016/17	Actual 2016/17	Target met?	
 Cost effectiveness Were we fair and affordable?	Percentage of total expenditure paid directly to clients or for services to clients	86.0%	86.3%	85.8%	✗	**Refer to Note 6**
	Total levies and appropriations as a percentage of gross domestic product	1.6%	1.6%	1.6%	✓	
	Change in annual treatment cost per injury	1.7%	≤4.0%	3.4%	✓	
	Ratio of this year's total levies to the total claims incurred for this year's accidents over time	0.8	0.9–1.1	0.8	✗	**Refer to Note 7**
	Investment performance (after costs) above benchmark	0.55%	0.30%	1.35%	✓	
	Return from insurance operations	–$581m	–$135m	-$1,198m	✗	**Refer to Note 8**
	The portfolio of injury prevention investments will have an assessed positive return on investment	$1.60:1	$1.35:1	$1.63:1	✓	

NOTE 1 – FORMAL REVIEWS AS A PERCENTAGE OF ENTITLEMENT CLAIMS

The number of reviews increased (9% annual growth), however we also saw a steady improvement in the proportion of reviews withdrawn or settled.

We aim to reduce the review applications lodged through quality decisions and clear communication of decision rationale. We also recognise that applications will continue to be submitted at clients' discretion and in an environment of strong advocacy networks.

NOTE 2 – PERCENTAGE OF REVIEWS UPHELD

The percentage of reviews in ACC's favour was below target due to the increasing complexity of reviews. Appropriate measures of review complexity are being developed. The largest driver of the below target result relates to elective surgery-related reviews. We are working with FairWay[1] to identify reviews where additional information is required earlier in the dispute process.

NOTE 3 – AVERAGE TIME TO RESOLUTION FOR CLAIMS WITH REVIEWS

There has been a deterioration in review timeliness. This is largely due to a growing number of advocate-requested adjournments, and implementing the Miriam Dean QC report[2] recommendations.

We expect to improve review timeliness in 2017/18. We have actions in place, we are hiring additional resources, and FairWay is streamlining its processes to manage reviews. We have restructured ourselves to enable increased consistency, stronger expertise in administration reviews and review representation, and higher quality in our submissions.

NOTE 4 – CUSTOMER SATISFACTION – LEVY PAYERS

Levy payer satisfaction dropped significantly in the fourth quarter to 58%, giving an annual result of 68%. The drop was noticeable across small, medium and large businesses, with a smaller drop in satisfaction among the self-employed.

We will replace our core levy management system in 2017/18. The new system will align with improved reporting and digital services for business customers. Changes to our experience rating system will give employers more options around risk sharing. These changes will improve business customer experience, but it may take time for the changes to translate into increased satisfaction.

NOTE 5 – RETURN TO INDEPENDENCE FOR THOSE NOT IN THE WORKFORCE

Returns to independence for those not in the workforce are slightly below target. This does not reflect a deterioration in client outcomes. Client payments are a key component of this measure, and some retrospective invoicing for in-between travel in 2016 has affected this result in the short term. Without the impact of these retrospective invoices, our result would be higher than target.

NOTE 6 – PERCENTAGE OF TOTAL EXPENDITURE PAID DIRECTLY TO CLIENTS OR FOR SERVICES TO CLIENTS

Our Transformation programme operating costs are higher than expected. We have adopted an 'as a service' approach in the programme, meaning a lower-than-expected proportion of capital expenditure.

Additionally, claims costs are lower than expected this year.

NOTE 7 – RATIO OF THIS YEAR'S TOTAL LEVIES TO THE TOTAL CLAIMS INCURRED FOR THIS YEAR'S ACCIDENTS OVER TIME

This year's result of 0.8 is slightly lower than our target for 2016/17. It is in line with the longer-term stable target of $0.7:$1 – $0.8:$1 included in the *Service Agreement 2017/18*.

High growth in claims this year meant claims costs and the outstanding claims liability (OCL) for these claims increased. As all our levied Accounts are above the targeted levels defined in our Funding Policy, we expect levy income to be lower than claims costs and liabilities.

1 *FairWay Resolution Limited is ACC's independent reviewer.*

2 *An independent review by Miriam Dean QC on ACC 's dispute resolution processes, May 2016.*

NOTE 8 – RETURN FROM INSURANCE OPERATIONS

The return from insurance operations is $1,063 million lower than budgeted. The main driver is the $830 million increase in our OCL, reflecting claims experience (costs and durations) exceeding actuarial assumptions.

Section 2: Performance against output delivery

The breakdown of our revenue earned and costs incurred compared with expected revenue and costs reported in the *Service Agreement 2016/17* is as follows:

	Administration		Claims paid		Revenue	
$M	Actual	Budget	Actual	Budget	Actual	Budget
Output class 1 – injury prevention	55	62	–	–	–	–
Output class 2 – levy setting and collection	37	41	–	–	4,106	3,987
Output class 3 – investment management[1]	68	64	–	–	2,072	1,484
Output class 4 – claims management	433	417	3,705	3,724	–	–
Total	**593**	**584**	**3,705**	**3,724**	**6,178**	**5,471**
Other operating costs	89	70				
Total ACC	**682**	**654**	**3,705**	**3,724**	**6,178**	**5,471**

1. *Including trading costs netted against investment income in accordance with generally accepted accounting practice.*

The relevant public value measure is:

- return from insurance operations.

Refer to Section 1 for performance against public value measures.

Output 1: Injury prevention

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 OCL and levies.

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

The public value measure relevant to this output class is:

- return on investment for the portfolio of approved injury prevention investments.

Refer to Section 1 for performance against public value measures.

OTHER INJURY PREVENTION OUTPUT MEASURES

Measure	Actual 2015/16	Target 2016/17	Actual 2016/17	Performance against target
The number of people directly affected by injury prevention programmes	New measure	250,000	528,628	Achieved

Output 2:
Levy setting and collection

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 cost of claims incurred in that year.

	The account and who funds it	What's covered	2014/15	2015/16	2016/17	2017/18
	Work Account **Employers:** Based on wages paid to staff **Self-employed:** Based on income earned	Work-related injuries	$0.95 per $100 liable earnings	$0.90 per $100 liable earnings	$0.80 per $100 liable earnings	$0.72 per $100 liable earnings
	Earners' Account **Employers:** Based on income earned **Self-employed:** Based on income earned	Non-work injuries to people in employment	$1.26 per $100 liable earnings	$1.26 per $100 liable earnings	$1.21 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	$329.93 per motor vehicle	$194.25 per motor vehicle	$130.26 per motor vehicle	$113.94 per motor vehicle
	Non-Earners' Account **The Government:** Funded by general taxation	Injuries that happen to people not in the workforce				
	Treatment Injury Account **The Government and employees:** Funded by the Earners' and Non-earners' Accounts	Injuries caused by medical treatment				

The public value measures relevant to this output class are:

- levy payer satisfaction
- ratio of this year's total levies to the total claims incurred for this year's accidents
- total levies and appropriations as a percentage of gross domestic product.

Refer to Section 1 for performance against public value measures.

Activity information

The table below shows the number of funders, and the levy and appropriation revenue, for each account.

		Actual 2015/16	Actual 2016/17
Levy-funded accounts			
Work Account	Number of employed and self-employed[1]	2,370,000	2,460,000
	Levy revenue ($M)	695	791
Earners' Account	Number of earners[2]	2,400,000	2,480,000
	Levy revenue ($M)	1,261	1,397
Motor Vehicle Account	Number of vehicles[2]	3,380,000	3,600,000
	Levy revenue ($M)	732	552
Government-funded account			
Non-Earners' Account	Number of non-earners[2]	2,260,000	2,270,000
	Government appropriation ($M)	955	1,088
Mixed-funded account			
Treatment Injury Account	Number of non-earners[2]	2,260,000	2,270,000
	Government appropriation ($M)	120	143
	Number of earners[2]	2,400,000	2,480,000
	Levy revenue ($M)	163	135

1. *Sourced from Statistics New Zealand household labour force survey (actuals as at 30 June each year).*
2. *Figures based on ACC actuarial estimates.*

Other levy-setting and collection output measures

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

Solvency as at 30 June (%)	Actual 2015/16	Forecast 2016/17	Actual 2016/17
Work Account[3]	117.2%	117.2%	121.7%
Work Account (excluding gradual process)	140.0%	138.6%	148.2%
Earners' Account	112.8%	114.0%	114.3%
Motor Vehicle Account	107.8%	113.0%	110.9%
Non-Earners' Account	41.9%	43.7%	42.7%
Treatment Injury Account	68.3%	73.5%	67.0%
ACC	**94.9%**	**97.9%**	**96.7%**

3. *The Work Account funding ratio shown here includes the additional liability for work-related gradual process claims not yet made.*

Output 3:
Investment management

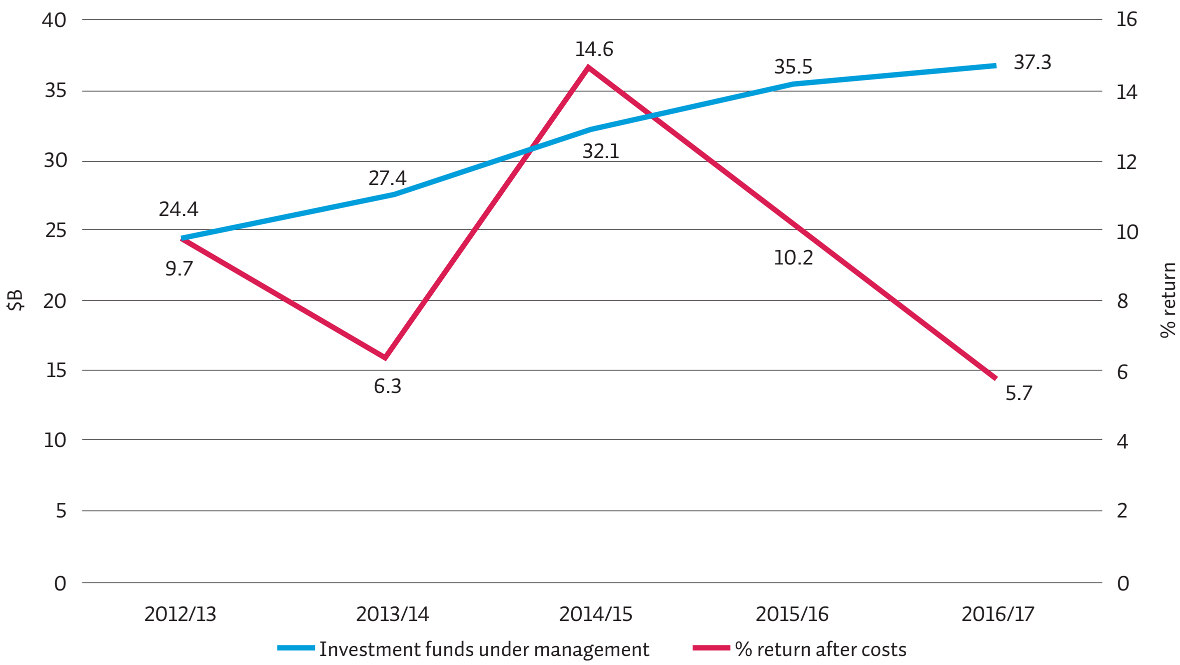
The purpose of our investment portfolio is to meet the future costs of incurred claims from long-term injuries without the need for any catch-up contributions from future levy payers. To meet this purpose, we tend to favour long-term investments that we expect to deliver relatively certain income streams 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 we need to put aside more money in the present to fund every dollar of future claim costs.

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 management.

Activity information

Funds under management and investment returns



The public value measure relevant to this output class is:

- investment performance after costs relative to benchmark.

Refer to Section 1 for performance against public value measures.

Other investment management output measures

The efficiency of our investment management is measured by expressing total investment management costs as a proportion of the total funds under management.

Measure	Actual 2015/16	Target 2016/17	Actual 2016/17	Performance against target
Investment management costs as a proportion of total funds under management	0.13%	0.15%	0.14%	Achieved

Output 4:
Claims management

We help injured people covered by the Scheme to 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.

Activity information

The following table shows the recent trends in the number and 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 Accident Compensation Act 2001. We do not ration our services, as demand is determined by the number of covered injuries that occur and the types and amount of services that those who have covered injuries are eligible to receive.

Measure	Definition	2012/13	2013/14	2014/15	2015/16	2016/17
Registered claims	Total number of registered claims in the period	1,714,770	1,791,713	1,838,455	1,929,879	1,946,368
Medical fees only claims	Total number of medical fees only claims in the period	1,514,177	1,572,293	1,593,269	1,660,004	1,614,028
Other entitlement claims	Total number of entitlement claims (all entitlement claims excluding weekly compensation) that receive payments in the period	93,401	96,951	105,375	110,674	115,918
Weekly compensation claims	Total number of weekly compensation claims that receive payments in the period	88,442	89,616	100,727	106,975	112,858
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	12,290	12,691
New serious injury claims[1]	Total number of new serious injury claims in the period	236	269	286	272	161
Fatal claims	Total number of fatal claims in the period	1,195	1,171	1,268	1,232	1,067

1. *Significant impairments or disabilities as a result of injuries (eg spinal injury, traumatic brain injury and other catastrophic injuries).*

We enable clients to receive the appropriate entitlements under the Scheme while keeping total expenditure financially sustainable. We monitor expenditure against budget for the key cost drivers of the Scheme. This is shown below.

Expenditure against key cost drivers $M	Actual 2015/16	Forecast 2016/17	Actual 2016/17
Non-fatal weekly compensation	1,045	1,072	1,113
Social rehabilitation	590	642	647
Medical treatment	669	731	712
Hospital treatment (elective surgery)	322	357	331
Public health acute services	469	477	477

The public value measures relevant to this output class are:

- client satisfaction
- cover decision timeliness
- average time to commence weekly compensation payments
- formal reviews as a percentage of entitlement claims
- percentage of ACC reviews upheld
- average time to resolution for claims with reviews
- return to work within 10 weeks and nine months
- durable-return-to-work rate
- return to independence for those not in the workforce
- number of long-term clients returned to independence in the previous 12 months.

Refer to Section 1 for performance against public value measures.

Other claims management output measures

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 all 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, for example 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 2015/16	Target 2016/17	Actual 2016/17	Performance against target
Social rehabilitation for serious injury	Growth in average care packages	3.0%	≤2.1%	4.1%	Not achieved – refer Note 1
	Proportion of clients with care hours significantly above or below benchmarks	47%	45%	47%	Not achieved – refer Note 2
Rehabilitation	Return to work within six months (182 days)	88.3%	88.4%	88.8%	Achieved
	Net movement in the number of clients receiving weekly compensation for more than one year	+807	+806	+401	Achieved
	Abatement rate for long-term clients[1]	12%	12%	11.9%	Not achieved – refer Note 3
Elective surgery outcomes	Average time taken by ACC to make surgery decisions – declined requests	32.1 days	<31 days	32.2 days	Not achieved – refer Note 4
	Growth in average elective surgery cost per claim	3.6%	≤6.9%	3.5%	Achieved
	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	85.2%	86%	84.7%	Not achieved – refer Note 5
Efficiency	Average cost per claim Administration costs less investment management and injury prevention costs/active entitlement claims	$2,370	$2,433	$2,444	Not achieved – refer Note 6.

1. *Weekly compensation payments are reduced as clients return to part-time work.*

NOTE 1 – GROWTH IN AVERAGE CARE PACKAGES

The 2016/17 growth in care packages of 4.1% includes a 1.1% increase from in-between travel (IBT). Excluding IBT, the growth rate was 3.0%, the same as 2015/16, but higher than target. Sustained performance above our actuarial assumptions can lead to an increase in the OCL.

During the year we have focused on ensuring that we have consistent practices and tools in care package design and implementation across the serious injury portfolio to counter some of this growth, without affecting client outcomes.

NOTE 2 – PROPORTION OF CLIENTS WITH CARE HOURS SIGNIFICANTLY ABOVE OR BELOW BENCHMARKS

While this measure is outside the target, the larger group of clients has care hours under the benchmark, not over it. This actuarial measure provides insights into the care needs of our current serious injury portfolio compared with our history. We remain committed to assessing the care and support needed by our clients on an individual basis.

NOTE 3 – ABATEMENT RATE FOR LONG-TERM CLIENTS

The abatement rate for long-term clients measures the percentage of clients in part-time work and remains below, but close to, target. This year we made a number of changes to the way we set up and manage weekly compensation. One of the areas we focused on is abatement and ensuring a smoother transition back to work.

NOTE 4 – AVERAGE TIME TAKEN BY ACC TO MAKE SURGERY DECISIONS – DECLINED REQUESTS

We have been focusing on improving the consistency, efficiency and timeliness of the elective surgery process. We completed a pilot in the South Island where our Treatment Assessment Centre made elective surgery decisions on behalf of a small number of pilot branches. The results demonstrated faster decision-making and an improved customer experience. We will roll out this approach nationally in 2017/18.

NOTE 5 – PROPORTION OF CLIENTS WHO GO AHEAD WITH SURGERY WHO ARE REHABILITATED 12 MONTHS AFTER BEING APPROVED FOR SURGERY

The proportion of clients who go ahead with surgery, and who are successfully rehabilitated, remains below target. The performance of this measure follows the trends in the 10-week rehabilitation rate from a year ago. We expect performance to improve in 2017/18.

NOTE 6 – AVERAGE COST PER CLAIM

Our Transformation programme operating costs are higher than expected. We have adopted an 'as a service' approach in the programme, meaning a lower-than-expected proportion of capital expenditure in the programme. The higher proportion of transformation operating expenditure is the key driver of the higher-than-expected result.

Financial statements

Consolidated statement of comprehensive revenue and expense

For the year ended 30 June 2017

$M	Notes	Actual 2017	Actual 2016	Budget 2017
Net levy revenue	4	4,106	3,926	3,987
Other revenue		2	1	–
Total net levy and other revenue		**4,108**	**3,927**	**3,987**
Investment revenue		2,052	3,253	1,460
Less investment management costs		48	43	40
Net investment revenue	**5**	**2,004**	**3,210**	**1,420**
Claims paid		3,705	3,502	3,724
Increase in outstanding claims liability	7(C)	1,076	6,334	1,169
Movement in unexpired risk liability	7(F)	110	103	59
Total claim costs		**4,891**	**9,939**	**4,952**
Injury prevention costs	6	55	50	62
Shaping Our Future costs	6	61	23	33
Operating costs	6	495	491	495
Other costs	6	3	1	–
Net surplus (deficit)		**607**	**(3,367)**	**(135)**
Total comprehensive revenue and expense for the year		**607**	**(3,367)**	**(135)**

Consolidated statement of changes in reserves (equity)

For the year ended 30 June 2017

$M	Actual 2017	Actual 2016	Budget 2017
Total Account reserves			
Balance at the beginning of the year (deficit)	(1,865)	1,502	(601)
Total comprehensive revenue and expense for the year	607	(3,367)	(135)
Balance at the end of the year (deficit)	**(1,258)**	**(1,865)**	**(736)**

The accompanying notes form part of these financial statements.

Consolidated statement of financial position

As at 30 June 2017

$M	Notes	Actual 2017	Actual 2016	Budget 2017
Account reserves				
Motor Vehicle Account		1,102	770	1,235
Non-Earners' Account		(4,597)	(4,511)	(4,159)
Earners' Account		1,106	956	1,054
Work Account		3,001	2,548	2,459
Treatment Injury Account		(1,870)	(1,628)	(1,325)
Total Account reserves (deficit)		**(1,258)**	**(1,865)**	**(736)**
Represented by:				
Assets				
Cash and cash equivalents	10	93	282	594
Receivables	11	218	321	319
Accrued levy revenue	12	2,108	2,027	2,165
Investments	8	36,836	34,673	35,254
Derivative financial instruments	9	519	877	–
Property, plant and equipment, and intangible assets	14	116	111	180
Total assets		**39,890**	**38,291**	**38,512**
Less liabilities				
Payables and accrued liabilities	15	734	955	999
Derivative financial instruments	9	78	52	–
Provisions	16	47	43	–
Unearned levy liability	7(E)	1,870	1,873	1,872
Unexpired risk liability	7(F)	680	570	584
Outstanding claims liability	7(C)	37,739	36,663	35,793
Total liabilities		**41,148**	**40,156**	**39,248**
Net assets (liabilities)		**(1,258)**	**(1,865)**	**(736)**

For and on behalf of the Board, which authorised the issue of these financial statements on 28 September 2017:

Dame Paula Rebstock DNZM
ACC Chair
Date: 28 September 2017

Trevor Janes
Deputy Chair
Date: 28 September 2017

The accompanying notes form part of these financial statements.

Consolidated statement of cash flows

For the year ended 30 June 2017

$M	Actual 2017	Actual 2016	Budget 2017
Cash flows from operating activities			
Cash was provided from:			
Levy revenue	4,070	4,288	3,915
Investment revenue	1,283	1,243	1,270
Other revenue	21	24	1
Goods and services tax (net)	1	–	4
	5,375	**5,555**	**5,190**
Cash was applied to:			
Payments towards injury treatment and prevention	4,336	4,100	4,335
Goods and services tax (net)	–	65	–
	4,336	**4,165**	**4,335**
Net cash movement from operating activities	**1,039**	**1,390**	**855**
Cash flows from investing activities			
Cash was provided from:			
Proceeds from sale of investments	51,749	63,373	50,000
Proceeds from sale of property, plant and equipment, and intangible assets	–	1	–
	51,749	**63,374**	**50,000**
Cash was applied to:			
Payment for investments	52,929	64,762	50,762
Payment for property, plant and equipment, and intangible assets	48	23	93
	52,977	**64,785**	**50,855**
Net cash movement from investing activities	**(1,228)**	**(1,411)**	**(855)**
Net (decrease) in cash and cash equivalents	**(189)**	**(21)**	**–**
Cash and cash equivalents – opening balance	**282**	**303**	**594**
Cash and cash equivalents – closing balance	**93**	**282**	**594**

The accompanying notes form part of these financial statements.

Reconciliation of the net cash inflow from operating activities with the reported net surplus (deficit)

$M	Actual 2017	Actual 2016	Budget 2017
Net surplus (deficit)	**607**	**(3,367)**	**(135)**
Add (less) items classified as investing activities:			
Realised (gains) on sale of investments	(1,167)	(1,862)	(214)
Add (less) non-cash items:			
Depreciation and amortisation	41	46	43
Property, plant and equipment, and intangible assets impairment/write-offs	2	1	–
Unrealised (gains) on investments	386	(150)	–
Movement in provisions	4	1	–
Change in provision for impairment of levy debtors	12	10	–
Movement in unexpired risk liability	110	103	59
Increase in outstanding claims liability	1,076	6,334	1, 169
Add (less) movements in working capital items:			
Receivables and accrued levy revenue	(16)	200	(117)
Payables and accrued liabilities	(13)	(76)	5
Unearned levy liability	(3)	150	45
Net cash inflow from operating activities	**1,039**	**1,390**	**855**

The accompanying notes form part of these financial statements.

ACC Accounts

The Accident Compensation Corporation Scheme (as required through the Accident Compensation Act 2001 ('the AC Act')) is managed through five separate Accounts, being the Motor Vehicle, Non-Earners', Earners', Work, and Treatment Injury Accounts. Each Account receives individual funding and is maintained for a separate purpose.

Under the AC Act, unless otherwise provided by that Act, funds held in an Account can only be used to meet costs incurred in the same Account. This means that cross-subsidisation between separate Accounts is not permitted. ACC therefore manages and separately reports on the performance and solvency of each Account.

The basis of setting levies is a full-funding basis for all levy payers other than the Government in respect of the Non-Earners' Account.

The ACC Board recommends sustainable levies to achieve the full funding of the Motor Vehicle, Earners' and Work Accounts, but final levy rates are set by the Government. Claims incurred from 1 July 2001 in the Non-Earners' Account are fully funded by the Government. Claims before that date continue to be funded on a pay-as-you-go basis.

The Treatment Injury Account is funded through levies from the Earners' and Non-Earners' Accounts on the basis of whether the treatment injury claims are from earners or non-earners.

The accompanying notes form part of these financial statements.

Statement of comprehensive revenue and expense and changes in Account reserves (equity)

MOTOR VEHICLE ACCOUNT

For the year ended 30 June 2017

$M	Notes	Actual 2017	Actual 2016	Budget 2017
Levy revenue[i]		552	732	509
Total net levy and other revenue		**552**	**732**	**509**
Investment revenue		580	1,001	431
Less investment management costs		14	13	12
Net investment revenue		**566**	**988**	**419**
Claims paid[ii]		513	477	507
Increase in outstanding claims liability	7(C)	151	1,687	195
Movement in unexpired risk liability	7(F)	63	20	49
Total claim costs		**727**	**2,184**	**751**
Injury prevention costs		9	12	10
Operating, Shaping Our Future and other costs		50	48	48
Net surplus (deficit)		**332**	**(524)**	**119**
Total comprehensive revenue and expense for the year		**332**	**(524)**	**119**
Account reserve – opening balance		770	1,294	1,116
Total comprehensive revenue and expense for the year		332	(524)	119
Account reserve – closing balance		**1,102**	**770**	**1,235**
Outstanding claims liability (OCL)		**10,068**	**9,917**	**9,532**
Net assets excluding OCL		**11,170**	**10,687**	**10,767**

Notes:

(i) The Motor Vehicle Account derives its funds from:

- levies on motor vehicle ownership
- the levies portion of the excise duty on petrol
- the motorcycle safety levy on moped and motorcycle owners.

(ii) These funds are applied in accordance with the AC Act in respect of motor vehicle injury suffered on or after 1 April 1974.

The accompanying notes form part of these financial statements.

Statement of comprehensive revenue and expense and changes in Account reserves (equity)

NON-EARNERS' ACCOUNT

For the year ended 30 June 2017

$M	Notes	Actual 2017	Actual 2016	Budget 2017
Funds appropriated by Parliament[i]		1,231	1,075	1,232
Less funding of Treatment Injury Account		(143)	(120)	(140)
Total net levy and other revenue		**1,088**	**955**	**1,092**
Investment revenue		220	340	150
Less investment management costs		5	5	4
Net investment revenue		**215**	**335**	**146**
Claims paid[ii]		995	964	1,023
Increase in outstanding claims liability	7(C)	261	1,520	219
Total claim costs		**1,256**	**2,484**	**1,242**
Injury prevention costs		14	12	18
Operating, Shaping Our Future and other costs		119	106	111
Net (deficit)		**(86)**	**(1,312)**	**(133)**
Total comprehensive revenue and expense for the year		**(86)**	**(1,312)**	**(133)**
Account reserve – opening balance (deficit)		(4,511)	(3,199)	(4,026)
Total comprehensive revenue and expense for the year		(86)	(1,312)	(133)
Account reserve – closing balance (deficit)		**(4,597)**	**(4,511)**	**(4,159)**
Outstanding claims liability		**8,028**	**7,767**	**7,390**
Net assets excluding OCL		**3,431**	**3,256**	**3,231**

Notes:

(i) The Non-Earners' Account derives its funds from appropriations by Parliament.

(ii) These funds are applied in accordance with the AC Act in respect of personal injury (other than motor vehicle injury) to non-earners, suffered on or after 1 April 1974.

The accompanying notes form part of these financial statements.

Statement of comprehensive revenue and expense and changes in Account reserves (equity)

EARNERS' ACCOUNT

For the year ended 30 June 2017

$M	Notes	Actual 2017	Actual 2016	Budget 2017
Levy revenue[i]		1,532	1,424	1,489
Less funding of Treatment Injury Account		(135)	(163)	(159)
Other revenue		1	–	–
Total net levy and other revenue		**1,398**	**1,261**	**1,330**
Investment revenue		552	779	373
Less investment management costs		12	11	10
Net investment revenue		**540**	**768**	**363**
Claims paid[ii]		1,283	1,190	1,262
Increase in outstanding claims liability	7(C)	282	1,427	432
Movement in unexpired risk liability	7(F)	19	179	9
Total claim costs		**1,584**	**2,796**	**1,703**
Injury prevention costs		11	9	10
Operating, Shaping Our Future and other costs		193	183	183
Net surplus (deficit)		**150**	**(959)**	**(203)**
Total comprehensive revenue and expense for the year		**150**	**(959)**	**(203)**
Account reserve – opening balance		956	1,915	1,257
Total comprehensive revenue and expense for the year		150	(959)	(203)
Account reserve – closing balance		**1,106**	**956**	**1,054**
Outstanding claims liability		**7,753**	**7,471**	**7,511**
Net assets excluding OCL		**8,859**	**8,427**	**8,565**

Notes:

(i) The Earners' Account derives its funds from:

- levies payable by earners on their earnings
- levies from the purchase of weekly compensation by non-earners.

(ii) These funds are applied in accordance with the AC Act in respect of personal injury to earners (other than work injury or motor vehicle injury) suffered on or after 1 July 1992.

(iii) In the year ended 30 June 2016 levy revenue was reduced by an amount of $75.1 million transferred to the Work Account. This is an adjustment for the Earners' portion of the credit notes issued for CoverPlus Extra income from shareholder-employees since the commencement of sales of the product that was previously charged to the Work Account.

The accompanying notes form part of these financial statements.

Statement of comprehensive revenue and expense and changes in Account reserves (equity)

WORK ACCOUNT

For the year ended 30 June 2017

$M	Notes	Actual 2017	Actual 2016	Budget 2017
Levy revenue[i]		791	695	757
Other revenue		1	1	–
Total net levy and other revenue		**792**	**696**	**757**
Investment revenue		479	792	347
Less investment management costs		12	10	10
Net investment revenue		**467**	**782**	**337**
Claims paid[ii]		731	707	752
(Decrease) increase in outstanding claims liability	7(C)	(136)	533	56
Movement in unexpired risk liability	7(F)	28	(96)	1
Total claim costs		**623**	**1,144**	**809**
Injury prevention costs		15	14	18
Operating, Shaping Our Future and other costs		168	152	159
Net surplus		**453**	**168**	**108**
Total comprehensive revenue and expense for the year		**453**	**168**	**108**
Account reserve – opening balance		2,548	2,380	2,351
Total comprehensive revenue and expense for the year		453	168	108
Account reserve – closing balance		**3,001**	**2,548**	**2,459**
Outstanding claims liability		**6,231**	**6,367**	**6,364**
Net assets excluding OCL		**9,232**	**8,915**	**8,823**

Notes:

(i) The Work Account derives its funds from levies payable by employers and earners who are self-employed.

(ii) These funds are applied in accordance with the AC Act in respect of:

- work injury suffered on or after 1 April 2000 by employees of employers who are insured by ACC, and for all employees' work injuries incurred on and after 1 July 2000
- work injury suffered on or after 1 July 1999 and before 1 July 2000 by self-employed persons who were insured by ACC, and for self-employed work injuries incurred on and after 1 July 2000
- accidents prior to 1 July 1999 that are non-work injury (other than motor vehicle injury) suffered by earners on or after 1 April 1974 and before 1 July 1992
- accidents prior to 1 July 1999 that are work injury, other than motor vehicle injury, suffered on or after 1 April 1974.

The accompanying notes form part of these financial statements.

Included in the Work Account is the Non-Compliers Fund (the Fund). The Fund was set up to cover employees who were injured while working for an employer who had not taken out accident insurance during the time when the workplace accident insurance market was opened up for competition. The Fund was transferred to ACC following the restoration of ACC as sole provider of workplace accident insurance. The net surplus for the year ended 30 June 2017 for the Fund was $28,000 (2016: $41,000). The Fund's reserve as at 30 June 2017 was $0.4 million (2016: $0.4 million).

There were 44,427 (2016: 45,835) CoverPlus Extra policies purchased during the year. CoverPlus Extra is an optional product that lets self-employed people and non-PAYE shareholder-employees negotiate a pre-agreed level of lost earnings compensation. Payments of $5.5 million (2016: $5.9 million) relating to work-related injuries were paid to clients who had purchased weekly compensation under CoverPlus Extra policies from the Work Account during the year. Non-work injury payments of $13.6 million (2016: $13.2 million) were paid from the Earners' and Motor Vehicle Accounts.

In the year ended 30 June 2016, levy revenue was increased by an amount of $75.1 million transferred from the Earners' Account. This is an adjustment for the Earners' portion of the credit notes issued for CoverPlus Extra income from shareholder-employees since the commencement of sales of the product that was previously charged to the Work Account.

The accompanying notes form part of these financial statements.

Statement of comprehensive revenue and expense and changes in Account reserves (equity)

TREATMENT INJURY ACCOUNT

For the year ended 30 June 2017

$M	Notes	Actual 2017	Actual 2016	Budget 2017
Levy revenue[i]		278	283	299
Total net levy and other revenue		**278**	**283**	**299**
Investment revenue		221	341	159
Less investment management costs		5	4	4
Net investment revenue		**216**	**337**	**155**
Claims paid[ii]		183	164	180
Increase in outstanding claims liability	7(C)	518	1,167	267
Total claim costs		**701**	**1,331**	**447**
Injury prevention costs		6	3	6
Operating, Shaping Our Future and other costs		29	26	27
Net (deficit)		**(242)**	**(740)**	**(26)**
Total comprehensive revenue and expense for the year		**(242)**	**(740)**	**(26)**
Account reserve – opening balance (deficit)		(1,628)	(888)	(1,299)
Total comprehensive revenue and expense for the year		(242)	(740)	(26)
Account reserve – closing balance (deficit)		**(1,870)**	**(1,628)**	**(1,325)**
Outstanding claims liability		**5,659**	**5,141**	**4,996**
Net assets excluding OCL		**3,789**	**3,513**	**3,671**

Notes:

(i) The Treatment Injury Account derives its funds from allocations from the Earners' Account (in the case of earners) and the Non-Earners' Account (in the case of non-earners).

(ii) These funds are applied in accordance with the AC Act in respect of personal injury arising from medical misadventure suffered on or after 1 July 1992, and personal injury arising from treatment on or after 1 July 2005.

The accompanying notes form part of these financial statements.

Account solvency and capital management

Solvency is presented as a percentage and calculated as the total value of net assets, excluding the outstanding claims liability (OCL), held in an Account divided by the OCL for that Account. An Account is considered fully funded if the solvency percentage is greater than, or equal to, 100%.

The AC Act sets a goal of full funding for the Motor Vehicle, Earners' and Work Accounts and the portion of the Treatment Injury Account funded out of the Earners' Account.

Funding policy for the Non-Earners' Account and the portion of the Treatment Injury Account funded out of the Non-Earners' Account is set by the Government. Pre-2001 claims are funded through appropriation on a pay-as-you-go basis, while post-2001 claims are funded through appropriation on a fully-funded basis excluding the inclusion of a risk margin on the liability being funded.

The table below shows the solvency percentages for the separate Accounts:

	2017	2016	Funding position target
Work Account	148.2%	140.0%	
Including gradual process claims incurred but not yet made	121.7%	117.2%	105%
Motor Vehicle Account	110.9%	107.8%	105%
Earners' Account	114.3%	112.8%	105%
Non-Earners' Account	42.7%	41.9%	
Fully funded portion	79.5%	80.2%	88%
Treatment Injury Account	67.0%	68.3%	
Earners' portion	110.9%	110.9%	105%
Non-Earners' fully funded portion	74.1%	79.6%	88%

As of 30 June 2017, ACC had an overall net liability position, ie its total liabilities exceeded its total assets by $1.258 billion (2016: liabilities exceeded assets by $1.865 billion). The overall net liability position is driven by the funding policy for the Non-Earners' Account and the Non-Earners' portion of the Treatment Injury Account as explained above. The financial statements are prepared on a going concern basis, reflecting the Government's ongoing support and the long-term nature of its funding policy.

The accompanying notes form part of these financial statements.

Notes to the financial statements

For the year ended 30 June 2017

1. Summary of significant accounting policies

(A) REPORTING ENTITY

Accident Compensation Corporation (ACC) is designated as a Crown Agent under the Crown Entities Act 2004.

ACC provides comprehensive 24-hour, no-fault personal injury cover for all New Zealand residents and visitors to New Zealand.

ACC has designated itself as a public benefit entity (PBE) for financial reporting purposes.

(B) BASIS OF PREPARATION

The financial statements of ACC have been prepared in accordance with generally accepted accounting practice in New Zealand (NZ GAAP). The financial statements comply with Tier 1 PBE accounting standards and have been prepared in accordance with the Accident Compensation Act 2001 (the AC Act) and the Crown Entities Act 2004.

The financial statements are prepared on a historical cost basis unless otherwise stated. All balances are expressed in New Zealand dollars and rounded to the nearest million dollars ($M) unless otherwise stated.

Standards and interpretations issued but not yet effective and not early adopted

Standards and amendments, issued but not yet effective that have not been early adopted, and which are relevant to ACC are:

Financial instruments

In January 2017, the External Reporting Board issued PBE IFRS 9 Financial Instruments. This replaces PBE IPSAS 29 Financial Instruments: Recognition and Measurement.

PBE IFRS 9 is effective for annual periods beginning on or after 1 January 2021, with earlier application permitted. The main changes under the standard are:

- new financial asset classification requirements for determining whether an asset is measured at fair value or amortised cost
- a new impairment model for financial assets based on expected losses, which may result in the earlier recognition of impairment losses
- revised hedge accounting requirements to better reflect the management of risks.

The timing of ACC adopting PBE IFRS 9 will be guided by the Treasury's decision on when the Financial Statements of the Government will adopt PBE IFRS 9. ACC has not yet assessed the effects of the new standard.

Insurance contracts

In August 2017, the External Reporting Board issued NZ IFRS 17 Insurance Contracts. This replaces NZ IFRS 4 Insurance Contracts.

NZ IFRS 17 is effective for annual periods beginning on or after 1 January 2021. Currently there is no equivalent PBE standard, however it is understood that the External Reporting Board will be considering the applicability for PBEs. ACC has not yet assessed the effects of the new standard.

There are no other standards or amendments that have been issued, but are not yet effective, that are expected to have a significant impact on ACC.

2. Critical accounting judgements, estimates and assumptions

ACC makes estimates and assumptions in respect of certain key assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key areas in which critical estimates are applied are described below.

(A) OUTSTANDING CLAIMS LIABILITY (OCL)

The estimated liability is on a 'best estimate' basis. This means there is no deliberate over- or under-statement of any component of the liability. Due to the uncertainty in the OCL estimate, and the number of assumptions required in its determination, it is highly likely that actual experience will differ from the stated estimate. Standard actuarial techniques are used to formulate the central estimate, taking into account trends in historical claims data, reviewing current conditions that may impact future trends, and scanning the horizon for possible changes that may affect trends in the future.

Where possible, both the number of claims receiving payments and the average amount of these payments are analysed separately. When claim numbers are too unstable for this method to be reliable, an analysis of aggregate payments is undertaken.

The following actuarial valuation techniques are used to project the various benefit types:

- payment per active claim method
- payment decay method
- individual claim projection method.

Some elements of the claims liability are subject to more uncertainty than others. For past injury years, a higher proportion of the ultimate number of claims for each year will have been reported. These reported claims will have a longer history of payments and a smaller outstanding amount, all other things being equal, than claims reported in more recent injury years. Incurred but not reported (IBNR) claims have no payment history and must be estimated in their entirety. Hence the OCL estimate for more recent injury years will be subject to more uncertainty.

The general sources of uncertainty include:

- actual future claim closure rates that differ from those expected due to unanticipated changes to Scheme utilisation rates associated with prior injuries
- actual future claim costs that differ from those expected due to unanticipated inflationary trends and claim durations
- the actual timing of claim payments differing from those expected
- unanticipated changes in operational processes that affect claim development patterns
- future advances in medicine and treatment that may impact recovery periods, cost structures and Scheme utilisation
- the fact that ACC legislation is periodically reviewed, and court cases can result in entitlements that are not anticipated being paid.

Currently the largest area of uncertainty affecting the OCL is the future costs associated with personal and social rehabilitation support services provided to individuals experiencing significant disability as a result of injury, in particular the cost of personal care services whether they be home- or residential-based care. These may involve anything from helping with daily duties to providing nursing care services. The number of hours per day, types of service required, provider type and average costs per hour are key assumptions that need to be projected decades into the future. The estimate carries with it a wider range of uncertainty, due to the length of the projection period and the variation of disabilities and/or demonstrated independent participation by the clients.

The estimated future cash payments are discounted using a risk-free rate based on the yield curves of New Zealand government bond rates.

(B) GRADUAL PROCESS CLAIMS

These claims are a result of injuries that have occurred due to prolonged exposure in the workplace to conditions that result in some form of harm. The most common examples of such claims are asbestosis (due to prolonged exposure to asbestos dust in the atmosphere) and hearing loss (due to prolonged exposure to excessive noise).

Due to the nature of these injuries, many years can pass between exposure to the conditions that result in harm and the individual receiving treatment or suffering incapacity.

A gradual process claim can be made when a person is regarded as suffering personal injury caused by work-related gradual process, disease or infection which is in accordance with section 37 of the AC Act. The claim can be made at the earlier of either the date that the person first receives treatment or the date that the injury first results in incapacity. Therefore a financial liability is only recognised for gradual process injury when a claim is made.

The effect of this accounting treatment is that until the injury presents itself such that the person receives treatment or suffers incapacity and hence is entitled to make a claim, ACC does not record a liability in the OCL.

However, an assessment of the potential payments under such future claims has been made. The present value of the obligation for all future gradual process claims not yet made is estimated at $1,356 million (2016: $1,243 million). This is only for claims arising due to noise-induced hearing loss and exposure to asbestos, being the types of gradual process claims where sufficient data is available to permit a reasonable estimate of the obligation.

(C) GOING CONCERN ASSUMPTION

The financial statements have been prepared on a going concern basis.

In the event of a funding shortfall in the Non-Earners' Account, ACC would seek to secure further funding through imprest supply or a Parliamentary appropriation; however, there is no ability to enforce the Government obligation to fund the Account. Alternatively ACC could borrow funds, which would require approval from the Minister of Finance in order to cover the payments made from the Non-Earners' Account, or draw down on its reserves or investment revenue for the Non-Earners' Account.

3. Underwriting result

Underwriting in terms of ACC relates to the core business of collecting levies and paying for accident compensation and rehabilitation, excluding any investment activities. The below underwriting result is extracted from the statement of comprehensive revenue and expense:

$M	2017 Total	Motor Vehicle Account	Non-Earners' Account	Earners' Account	Work Account	Treatment Injury Account	2016 Total
Net levy revenue	**4,106**	**552**	**1,088**	**1,397**	**791**	**278**	**3,926**
Rehabilitation (including treatment) costs							
Vocational rehabilitation	92	8	1	53	28	2	88
Social rehabilitation	647	184	209	91	88	75	590
Medical treatment	712	26	290	281	102	13	669
Hospital treatment	331	21	77	152	58	23	322
Public health acute services	477	52	292	100	28	5	469
Dental treatment	27	1	14	9	3	–	28
Conveyance for treatment	112	18	58	25	9	2	106
	2,398	**310**	**941**	**711**	**316**	**120**	**2,272**
Compensation costs							
Income maintenance	1,113	157	18	523	373	42	1,045
Independence allowances	44	6	20	8	7	3	44
Lump sums	40	6	6	7	14	7	39
Death benefits	88	31	5	31	16	5	87
	1,285	**200**	**49**	**569**	**410**	**57**	**1,215**
Miscellaneous costs	22	3	5	3	5	6	15
Claims paid	**3,705**	**513**	**995**	**1,283**	**731**	**183**	**3,502**
Claims handling costs	433	42	110	155	100	26	415
Increase (decrease) in outstanding claims liability							
Expected change	1,463	260	290	494	100	319	1,236
Effect of claims experience and modelling	787	141	234	85	(62)	389	583
Effect of changes in economic assumptions	(2,237)	(619)	(553)	(395)	(249)	(421)	4,889
Effect of legislative and policy changes	1,063	369	290	98	75	231	(374)
	1,076	**151**	**261**	**282**	**(136)**	**518**	**6,334**
Total claims incurred	**5,214**	**706**	**1,366**	**1,720**	**695**	**727**	**10,251**
Movement in unexpired risk liability	110	63	–	19	28	–	103
Other underwriting costs	181	17	23	49	83	9	150
(Deficit) from underwriting activities	**(1,399)**	**(234)**	**(301)**	**(391)**	**(15)**	**(458)**	**(6,578)**
Net investment revenue	2,004	566	215	540	467	216	3,210
Other revenue	2	–	–	1	1	–	1
Net surplus (deficit)	**607**	**332**	**(86)**	**150**	**453**	**(242)**	**(3,367)**

4. Net levy revenue

All levy revenue is recognised in the levy period to which it relates. Levy revenue relating to levy periods that have commenced prior to balance date is accrued if not yet invoiced. This accrual is estimated based on expected liable earnings at the applicable levy rate with the assumptions that the levy revenue is earned evenly over the levy period. The proportion of levies not earned at the reporting date is recognised in the statement of financial position as unearned levy liability.

$M	2017	2016
Government appropriations	1,231	1,075
Levy revenue	2,899	2,876
(Less):		
Levy debts written off	(12)	(15)
Change in provision for impairment	(12)	(10)
Total net levy revenue	**4,106**	**3,926**

Levy revenue is from exchange transactions.

5. Investment revenue

Investment revenue consists of and is recognised on the following basis:

- dividends on equity securities are recorded as revenue on the ex-dividend date (dividend announcement date)
- interest revenue is recognised as it accrues
- investment gains represent the realised and unrealised movements in the investment values. Realised gains/losses occur on the disposal of an investment asset and are calculated as the difference between the proceeds received and their carrying value. Unrealised gains/losses represent the difference between the cost of the investment assets and their carrying value at year end.

Each of ACC's Accounts 'owns' a portion of different investment portfolios. These ownership proportions are adjusted whenever an Account places additional funds into, or withdraws funds from, an investment portfolio. Investment revenue from each investment portfolio is allocated between the Accounts daily based on the Accounts' daily proportionate 'ownership'. Some derivative positions are allocated directly between Accounts rather than to investment portfolios, with all associated revenue from these positions directly allocated to the relevant Accounts.

$M	2017	2016
Investment revenue		
Rental revenue from investment properties	18	18
Revenue from concession rights arrangement	5	5
Financial assets at fair value through surplus or deficit (designated upon initial recognition)		
Dividend revenue	430	401
Interest revenue	743	747
Investment gains	965	1,376
	2,138	**2,524**
Financial assets and financial liabilities at fair value through surplus or deficit (held for trading purposes)		
Interest revenue	98	96
Investment (losses) gains	(177)	638
	(79)	**734**
Gross investment revenue	**2,082**	**3,281**
Direct investment costs		
Foreign withholding tax	10	8
Investment property costs	1	2
Other direct investment costs	19	18
Total direct investment costs	**30**	**28**
Investment revenue	**2,052**	**3,253**
Investment management costs	48	43
Net investment revenue	**2,004**	**3,210**

Investment revenue is net of direct investment costs, such as trading costs, to be consistent with the calculation of investment performance. The other costs excluding direct investment costs are classified as investment management costs. In the previous year, these were all classified as total investment costs. The comparative amounts have been amended accordingly.

6. Analysis of operating expenses

Total expenses comprising investment management, injury prevention, Shaping Our Future and operating costs are allocated to Accounts using an activity-based costing methodology.

(A) EXPENSES BY FUNCTION

$M	2017	2016
Investment management costs	48	43
Injury prevention costs	55	50
Shaping Our Future costs	61	23
Operating costs	495	491
	659	**607**
Other costs	3	1
Total expenses	**662**	**608**

(B) INCLUDED IN THE ABOVE ARE:

$M	2017	2016
Computer expenses	38	38
Professional expenses	23	16
Rental of office premises and equipment	19	19
Travel and accommodation	7	8
Depreciation and amortisation	41	46
Personnel expenditure	320	314
Property, plant and equipment, and intangible assets write-offs	2	1
Restructuring costs	3	1
Other expenditure	209	165
	662	**608**

Personnel expenditure

Personnel expenditure includes salaries, superannuation, contractors' costs, ACC levies paid and movement in the provision for employee benefits, but excludes termination benefits which are included in restructuring costs. Defined contribution superannuation expense for the group was $25.7 million (2016: $24.3 million).

Auditor remuneration

Included in other operating expenses are fees paid to ACC's auditors (EY) of:

$000	2017	2016
Audit fee	623	628
Independent IT quality assurance services	260	548
Accounting advice	–	22
Risk review of remuneration model	4	9
Review in relation to the discontinuation of the Work Account residual levy	–	20
Assessment of funding methodology	–	16
Educational services	–	19
Actuarial survey	2	2
Risk and governance assurance services	12	38
	901	**1,302**

Shaping Our Future transformation programme

$M	2017 Actual	2016 Actual	2017 Budget
Capital expenditure	30	2	59
Operating expenditure	61	23	33
Total	**91**	**25**	**92**

Total expenditure is within the approved budget for the financial year. The programme operating expenditure is higher than budget while capital expenditure is lower than budget. The adoption of 'as a Service' approach has resulted in a change to the nature for some expenditures, due to 'Infrastructure as a Service' and 'Software as a Service' being considered as leased (operating expenditure) rather than owned (capital expenditure). In addition, external expertise is used to support the programme delivery.

7. Insurance disclosures

(A) CLAIMS INCURRED

The table below relates to the claims incurred this financial year. Current year claims relate to risks borne in the current financial year. Prior year claims relate to a reassessment of the claims assumptions (eg changes in economic assumptions, risk margin and claims experience) made in all previous financial years, and include the effects of discounting caused by changes in the discount rate and natural unwinding of the discount as the claims move one year closer to settlement.

	2017			2016		
$M	Current year	Prior years	Total	Current year	Prior years	Total
Undiscounted	8,807	7,113	15,920	7,692	(8,188)	(496)
Discount movement	(3,902)	(6,804)	(10,706)	(3,072)	13,819	10,747
Total claims incurred	**4,905**	**309**	**5,214**	**4,620**	**5,631**	**10,251**

(B) ACTUARIAL RESULT

The actuarial view of the underwriting result is summarised as follows:

$M	2017	2016
Net levy revenue	**4,106**	**3,926**
Claims incurred		
Lifetime cost of new claims anticipated over the year	4,210	4,185
Effect of discount unwind	752	881
Effect of claims experience and modelling	787	583
Effect of changes in economic assumptions	(2,237)	4,889
Effect of legislative and policy changes	1,063	(374)
Effect of payments experience	206	(328)
Claims handling costs	433	415
Total claims incurred	**5,214**	**10,251**
Movement in unexpired risk liability	110	103
Other underwriting costs	181	150
(Deficit) from underwriting activities	**(1,399)**	**(6,578)**
Net investment revenue	2,004	3,210
Other revenue	2	1
Net surplus (deficit)	**607**	**(3,367)**

(C) OUTSTANDING CLAIMS

The OCL 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 (IBNR) 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 IBNR claims.

The accrued OCL is the central estimate of the present value of expected future payments on claims occurring on or before the balance date, 30 June 2017, plus a risk margin to ensure 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 are not yet reported are not included in the OCL. ACC's major exposure to gradual process 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 a specified contract period, regardless of when the event occurred, giving rise to the claim. Under 'claims made' policies, an insurer only has liability for reported claims.

(a) Outstanding claims liability (discounted)

The future claim payments are brought to present value as at the valuation date using a risk-free discount rate.

$M	30 June 2017 Total	Motor Vehicle Account	Non-Earners' Account	Earners' Account	Work Account	Treatment Injury Account	30 June 2016 Total
Central estimate of present value of future claims payments	31,465	8,373	6,667	6,533	5,118	4,774	30,471
Present value of the operating costs of meeting these claims	1,939	473	389	413	465	199	1,986
	33,404	**8,846**	**7,056**	**6,946**	**5,583**	**4,973**	**32,457**
Risk margin	4,335	1,222	972	807	648	686	4,206
Outstanding claims liability	**37,739**	**10,068**	**8,028**	**7,753**	**6,231**	**5,659**	**36,663**
As at beginning of year	36,663	9,917	7,767	7,471	6,367	5,141	30,329
Movement during the year	**1,076**	**151**	**261**	**282**	**(136)**	**518**	**6,334**
Current	2,852	528	495	926	666	237	2,570
Non-current	34,887	9,540	7,533	6,827	5,565	5,422	34,093
Total outstanding claims liability	**37,739**	**10,068**	**8,028**	**7,753**	**6,231**	**5,659**	**36,663**

(b) Reconciliation of movement in discounted outstanding claims liability

The following analysis reconciles the year-on-year movement of the actuarially assessed OCL by the key drivers of the movement.

The broad definition of each movement category is:

(i) inflation assumptions – external assumptions made concerning inflationary factors that include labour cost inflation, average wage inflation, consumer price index (CPI) and risk-free discount rates

(ii) discount rates – estimated future cash payments, which are adjusted in line with expectations of future inflation, are discounted using a risk-free rate that is based on the yield curves of New Zealand government bond rates

(iii) claims experience and modelling – changes to actuarial assumptions and/or modelling methods, for example claims 'run-off' patterns and key inflation indicators, to reflect actual experience and/or future events that may have an impact on the number and size of claims

(iv) payments experience – the difference between actual and projected payments.

(v) legislative and policy changes – in 2017 this relates to a pay rise to aged-care and disability workers (pay equity) as well as paying for the cancelled work (regularisation). In 2016, this relates to the reversal of judicial rulings

(vi) discount unwind – as prior claims move one year closer to the date of expected payment, the reduction in the number of years over which discounting takes place is termed as the discount unwind

(vii) claims anticipated over the year – is the expected claim and claims handling costs arising from new accidents in the year to 30 June 2017. The cost is the present value of projected payments post 30 June 2017 plus the expected payments to be made in the year ended 30 June 2017

(viii) claims payments and handling costs – is the actual claims paid and the actual claims handling costs incurred during the year ended 30 June 2017.

$M	30 June 2017 Total	Motor Vehicle Account	Non-Earners' Account	Earners' Account	Work Account	Treatment Injury Account	30 June 2016 Total
Outstanding claims brought forward	**36,663**	**9,917**	**7,767**	**7,471**	**6,367**	**5,141**	**30,329**
Effect of changes in inflation	1,216	340	302	209	137	228	(1,466)
Effect of changes in discount rates	(3,453)	(959)	(855)	(604)	(386)	(649)	6,355
Effect of claims experience and modelling	787	141	234	85	(62)	389	583
Effect of payments experience	206	19	267	(9)	(57)	(14)	(328)
Effect of legislative and policy changes	1,063	369	290	98	75	231	(374)
Effect of discount unwind	752	204	159	147	135	107	881
Claims anticipated over the year	4,643	592	969	1,794	853	435	4,600
Incurred claims recognised in the underwriting result	**5,214**	**706**	**1,366**	**1,720**	**695**	**727**	**10,251**
Claims payments and handling costs	(4,138)	(555)	(1,105)	(1,438)	(831)	(209)	(3,917)
Outstanding claims carried forward	**37,739**	**10,068**	**8,028**	**7,753**	**6,231**	**5,659**	**36,663**

(c) Claims development table

The following table shows the development of undiscounted claim cost estimates for the seven most recent accident years.

Accident year $M	2011	2012	2013	2014	2015	2016	2017	Total
Estimate of ultimate claim costs:								
At end of accident year	7,517	6,877	6,794	7,264	7,192	6,884	7,914	
One year later	6,288	6,118	6,608	6,547	6,682	7,272	–	
Two years later	5,890	5,546	5,762	5,823	7,062	–	–	
Three years later	5,310	4,979	5,007	6,252	–	–	–	
Four years later	5,070	4,458	5,180	–	–	–	–	
Five years later	4,596	4,780	–	–	–	–	–	
Six years later	4,864	–	–	–	–	–	–	
Current estimate of cumulative claim costs	**4,864**	**4,780**	**5,180**	**6,252**	**7,062**	**7,272**	**7,914**	**43,324**
Cumulative payments	(1,550)	(1,540)	(1,618)	(1,739)	(1,800)	(1,667)	(1,030)	(10,944)
Outstanding claims – undiscounted	**3,314**	**3,240**	**3,562**	**4,513**	**5,262**	**5,605**	**6,884**	**32,380**

Discount	(19,586)
Claims handling costs	2,188
Prior to 2011 and other claims	22,702
Short tail outstanding claims	55
Outstanding claims – per statement of financial position	**37,739**

(d) Key assumptions

An independent actuarial estimate by PricewaterhouseCoopers, consulting actuaries, has been made of the future expenditure relating to accidents that occurred prior to balance date, whether or not the claims have been reported to or accepted by ACC. The PricewaterhouseCoopers actuarial report is signed by Mr Paul Rhodes, Fellow of the Institute and Faculty of Actuaries (UK) and Mr Michael Playford, Fellow of the Institute of Actuaries of Australia. Mr Rhodes and Mr Playford are also Fellows of the New Zealand Society of Actuaries.

The actuarial estimate has been made based on actual experience to 30 June 2017. The calculation of the OCL has been made in accordance with the standards of the New Zealand Society of Actuaries' Professional Standard No. 4: General Insurance Business and PBE IFRS4 Insurance Contracts.

In determining the actuarial estimate, the independent actuaries have relied on information supplied by ACC. The independent actuaries have indicated they are satisfied as to the nature, sufficiency and accuracy of the information provided.

The table in Note 7(C), Outstanding claims liability (discounted), shows the actuarial estimate of the present value of the OCL that will be payable in future years. The actual outcome is likely to range about this estimate and, like any such forecast, is subject to uncertainty.

The main long-term assumptions used in the above estimates are:

	2017		2016	
	Year 1	Beyond Year 1	Year 1	Beyond Year 1
	% pa	% pa	% pa	% pa
Discount rate	1.97%	2.36% to 4.75%	2.12%	1.95% to 4.75%
Inflation rates:				
weekly compensation	2.7%	2.7% to 3.0%	2.5%	2.5% to 3.0%
impairment benefits	2.2%	1.7% to 2.0%	0.4%	1.5% to 2.0%
social rehabilitation benefits	1.9%	1.9% to 2.2%	1.7%	1.7% to 2.2%
hospital rehabilitation benefits	1.9%	1.9% to 2.2%	1.7%	1.7% to 2.2%
short-term medical costs	1.9%	1.9% to 2.2%	1.7%	1.7% to 2.2%
other medical costs	1.9%	1.9% to 2.2%	1.7%	1.7% to 2.2%
Superimposed inflation:				
social rehabilitation benefits (care packages)(i)	19.0%	1.2% to 7.5%	5.7%	2.8% to 5.9%
social rehabilitation benefits (serious injury capital expenditure)(ii)	5.1%	1.0%	5.1%	1.0% to 5.1%
hospital rehabilitation benefits(iii)	4.0%	4.0%	5.0%	4.0% to 5.0%
short-term medical costs (general practitioners)	3.0%	3.0%	4.0%	3.0% to 4.0%
short-term medical costs (radiology)	2.0%	2.0%	5.8%	5.0% to 5.8%
short-term medical costs (physiotherapists)	2.0%	2.0%	2.0%	2.0%
other medical costs	2.5%	2.5%	3.3%	2.5% to 3.3%
Weighted average risk margin	13.0%		13.0%	
Weighted average claims handling costs ratio	6.2%		6.5%	

Notes:

(i) Growth in liability due to changes in care packages: movement of care services between non-contracted and agency care, refinements of care packages and increases in care rates are expected to have superimposed inflationary effect.

(ii) Capital expenditure: motor vehicle and housing modifications, along with other capital expenditure provided to those seriously disabled due to an accident, have been increasing significantly over the past years.

(iii) Predominantly elective surgery costs.

(i) Process used to determine assumptions

Discount rate

The risk-free rates are prescribed by the Treasury and based predominantly on the yield curve of the New Zealand government bond rates. The longest term of a current non-inflation-indexed New Zealand government bond is approximately 20 years from now. Discount rates beyond that are smoothed over a minimum of 10 years, with a maximum increment of 0.05% per annum, to eventually attain a long-term, risk-free discount rate of 4.75%. This long-term rate is based on an examination of average New Zealand government bonds over an extended period of time. This discounting methodology is consistent with that applied by the Treasury in valuing the liabilities on all Crown accounts.

The projected cash flows were discounted using a series of forward discount rates at balance date derived from the Treasury's risk free rates. The equivalent single effective discount rate, taking into account ACC's projected future cash flow patterns, is 3.80% (2016: 3.22%).

Inflation rates

Short-term consumer price index (CPI) inflation rates are prescribed by the Treasury. Assumptions for the labour cost index (LCI) and average wage earnings (AWE) are based on their historical relationship to the CPI. Long-term inflation is determined by using an assumption about the gap between inflation and interest rates.

Superimposed inflation

Superimposed inflation is the inflationary component in excess of annual movement in the LCI. Assumptions for superimposed inflation were set with reference to past observed superimposed inflation, and allowance for expectations of the future.

Risk margin

ACC has added a risk margin to the central estimate of the discounted future claims payments to provide for a higher degree of certainty that the liability for outstanding claims, at balance date, will be adequate to cover possible adverse developments.

The overall risk margin was determined allowing for the relative uncertainty of the outstanding claims estimate. Uncertainty was analysed for each benefit type, taking into account potential uncertainties relating to the claims experience, the insurance environment, and the impact of legislative reform.

The assumptions regarding uncertainty were applied to the central estimates in order to arrive at an overall provision that allows for a 75% probability of sufficiency in meeting the actual amount of liability to which it relates.

Claims handling costs

The allowance for claims handling costs is determined by analysing claims-related costs incurred in the accounting year and expressing these expenses as percentages of claims paid in the same year. These are used as the basis for deriving the percentages that are applied to future projected payments to estimate future projected expense payments.

(ii) Sensitivity to changes in key assumptions

The impact of changes in key assumptions on the consolidated net surplus (deficit) are shown in the following table. Each change, which includes the risk margin, has been calculated in isolation to other changes.

$M	Movement	2017 Impact on net surplus (deficit)	2016 Impact on net surplus (deficit)
Discount rate	+1.0%	5,114	5,196
	-1.0%	(6,826)	(6,982)
Inflation rate	+1.0%	(7,031)	(7,118)
	-1.0%	5,342	5,380
Long-term gap between discount rate and inflation rates	+0.75%	534	162
	-0.75%	(910)	(920)
Superimposed inflation (excluding social rehabilitation for serious injury claims)	+1.0%	(790)	(835)
	-1.0%	594	613
Discounted mean term	+1 year	410	191
	-1 year	(419)	(196)
Superimposed inflation for social rehabilitation for serious injury claims after two years	+1.0%	(3,233)	(3,336)
	-1.0%	2,384	2,445
Long-term continuance rates for non-fatal weekly compensation	+1.0%	(936)	(968)
	-1.0%	781	803

The approach to determine the discounted mean term sensitivity has changed this year. The new approach takes into account the average duration of the cash flows and the superimposed inflation for that payment type. The comparative amounts of the impact have been amended to be consistent with this new approach.

(D) RISK MANAGEMENT POLICIES AND PROCEDURES

The financial condition and operations of ACC are affected by a number of key risks including insurance risk, credit risk (refer to Notes 11 and 13), liquidity risk (refer to Note 13), compliance risk and operational risk. ACC's approach to managing risk is set out in the governance and managing risks section in the annual report. ACC's policies and procedures in respect of managing these risks are set out below.

(i) Risks arising from the Scheme's operations and the policies for mitigating those risks

ACC has an objective to manage insurance risk in order to maintain fair and stable levies over time to allow the business to plan with certainty. The key aspects of the process established in the risk management framework to mitigate risk include:

- the maintenance and use of management information systems that provide up-to-date, reliable data relevant to the risks to which the business is exposed
- actuarial and business management reporting models, using information from the management information systems, which are used to monitor claims patterns. Past experience, relevant industry benchmarks, and statistical methods are used as part of the process
- the financial consequences of catastrophic events (eg earthquake, tsunami) which are estimated each year. The cost of purchasing reinsurance and the effect on levy rates of post-funding such events are considered. At this time, ACC does not hold any catastrophe reinsurance cover. Should such an event occur, the impact on levies to post-fund this is not expected to be significant.

(ii) Terms and conditions of accident cover

The terms and conditions of personal injury cover are determined by the AC Act. ACC operates in compliance with its governing legislation.

(iii) Concentration of risk

The ACC Scheme covers the risks related to the provision of rehabilitation and compensation to people in New Zealand who have injuries as a result of accidents.

(iv) Credit rating

ACC is not required to have a credit rating.

(E) UNEARNED LEVY LIABILITY

ACC recognises levy revenue that will be earned up to the end of the levy year for the three levy-funded Accounts. The levy year runs from 1 April to 31 March for the Earners' and Work Accounts, and from 1 July to 30 June for the Motor Vehicle Account. This means that, as of 30 June 2017, ACC has recognised levy revenue for the period 1 July 2017 to 31 March 2018 for both the Earners' and Work Accounts.

For the Motor Vehicle Account, ACC recognises vehicle registration levy revenue for vehicle registrations that expire after 30 June 2017, and petrol levy revenue that can be expected to be received after 30 June 2017 based on the number and expiry date of vehicle registrations purchased up to 30 June 2017 but which expire after 30 June 2017.

$M	2017 Total	Motor Vehicle Account	Earners' Account	Work Account	2016 Total
Opening balance at 1 July	1,873	215	1,101	557	1,723
Deferral of levies recognised in the year	1,870	143	1,178	549	1,873
Earnings of levies recognised in previous years	(1,873)	(215)	(1,101)	(557)	(1,723)
Closing balance at 30 June	**1,870**	**143**	**1,178**	**549**	**1,873**
Current	1,870	143	1,178	549	1,872
Non-current	–	–	–	–	1
Total unearned levy liability	**1,870**	**143**	**1,178**	**549**	**1,873**

(F) UNEXPIRED RISK LIABILITY

At each balance date, ACC assesses whether the levy revenue recognised in the current period is sufficient to cover all expected future cash flows relating to future claims 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 levies are insufficient to cover the expected future claims plus a risk margin, then it is deemed to be deficient. 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.

The expected future claims is determined as the present value of the expected future cash flows relating to future claims. 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.

$M	2017 Total	Motor Vehicle Account	Earners' Account	Work Account	2016 Total
Opening balance at 1 July	570	20	435	115	467
Recognition of additional unexpired risk liability in the period	680	83	454	143	570
Release of unexpired risk liability recorded in previous periods	(570)	(20)	(435)	(115)	(467)
Closing balance at 30 June	**680**	**83**	**454**	**143**	**570**
Calculation of deficiency					
Unearned levy liability as reported in the statement of financial position	1,870	143	1,178	549	1,873
Adjustment(i)	(107)	–	(107)	–	(118)
Adjusted unearned levy liability	**1,763**	**143**	**1,071**	**549**	**1,755**
Central estimate of present value of expected future cash flows arising from future claims	2,195	199	1,370	626	2,089
Risk margin(ii)	248	27	155	66	236
Present value of expected future cash flows for future claims	**2,443**	**226**	**1,525**	**692**	**2,325**
Total unexpired risk liability	**680**	**83**	**454**	**143**	**570**
Current	680	83	454	143	570
Non-current	–	–	–	–	–
Total unexpired risk liability	**680**	**83**	**454**	**143**	**570**

Notes:

(i) This excludes the earners' portion of treatment injury in the Earners' Account as the liabilities that are assessed exclude those arising from medical misadventure.

(ii) The risk margins determined for the unexpired risk liability relates to future claims payments for injuries that have yet to happen. The risk margins are consistent with those used for the outstanding claims liability valuation.

A liability adequacy test was not performed for the Non-Earners' Account as there was no unearned levy liability as at 30 June 2017 for this Account.

8. Investment assets

ACC holds investment assets to generate investment income that matches the expected future cash flows arising from insurance liabilities. All assets held in the investment portfolios are designated as 'assets backing insurance liabilities'.

All investment assets, other than investment intangible assets, are designated as financial assets at fair value through surplus or deficit. Investment intangible assets are carried at cost less accumulated amortisation.

Fair value for investment assets is determined as follows:

- listed shares and unit trusts are valued at the quoted prices
- non-listed equity investments (private equity and venture capital) are initially recognised at cost and adjusted for performance of the underlying business since purchase. This is consistent with the International Private Equity and Venture Capital Valuation Guidelines
- unlisted unit trust investments are valued based on the exit price (the value ACC would receive if the unit trusts were sold)

- bonds and other fixed interest investments are valued using quoted yield curves
- for investments without active markets or quotable inputs, fair value is determined using the most appropriate valuation technique. These techniques include reference to substantially similar investments with quotable prices, discounted cash flow analysis and option pricing models that incorporate as much supportable market data as possible and keeping judgemental inputs to a minimum
- investment properties are valued annually by registered property valuers.

$M	2017	2016
New Zealand deposits at call	558	424
Overseas deposits at call	253	603
New Zealand government securities	12,344	10,307
Other New Zealand debt securities	4,851	5,716
Overseas debt securities	6,956	6,415
New Zealand equities	3,712	3,603
Australian equities	2,362	2,116
Overseas equities	5,415	5,129
Other investments	34	43
	36,485	**34,356**
Investment properties	305	269
Investment intangible assets	46	48
Total investments	**36,836**	**34,673**
Current	1,769	2,258
Non-current	35,067	32,415
Total investments	**36,836**	**34,673**

(a) Investment properties

Investment properties are properties that ACC holds for rental revenue and capital gains. ACC is not the tenant of any properties it owns for investment purposes.

$M	2017	2016
Opening balance as at 1 July	269	247
Additions	4	–
Disposals	–	(7)
Net gains from revaluations	32	29
Closing balance as at 30 June	305	269
Current	–	–
Non-current	305	269
Total investment properties	**305**	**269**

The investment property market valuations have been determined by members of the New Zealand Institute of Valuers, who are independent valuers of Colliers International New Zealand Limited. The properties are valued under a combination of the capitalisation approach, the discounted cash flow method and direct comparison with prices for properties of a similar nature. Investment properties are revalued annually.

(b) Investment intangible asset

ACC recognises an intangible asset arising from a concession rights arrangement where ACC has the right to charge for use of a car park facility. The intangible asset is carried at cost less accumulated amortisation and accumulated impairment.

The concession rights were acquired in 2013 and will expire in 2037. Amortisation is calculated on a straight-line basis over the period which ACC is able to charge the public for the use of the facilities.

$M	2017	2016
Year ended 30 June		
Opening net carrying amount	48	51
Amortisation charge	(2)	(3)
Closing net carrying amount	**46**	**48**
At 30 June		
At cost	56	56
Accumulated amortisation	(10)	(8)
Net carrying amount at 30 June	**46**	**48**

(c) Repurchase agreements

Securities dealt under repurchase agreements are included within investments classified as financial assets at fair value through surplus or deficit. These securities are subject to fully collateralised security lending transactions. Cash collateral received of $474 million (2016: $594 million) from these transactions is invested, and the liability to repurchase the investments is accrued in unsettled investment transactions (refer to Note 15).

	2017		2016	
$M	Value of transferred assets	Value of associated liabilities	Value of transferred assets	Value of associated liabilities
Nature of transaction				
New Zealand equities – share lending	3	3	–	–
New Zealand government securities – repurchase agreements	474	474	594	595
	477	**477**	**594**	**595**

9. Derivative financial instruments

Derivative financial instruments form part of the actively managed investment portfolio. ACC uses various derivative financial instruments such as foreign currency contracts, interest rate swaps and futures to manage its exposure to movements in exchange rates, interest rates and equity market prices. Refer to Note 13 for further explanation of ACC's investment risks and how these are addressed.

The use of derivative financial instruments is covered by investment policies which control the risk associated with such instruments.

All derivative financial instruments are classified as 'held for trading' and valued at fair value through surplus or deficit. Fair value for derivative financial instruments is determined as follows:

- forward foreign currency contracts are valued with reference to quoted forward exchange rates and yield curves derived from quoted interest rates with similar maturity profiles
- interest rate swaps are measured at the present value of future cash flows discounted based on the applicable yield curves derived from quoted interest rates
- cross-currency interest rate swaps are valued using quoted market yields and exchange rates at balance date
- futures contracts are valued using quoted prices
- credit default swaps are valued using discounted cash flow models that incorporate the default rate and credit spread of the underlying entity or index.

Derivatives are reported in the statement of financial position as assets when their fair value is positive and as liabilities when their fair value is negative.

$M	2017 Fair value assets	2017 Fair value liabilities	2016 Fair value assets	2016 Fair value liabilities
Interest rate swaps	272	50	651	18
Credit default swaps	4	–	1	2
Cross-currency interest rate swaps	39	10	35	4
Forward foreign currency contracts	196	14	162	20
Futures contracts	8	4	28	8
Total derivative instruments	**519**	**78**	**877**	**52**
Current	205	18	197	30
Non-current	314	60	680	22
Total derivative instruments	**519**	**78**	**877**	**52**

At balance date, the principal or contract amounts outstanding were:

$M	2017	2016
Interest rate swaps	5,927	7,126
Credit default swaps	206	173
Cross-currency interest rate swaps	1,070	1,030
Forward foreign currency contracts	10,857	9,221
Futures contracts – long	739	1,030
Futures contracts – short	(637)	(202)
Options	–	276

10. Cash and cash equivalents

Cash and cash equivalents exclude items held for investment purposes within the reserves portfolio and not used for short-term cash needs. Cash and cash equivalents are considered to be cash on hand, current accounts with banks, deposits held on call with banks, and other short-term highly liquid investments with original maturities of three months or less, net of outstanding bank overdrafts. The carrying values of these items are equivalent to their fair values.

$M	2017	2016
Cash (overdraft) at bank	(2)	(2)
Investment operational cash		
Overnight call deposits	15	27
Deposits at call	80	50
New Zealand short-term fixed interest securities	–	207
Total cash and cash equivalents	**93**	**282**

The effective interest rate at 30 June 2017 on overnight call deposits was 1.8% (2016: 2.4%) and on deposits at call was 3.2% (2016: 2.4%).

11. Receivables

Receivables are recognised at fair value, which is approximated by taking the initially recognised amount and reducing it for impairment as appropriate.

$M	2017	2016
Levy debtors	87	119
Motor vehicle levy receivable(i)	28	26
Earners' levy receivable	2	27
Total levy receivables	**117**	**172**
Client debtors(ii)	3	5
Unsettled investment transactions	54	91
Dividends receivable	26	24
Prepayments	14	23
Sundry debtors	4	6
Total non-levy receivables	**101**	**149**
Total receivables	**218**	**321**
Current	213	321
Non-current	5	–
Total receivables	**218**	**321**

NOTES:

(i) Motor vehicle levy receivable consists of:

- the amount collected by the New Zealand Transport Agency from motor vehicle licensing that is due to ACC
- the amount collected by the New Zealand Customs Service for the levy portion of the excise duty on petrol that is due to ACC in the first week of the following month.

(ii) Client debt results when an overpayment on a claim has been recognised and is unable to be immediately repaid.

At 30 June, the ageing analysis of the levy receivables is as follows:

$M	2017	2016
Current	82	125
Past due 1-30 days	16	19
Past due 31-60 days	7	6
Past due > 60 days	12	22
Total	**117**	**172**

Payment arrangements are in place for those receivables that are past due but not considered impaired.

Levy receivables above are presented net of provision for credit losses and impairment. Movement in the provision for credit losses and impairment during the reporting period was as follows:

$M	2017	2016
Levy receivables	215	258
Less provision for credit losses and impairment	98	86
	117	**172**
Provision for credit losses and impairment		
Opening balance	86	76
Additional provision made during the year	12	10
Closing balance	**98**	**86**

The changes in provisions for credit losses and impairment for levy debtors have been charged against levy revenue.

All non-levy receivables that are financial assets are considered to be current and not impaired. The total of current non-levy receivables is $85.1 million (2016: $126.3 million).

All receivables are from exchange transactions.

12. Accrued levy revenue

Levies required to fund the Work Account are invoiced directly to employers or self-employed persons based on their respective liable earnings at the applicable levy rate. Earner levies of shareholder-employees and the self-employed are also invoiced directly. Earner levies of employee earners are collected within the pay-as-you-earn (PAYE) system and are paid to ACC by Inland Revenue.

Accrued levy revenue for the Work and Earners' Accounts are estimated by using their respective expected liable earnings and average levy rate.

$M	2017	2016
Motor Vehicle Account	62	75
Earners' Account	1,283	1,199
Work Account	763	753
Total accrued levy revenue	**2,108**	**2,027**
Current	2,108	2,027
Non-current	–	–
Total accrued levy revenue	**2,108**	**2,027**

ACC recognises and accrues levy revenue up to the end of the levy year for the three levy-funded Accounts. The levy year runs from 1 April to 31 March for the Earners' and Work Accounts and from 1 July to 30 June for the Motor Vehicle Account.

The accrued levy revenue at 30 June 2017 therefore includes revenue for the period 1 July 2017 to 31 March 2018 for the Earners' and Work Accounts as well as uninvoiced revenue for levy periods up to 30 June 2017.

13. Financial risk management

(A) FINANCIAL INSTRUMENT CLASSIFICATION

Financial instruments held by ACC are categorised as follows:

$M	2017	2016
Financial assets designated as at fair value through surplus or deficit		
Cash and cash equivalents (Note 10)	93	282
Receivables (Note 11)	202	298
Investments (Note 8)	36,485	34,356
Financial assets at fair value through surplus or deficit held for trading		
Derivative financial assets (Note 9)	519	877
Financial liabilities at fair value through surplus or deficit held for trading		
Derivative financial liabilities (Note 9)	78	52
Financial liabilities measured at amortised cost		
Payables (Note 13(E))	687	913

(B) FINANCIAL RISK MANAGEMENT OBJECTIVES

Each of ACC's five Accounts allocates its investment funds between an investment in ACC's short-term operational cash account and its own longer-term reserves portfolio, depending on that Account's future cash flow needs. The operational cash portfolio is used to meet operational needs such as paying claims and expenses. When the Accounts allocate money into the various investment markets (each designated 'asset classes'), the money in each asset class is pooled from all Accounts and managed collectively to ensure operational efficiency and fairness between Accounts. The percent an 'asset class' is owned by each Account is monitored and updated when each Account contributes or withdraws money from the investment portfolios.

The main financial risks that ACC is primarily exposed to are market, credit and liquidity risks.

ACC consciously chooses to incur many of these risk exposures through the investment portfolios. These risks either provide a natural offset to risks inherent in the outstanding claims liability or because ACC expects to enhance returns through prudent exposure to market risks. When ACC does not wish to incur the above risk in the Reserves portfolio it will seek to reduce exposure to these risks using a variety of methods. These methods include selling investments currently exposed to these risks, buying investments with offsetting risk exposures, and the use of derivative financial instruments. Market risk (which comprises interest rate, foreign exchange and other risks) is managed for all portfolios through the investment guidelines which ensure that portfolio managers maintain their portfolios within defined market exposure limits. These limits include limits on percentage weight of any particular company in the portfolio relative to its benchmark weight; limits on aggregate investment in companies not represented in the benchmark; limits on the maximum percentage shareholding in any individual company; ratings-related credit limits on both a per-issuer and aggregate basis; duration limits relative to the duration of the benchmark; and maximum exposure limits to single entities. Compliance with the investment guidelines is reviewed by ACC's Investment Risk and Compliance group on a daily basis, and by the internal auditors on a half-yearly basis.

Market risk exposures are measured in a number of different ways, specific to the types of risk being measured. In some cases, more than one measure of risk is used, recognising the fact that all forms of investment risk measurement are imperfect.

(C) MARKET RISK

(i) Interest rate risk

The interest rate exposures of the investment portfolios and the operational cash portfolio are managed through asset allocation between asset classes; through the selection of physical securities within the asset class sub-portfolios; through the use of interest rate swaps within portfolios; and through the use of interest rate swaps as an asset allocation overlay. Other derivative financial instruments may also be used to manage the interest rate exposures of the investment portfolios and the operational cash portfolio.

Interest rate risk affects ACC's investments and the outstanding claims liability of each Account. For each Account, ACC would expect investment gains and an increase in the outstanding claims liability to result from declines in interest rates, investment losses, and a decrease in outstanding claims liability to result from rises. However, the corresponding movements in ACC's outstanding claims liabilities (due only to interest rate movements) would be far more significant than the movement in the value of investments. Hence, investment gains or losses arising from changes in interest rates will tend to only partially offset a corresponding revaluation of ACC's claims liabilities.

Under interest rate swap contracts, ACC agrees to exchange the difference between fixed and floating rate interest payments calculated on agreed notional principal amounts. Such contracts enable ACC to manage its interest rate risk and create synthetic fixed-rate bonds from its investment in variable rate debt.

SENSITIVITY ANALYSIS

As at 30 June 2017, if the interest rate at the beginning of the financial year had been 1% higher/lower and held constant throughout the year with all other variables remaining constant, the consolidated net surplus (deficit) would have moved as per the table below. Any change in the net surplus (deficit) for the period would result in a corresponding movement in equity.

Fair value interest risk	Change in interest rate %	2017 Impact on net surplus (deficit) $M	2016 Impact on net surplus (deficit) $M
Long-term New Zealand dollar interest rates	+1.0	(2,353)	(2,075)
Long-term New Zealand dollar interest rates	-1.0	2,712	2,285

The above only shows the impact of changes in interest rates on ACC's investment portfolios. Changes in interest rate also have an impact on the outstanding claims liability. Refer to Note 7(C)(d)(ii) for this sensitivity analysis.

(ii) Foreign exchange risk

Foreign exchange risk is the risk that the value of ACC's investment portfolio could be affected by a change in foreign exchange rates. ACC is exposed to foreign exchange risk principally due to its holdings of foreign currency denominated investments. ACC partially offsets these exposures by entering into foreign currency contracts for forward sales of foreign currencies against the New Zealand dollar and longer-term, cross-currency interest rate swaps.

Benchmark ranges of foreign exchange exposure are established by the Investment Committee for each Account. Accounts can move within these benchmark ranges but action must be taken if exposure exceeds these ranges. These benchmark exposures are designed to align with ACC's high-level objective of finding an appropriate balance between minimising risk while maximising expected return.

All foreign exchange contracts held by ACC have remaining terms of 12 months or less. While the cross-currency interest rate swaps have maturities out to seven years, the floating interest rates on these swaps are reset every three months.

SENSITIVITY ANALYSIS

The following sensitivity analysis shows the impact on the consolidated net surplus (deficit) of a reasonably possible change of 10% in the New Zealand dollar against the respective major currencies and held constant throughout the year, with all other variables remaining constant. Any change in the net surplus (deficit) for the period would result in a corresponding movement in equity.

2017 $M	AUD	USD	EUR	GBP	KRW	JPY	HKD	OTHER
Impact on net surplus (deficit)								
10% increase	4	(146)	(37)	(19)	(13)	(21)	(19)	(42)
10% decrease	(4)	178	46	24	16	26	24	50

2016 $M	AUD	USD	EUR	GBP	KRW	JPY	HKD	OTHER
Impact on net surplus (deficit)								
10% increase	(12)	(198)	(37)	(29)	(6)	(17)	(13)	(40)
10% decrease	14	241	46	36	7	20	16	49

(iii) Other price risk

ACC invests in equities and unit trusts, and considers the risk of these from a long-term perspective. Changes in the market price of equity and unit trust investments:

- will often reflect a true change in the fair value
- affect the value that ACC could realise for these investments if it chose to sell them in the short term
- will be reflected in the valuation carried in ACC's statement of financial position and the investment revenue reported in ACC's statement of comprehensive revenue and expense.

SENSITIVITY ANALYSIS

The table below details the sensitivity to a change of 10% in the market value of listed and unlisted equity investments to the consolidated net surplus (deficit) at reporting date, with other variables held constant. Any change in the net surplus (deficit) for the period would result in a corresponding movement in equity.

$M	Movement %	2017 Impact on net surplus (deficit)	2016 Impact on net surplus (deficit)
Global equities	+10	541	513
	-10	(541)	(513)
New Zealand equities	+10	330	348
	-10	(330)	(348)
Private equities	+10	45	15
	-10	(45)	(15)
Australian equities	+10	232	210
	-10	(232)	(210)

(D) CREDIT RISK

Credit risk refers to the risk that a counterparty will default on its contractual obligations, resulting in financial loss to ACC. Credit risk only applies to debt instruments, derivatives in gain, receivables, and a selection of other assets.

For internally managed portfolios, the Investment Committee has approved an authorised set of credit criteria (and in the case of New Zealand banks, an authorised list of bank counterparties) which include credit limits and portfolio limits. These credit limits are designed to limit ACC exposure to counterparties with a high risk of defaulting while at the same time allowing ACC to take on appropriate levels of risk while maximising investment returns. The maximum combined debt and equity exposure that ACC may have to any single counterparty with internally managed portfolios, other than the New Zealand Government and certain authorised banks and large local authorities, is 3% of the value of ACC's reserves portfolios. Investment in unrated debt is allowed if approved by ACC's Credit Committee. ACC's exposure and the credit ratings of its counterparties are continuously monitored.

Transactions involving derivative financial instruments are undertaken with authorised banks and executed in accordance with International Swaps and Derivatives Association documentation.

The credit ratings used in the table below relate to each individual security's credit rating. Where a security does not have an individual credit rating, the issuer's credit rating is used. In determining the credit ratings, the primary source used is Standard & Poor's.

2017

$M	AAA	AA	A	BBB	Below BBB	Not rated	Total
Cash and cash equivalents	–	38	25	30	–	–	93
Deposits at call	–	427	234	124	–	26	811
Other New Zealand debt securities	960	2,193	493	875	–	330	4,851
Overseas debt securities	5,272	133	524	852	163	12	6,956
New Zealand government securities	90	12,254	–	–	–	–	12,344
Interest rate swaps	–	304	1	1	–	5	311
Forward foreign currency contracts	–	112	67	16	1	–	196
Receivables	–	–	75	–	–	127	202
Accrued levy revenue	–	–	–	–	–	2,108	2,108
	6,322	**15,461**	**1,419**	**1,898**	**164**	**2,608**	**27,872**

ACC has an additional exposure of $205.5 million with regard to the credit default swaps. This is the potential liability faced if the underlying entity defaults on its contractual obligations, which ACC will then be obliged to pay (2016: $173.1 million).

2016

$M	AAA	AA	A	BBB	Below BBB	Not rated	Total
Cash and cash equivalents	–	120	95	67	–	–	282
Deposits at call	–	311	716	–	–	–	1,027
Other New Zealand debt securities	1,491	2,800	701	545	–	179	5,716
Overseas debt securities	4,654	317	550	703	183	8	6,415
New Zealand government securities	–	10,307	–	–	–	–	10,307
Interest rate swaps	–	637	–	47	–	2	686
Forward foreign currency contracts	–	115	43	1	–	3	162
Receivables	–	–	–	–	–	298	298
Accrued levy revenue	–	–	–	–	–	2,027	2,027
	6,145	**14,607**	**2,105**	**1,363**	**183**	**2,517**	**26,920**

(E) LIQUIDITY RISK

Liquidity risk is the risk that ACC may not be able to raise cash when required and on acceptable terms. The group maintains sufficient liquid assets to cover obligations and unforeseen expenses.

The table below summarises the maturity profile of the financial liabilities of the group. The amounts disclosed in the table are the contractual undiscounted cash flows for payables and estimated cash flows for the uncalled private equity commitments.

At 30 June 2017 $M	Less than 1 year	Between 1-2 years	Between 2-5 years	Greater than 5 years
Payables	687	–	–	–
Uncalled private equity commitments	27	27	41	14

At 30 June 2016 $M	Less than 1 year	Between 1-2 years	Between 2-5 years	Greater than 5 years
Payables	913	–	–	–
Uncalled private equity commitments	6	6	9	3

The table below summarises the cash flows for all derivative instruments held by ACC. The amounts disclosed in the table are the contractual undiscounted cash inflows (outflows). The derivatives have been classified based on their settlement terms. The gross settled derivatives are the forward foreign exchange and cross-currency swaps. All other derivatives are classified as net settled derivatives.

At 30 June 2017 $M	Less than 1 year	Between 1-2 years	Between 2-5 years	Greater than 5 years
Net settled derivatives – inflows (outflows)	100	96	286	191
Gross-settled derivatives – cash inflows	11,067	21	55	43
Gross-settled derivatives – cash outflows	(10,878)	(13)	(34)	(28)

At 30 June 2016 $M	Less than 1 year	Between 1-2 years	Between 2-5 years	Greater than 5 years
Net settled derivatives – inflows (outflows)	127	93	260	231
Gross-settled derivatives – cash inflows	9,391	19	53	53
Gross-settled derivatives – cash outflows	(9,237)	(7)	(20)	(27)

(F) FAIR VALUE HIERARCHY

The table below analyses financial instruments carried at fair value at the reporting date by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position.

The three levels of fair value measurement have been defined as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices)
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

2017 $M	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial instruments				
Interest rate swaps	–	272	–	272
Credit default swaps	–	4	–	4
Cross-currency swaps	–	39	–	39
Forward foreign currency contracts	–	196	–	196
Futures	8	–	–	8
	8	**511**	–	**519**
Financial assets designated at fair value through surplus or deficit				
New Zealand equities	3,271	–	441	3,712
New Zealand government securities	–	12,344	–	12,344
New Zealand debt securities	–	4,520	331	4,851
Australian equities	2,304	19	39	2,362
Overseas equities	5,415	–	–	5,415
Overseas debt securities	–	6,956	–	6,956
Other investments	–	–	34	34
	10,990	**23,839**	**845**	**35,674**
	10,998	**24,350**	**845**	**36,193**
Financial liabilities				
Derivative financial instruments				
Interest rate swaps	–	(50)	–	(50)
Cross-currency swaps	–	(10)	–	(10)
Forward foreign currency contracts	–	(14)	–	(14)
Futures	(4)	–	–	(4)
	(4)	**(74)**	–	**(78)**

2016 $M	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial instruments				
Interest rate swaps	–	651	–	651
Credit default swaps	–	1	–	1
Cross currency swaps	–	35	–	35
Forward foreign currency contracts	–	162	–	162
Futures	28	–	–	28
	28	**849**	–	**877**
Financial assets designated at fair value through surplus or deficit				
New Zealand equities	3,374	–	229	3,603
New Zealand government securities	–	10,307	–	10,307
New Zealand debt securities	–	5,744	179	5,923
Australian equities	2,083	18	15	2,116
Overseas equities	5,127	–	2	5,129
Overseas debt securities	–	6,415	–	6,415
Other investments	–	–	43	43
	10,584	**22,484**	**468**	**33,536**
	10,612	**23,333**	**468**	**34,413**
Financial liabilities				
Derivative financial instruments				
Interest rate swaps	–	(18)	–	(18)
Credit default swaps	–	(2)	–	(2)
Cross-currency swaps	–	(4)	–	(4)
Forward foreign currency contracts	–	(20)	–	(20)
Futures	(8)	–	–	(8)
	(8)	**(44)**	–	**(52)**

RECONCILIATION OF LEVEL 3 FAIR VALUE MOVEMENTS

$M	2017	2016
Opening balance	468	388
Total gains (losses) recognised in surplus or (deficit)	(5)	53
Purchases	433	77
Sales	(44)	(19)
Settlements	(8)	(30)
Transfers into Level 3	1	7
Transfers out of Level 3	–	(8)
Closing balance	**845**	**468**
Total gains stated on Level 3 instruments still held at balance date	**8**	**55**

TRANSFERS BETWEEN LEVELS

Investment securities were transferred out of Level 3 when it was determined that the level was not appropriate for the securities.

There were no significant transfers between Level 1 and Level 2 during the year.

LEVEL 3 SENSITIVITY ANALYSIS

The following sensitivity analysis shows the impact on the consolidated net surplus (deficit) of reasonably possible changes in one or more of the significant unobservable inputs into the fair values of investments in Level 3, holding other inputs constant. Any change in the net surplus (deficit) for the period would result in a corresponding movement in equity.

	2017 Impact on net surplus (deficit)		2016 Impact on net surplus (deficit)	
$M	Increase	Decrease	Increase	Decrease
Private equity holdings				
Changes in the calculated share price of private equity investments (10% movement)	45	(45)	15	(15)
Convertible notes				
Change in discount rate (50 basis points movement)	(11)	11	(7)	7
Other investments				
Change in discount rate (50 basis points movement)	(11)	12	(9)	10

14. Property, plant and equipment, and intangible assets

MEASUREMENT

Property, plant and equipment are initially recorded at cost including transaction costs. Subsequent to initial recognition, all items classed as property, plant and equipment are stated at cost less accumulated depreciation/amortisation and any impairment in value.

Internally generated assets are carried at cost less accumulated amortisation. Research costs incurred in the investigation phase of internally generated software are expensed when incurred. Development costs are accumulated as work in progress until the project is completed, at which stage direct project costs are capitalised as an intangible asset.

Impairment occurs whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Impairments are recognised for the amount by which the asset's carrying amount exceeds its recoverable service amount. The recoverable service amount is the higher of an asset's fair value less costs to sell and value in use. Value in use is determined using either a depreciated replacement cost approach, a restoration cost approach, or a service units approach depending on the nature of the impairment.

DEPRECIATION AND AMORTISATION

Depreciation is calculated on a straight-line basis so as to allocate the cost or valuation of assets, less any estimated residual value, over their estimated useful lives.

The estimated useful lives are as follows:

Leasehold improvements	Lower of remaining life of lease, or 10 years
Furniture, fittings and equipment	4 years
Mainframe computer and network equipment	5 years
Personal computer equipment	3 years
Computer software	5-7 years
Other assets	5-10 years

$M	Leasehold improve-ments	Computer equip-ment	Internally generated software	Other fixed assets	Total
At 1 July 2015					
At cost and valuation	36	81	430	43	590
Accumulated depreciation/amortisation	(25)	(68)	(322)	(37)	(452)
Accumulated impairment	–	–	(4)	–	(4)
Net carrying amount at 1 July 2015	**11**	**13**	**104**	**6**	**134**
Year ended 30 June 2016					
Opening net carrying amount	11	13	104	6	134
Additions	2	5	11	5	23
Depreciation/amortisation charge	(3)	(7)	(33)	(3)	(46)
Impairment losses and other (including disposals)	–	–	(1)	1	–
Closing net carrying amount	**10**	**11**	**81**	**9**	**111**
At 30 June 2016					
At cost and valuation	38	73	436	43	590
Accumulated depreciation/amortisation	(28)	(62)	(355)	(34)	(479)
Net carrying amount at 30 June 2016	**10**	**11**	**81**	**9**	**111**
Year ended 30 June 2017					
Opening net carrying amount	10	11	81	9	111
Additions	3	5	38	2	48
Depreciation/amortisation charge	(3)	(5)	(30)	(3)	(41)
Impairment losses and other (including disposals)	–	(1)	(1)	–	(2)
Closing net carrying amount	**10**	**10**	**88**	**8**	**116**
At 30 June 2017					
At cost and valuation	41	77	473	43	634
Accumulated depreciation/amortisation	(31)	(67)	(384)	(35)	(517)
Accumulated impairment	–	–	(1)	–	(1)
Net carrying amount at 30 June 2017	**10**	**10**	**88**	**8**	**116**

Impairment and write-offs

The carrying amounts of all intangible assets are reviewed on an ongoing basis. Any impairment in value is recognised immediately. Impairment losses and write-offs of $1.7 million were recognised for the year ended 30 June 2017 (2016: $1.0 million).

15. Payables and accrued liabilities

Payables and accrued liabilities are carried at amortised cost and due to their short-term nature are not discounted.

$M	2017	2016
Payables under exchange transactions		
Unsettled investment transactions	631	838
Claims expenditure	11	13
WorkSafe New Zealand	3	3
Sundry creditors	17	22
Other accrued expenditure	59	67
Total payables under exchange transactions	**721**	**943**
Payables under non-exchange transactions		
Goods and services tax	1	–
PAYE and earnings-related deductions	12	12
Total payables under non-exchange transactions	**13**	**12**
Total payables and accrued liabilities	**734**	**955**
Current	734	955
Non-current	–	–
Total payables and accrued liabilities	**734**	**955**

16. Provisions

Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate of the amount of the obligation can be made. Provisions are measured at the best estimate of expected future cash flows and discounted to present value where the effect is material.

$M	2017	2016
Employee benefits	45	42
Leasehold restoration	1	1
Restructuring	1	–
Total provisions	**47**	**43**
Current	35	32
Non-current	12	11
Total provisions	**47**	**43**

MOVEMENTS IN PROVISIONS

Movement for each material class of provision is set out below.

(a) Employee benefits

Employee benefits that are expected to be settled within 12 months of balance date are measured at nominal values based on accrued entitlements at current rates of pay. These include salaries and wages accrued to balance date, annual leave earned but not yet taken at balance date, and long-service leave entitlements expected to be settled within 12 months.

Entitlements that are payable beyond 12 months, such as long-service leave and retirement benefits, are recognised at the best estimate of the expected future cash outflows, discounted using the discount rate applied in determining the actuarial estimate of the outstanding claims liability.

ACC operates a defined contribution plan. Contributions to this are expensed when incurred.

$M	2017	2016
Opening balance	42	40
Paid out during the year	(37)	(37)
Additional provision made during the year	42	40
Reversal of unused provision	(2)	(1)
Closing balance	**45**	**42**

(b) Leasehold restoration

Under certain lease agreements at the end of the lease term ACC is required to restore leasehold properties to the condition as at the commencement of the lease. A provision of $1 million (2016: $1 million) for the costs of doing this has been made accordingly.

(c) Restructuring

A provision of $1 million for costs was made arising from the restructuring of business groups to deliver better customer experiences and outcomes.

17. Commitments

Capital commitments

$M	2017	2016
Investment-related	271	102
Total capital commitments	**271**	**102**

ACC has committed to provide a $123.1 million term debt facility to the Wellington Gateway Partnership SPV. As at 30 June 2017, ACC had an undrawn commitment to the SPV of $41.9 million (2016: $73.7 million).

ACC has also committed a $134.6 million debt facility to NX2 LP. As at 30 June 2017, there was an undrawn commitment to NX2 LP of $120.5 million.

The private equity portfolio includes investments in several venture capital/private equity funds. In these investments, funds seek commitments from investors and only 'call' for the committed funds as they are required. ACC has committed to invest up to a total of $262.9 million (2016: $128.9 million) in these funds. As at 30 June 2017, ACC had undrawn commitments to these funds totalling $108.2 million (2016: $24.7 million).

In 2016 there was a $4.0 million commitment to a lessee to reimburse them for costs incurred in extending a building.

Operating leases

ACC leases premises for its branch network and its corporate offices under non-cancellable operating lease agreements. These lease agreements have varying terms and renewal options. Operating lease incentives are recognised as a liability when received and subsequently reduced by an offset to rental expenses and a corresponding reduction to the liability.

The future aggregate minimum lease payments to be paid under non-cancellable operating leases are as follows:

$M	2017	2016
Non-cancellable operating leases		
Within one year	20	19
After one year but not more than five years	59	57
More than five years	41	40
Total non-cancellable operating leases	**120**	**116**

18. Contingent liabilities

Litigation involving ACC arises almost exclusively from challenges to operational decisions made by ACC through the statutory review and appeal process. No accrual has been made for contingent liabilities which could arise, as these disputes are issue-based and ACC's active management of litigation means that it will be either settling or defending, depending on the merits of the issue in dispute. ACC's Board believes the resolution of outstanding appeals will not have any material effect on the financial statements of ACC.

As at 30 June 2017, there were no contingent liabilities (2016: $0.45 million).

19. Related parties

(A) INVESTMENT IN SUBSIDIARIES

ACC owns 100% (2016: 100%) of Shamrock Superannuation Limited which acts as the corporate trustee for the ACC Superannuation Scheme. Shamrock Superannuation Limited is a non-trading New Zealand entity that does not have a material impact on the financial position of ACC. The investment ACC holds in Shamrock Superannuation Limited is valued at $100 (2016: $100).

(B) RELATED PARTY TRANSACTIONS

Transactions with other government agencies (for example, Government departments and Crown entities) are not disclosed as related party transactions when they are consistent with the normal operating arrangements between government agencies undertaken on the normal terms and conditions for such transactions. Related party disclosures have not been made for transactions with related parties that are within a normal supplier or client/recipient relationship, on terms and conditions no more or less favourable than those that it is reasonable to expect ACC would have adopted in dealing with the party at arm's length in the same circumstances.

(C) KEY MANAGEMENT PERSONNEL

The compensation for key management personnel is set out below:

	2017	2016
Board members		
Remuneration ($000)	437	453
Full-time equivalent members	7.7	8.0
Executive team		
Remuneration ($000)	4,162	3,698
Defined contribution plans ($000)	285	248
Full-time equivalent members	9.2	8.0
Total key management personnel remuneration ($000)	**4,884**	**4,399**
Total full-time equivalent personnel	**16.9**	**16.0**

Key management personnel did not receive any remuneration or compensation other than in their capacity as key management personnel (2016: $nil).

ACC did not provide any compensation at non-arm's length terms to close family members of key management personnel during the year (2016: $nil). ACC did not provide any loans to key management personnel or their close family members.

(D) REMUNERATION OF EMPLOYEES

The number of employees whose remuneration was within specified bands is as follows:

$000	2017	2016
$100 – $110	287	300
$110 – $120	149	143
$120 – $130	89	91
$130 – $140	73	65
$140 – $150	50	50
$150 – $160	37	40
$160 – $170	28	32
$170 – $180	22	15
$180 – $190	15	18
$190 – $200	16	15
$200 – $210	11	14
$210 – $220	11	15
$220 – $230	8	8
$230 – $240	4	7
$240 – $250	5	4
$250 – $260	3	3
$260 – $270	4	–
$270 – $280	4	2
$280 – $290	6	1
$290 – $300	1	8
$300 – $310	3	3
$310 – $320	6	2
$320 – $330	1	–
$330 – $340	1	2
$340 – $350	1	1
$350 – $360	1	–
$360 – $370	–	1
$370 – $380	1	1

$000	2017	2016
$380 – $390	–	1
$390 – $400	1	–
$400 – $410	1	2
$410 – $420	–	2
$420 – $430	1	–
$430 – $440	1	–
$440 – $450	–	2
$450 – $460	2	1
$460 – $470	1	1
$470 – $480	1	1
$480 – $490	1	–
$490 – $500	2	2
$500 – $510	–	1
$510 – $520	2	–
$520 – $530	2	–
$540 – $550	–	1
$550 – $560	–	1
$560 – $570	1	1
$580 – $590	1	–
$590 – $600	1	1
$610 – $620	–	2
$640 – $650	1	1
$660 – $670	1	–
$690 – $700	1	–
$700 – $710	1	1
$810 – $820	–	1
$820 – $830	1	–
$860 – $870	–	1
	860	**864**
Average remuneration of above employees	**$146,224**	**$145,316**

There were 26 fortnightly pays included in the calculation of the above remuneration bands in 2017 compared with 27 in 2016.

Normalised to 26 fortnightly pays, a total of 747 employees earned more than $100,000 in 2016.

Eighty-three staff received redundancy payments or settlement payments in 2017, totalling $2,663,519 (2016: 42 staff $1,198,047), which is not included in the above table.

20. Events after balance sheet date

There were no significant events after balance date that require separate disclosure.

21. Explanation of significant variances against budget

The budget figures are those in ACC's Service Agreement 2016/17. The Service Agreement 2016/17 was prepared based on the claims valuation as at 31 December 2015, using discount rates at 31 March 2016.

The budget figures are consistent with the accounting policies adopted in preparing the financial statements. The budget figures are un-audited.

Explanations for significant variations from the budgeted figures approved by the Board are as follows:

(A) STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE

Net levy revenue

Increased levy revenue is the result of increased exposures (liable earnings in the Work and Earners' Accounts and number of motor vehicles and petrol volumes in the Motor Vehicle Account) as well as more vehicle owners prepaying licence fees at the higher pre-June 2016 rate than anticipated in the budget.

Investment revenue

Investment income can be highly variable as it is dependent on movements in equity, bond and foreign exchange markets. ACC budgets for investment income based on a projected 20-year median rate of return. This means that ACC expects to exceed budget for 10 out of the next 20 years, and similarly to achieve lower returns than budget for 10 out of the next 20 years.

Investment income was substantially higher than budget due to the combination of an excellent performance by ACC's investment team, the 22nd consecutive year that the Investment team has outperformed against market benchmarks, and movements in investment markets.

Claims paid

Claims paid costs were 0.5% lower than budget. Claim registrations grew by 0.9% over the year compared with expected growth of 1.9% at the time the budget was approved. Favourable variances were in vocational services and elective surgery costs (lower volumes than anticipated) and in medical treatment (driven by the lower increase in claim volumes registered than anticipated).

Weekly compensation costs exceeded budget due to an increase in claim volumes (5.7% growth compared with budget expectation of 3.5% growth).

Increase in outstanding claims liability

The approved budgeted change in outstanding claims liability (OCL) was based on the December 2015 actuarial valuation of claims liability, and economic factors (such as interest rates) at 31 March 2016. The actual change in OCL was based on the June 2017 actuarial valuation of claims liability using economic factors at 30 June 2017.

The actual increase in the OCL was lower than the budgeted increase. There was an increase in interest rates which decreased the OCL by $3.5 billion over the year. Other significant factors impacting on the OCL were an increase in inflation assumptions ($1.2 billion increase), impact of change in claims experience and modelling (mainly increased social rehabilitation serious injury costs and increased weekly compensation costs, $0.9 billion increase), and impact due to pay equity and regularisation costs ($1.1 billion).

Movement in unexpired risk liability

The unexpired risk liability (URL) is the shortfall, if any, by Account between the levy income that ACC will earn for a future period where the rate of levy income has been fixed and the actuarially calculated costs of claims arising over the same future period. The budgeted increase in URL was the difference between the budgeted calculation of the URL at 30 June 2016 and the budgeted calculation of the URL at 30 June 2017.

The actual increase in URL was higher than the budgeted increase primarily because of the unanticipated future cost of claims impacting the OCL (refer comments above), and the unanticipated reduction in Work Account levy rates effective from 1 April 2017 that reduced the expected future levy income. Both factors increased the shortfall between future levy income and claims costs.

(B) STATEMENT OF FINANCIAL POSITION

Receivables

The receivables balance is lower than budgeted. The major component of the change in receivables is money owed to ACC for unsettled investment transactions such as the sale of equities and bonds. These transactions are settled within a few days in accordance with market rules.

ACC actively trades its investments to maximise income based on real-time assessments of investment opportunities by the Investment team. The volume of daily investment sales, and consequently the size of the receivables balance, varies substantially over time as these assessments change. At the time the budget was approved, market opportunities suggested that there would be more investment sales with a correspondingly higher short-term receivables balance. However as at 30 June 2017, market conditions resulted in slightly lower investment sales than anticipated when the budget was approved 15 months earlier.

Intangible assets

The value of intangible assets (primarily software) is lower than budget. When the budget was approved it was expected that, as part of Shaping Our Future Transformation programme, significant investment in new software would have occurred by 30 June 2017. A revised approach for the Transformation programme was developed after the budget was approved which has changed expenditure from investment in software to investment in 'software as a service' resulting in more programme costs being recognised as operating costs.

Investments

The net investment asset balance is higher than budget reflecting the higher than budgeted investment income earned over the financial year due to the excellent performance of the investment team combined with movements in investment markets as well as higher levy revenue receipts than anticipated in the budget.

Payables and accrued liabilities

The payables and accrued liabilities balance is lower than budgeted. The major movement in payables and accrued liabilities is money owed by ACC for unsettled investment transactions such as the purchase of equities and bonds. Investment market conditions resulted in lower investment purchases in the days immediately before 30 June 2017 and therefore a lower short-term payables balance than anticipated when the budget was approved.

Outstanding claims liability

The actual OCL, based on the June 2017 actuarial valuation of claims liability using economic factors at 30 June 2017, is higher than the budgeted OCL based on the December 2015 actuarial valuation of claims liability, and economic factors at 31 March 2016.

Significant factors impacting the OCL include the pay equity and regularisation costs and higher costs recognised in social rehabilitation and weekly compensation. Interest rates only marginally increased between March 2016 and June 2017.

Unexpired risk liability (URL)

The URL is the shortfall between the expected future levy income and future costs.

Future claim costs are higher than budgeted due to the impact of pay equity and regularisation costs resulting from legislation changes and the impact of higher social rehabilitation and weekly compensation costs. As a result there was a larger shortfall than budgeted between future levy income and future costs which increased the URL above the approved budget.

(C) STATEMENT OF CASH FLOWS

Net cash inflow from operating activities was marginally higher than budget as levy revenue cash received was above expectations due to higher exposures in the Work, Earners' (liable earnings) and Motor Vehicle Accounts (number of licensed vehicles and petrol volumes).

Higher investment income (dividends and interest received) also contributed to the positive cash inflow.

Building a better working world

Chartered Accountants

INDEPENDENT AUDITOR'S REPORT

TO THE READERS OF ACCIDENT COMPENSATION CORPORATION'S GROUP FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION FOR THE YEAR ENDED 30 JUNE 2017

The Auditor-General is the auditor of Accident Compensation Corporation group (the Group). The Auditor-General has appointed me, Grant Taylor, using the staff and resources of EY, to carry out the audit of the financial statements and the performance information, including the performance information for appropriations, of the Group on his behalf.

Opinion

We have audited:

- the financial statements of the Group on pages 94 to 142, that comprise the statement of financial position as at 30 June 2017, the statement of comprehensive revenue and expense, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements including a summary of significant accounting policies; and
- the performance information of the Group on pages 11 to 38 and 79 to 93.

In our opinion:

- the financial statements of the Group on pages 94 to 142:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2017; and
    - its financial performance and cash flows for the year then ended; and
  - comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Reporting Standards.
- the performance information on pages 11 to 38 and 79 to 93:
  - presents fairly, in all material respects, the Group's performance for the year ended 30 June 2017, including:
    - for each class of reportable outputs:
      - its standards of delivery performance achieved as compared with forecasts included in the statement of performance expectations for the financial year; and
      - its actual revenue and output expenses as compared with the forecasts included in the statement of performance expectations for the financial year; and
    - what has been achieved with the appropriations; and
    - the actual expenses or capital expenditure incurred compared with the appropriated or forecast expenses or capital expenditure.
  - complies with generally accepted accounting practice in New Zealand.

Our audit was completed on 28 September 2017. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board and our responsibilities relating to the financial statements and the performance information, we comment on other information, and we explain our independence.

Basis for our opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Board for the financial statements and the performance information

The Board is responsible on behalf of the Group for preparing financial statements and performance information that are fairly presented and comply with generally accepted accounting practice in New Zealand. The Board is responsible for such internal control as it determines is necessary to enable it to prepare financial statements and performance information that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the performance information, the Board is responsible on behalf of the Group for assessing the Group's ability to continue as a going concern. The Board is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to merge or to terminate the activities of the Group, or there is no realistic alternative but to do so.

The Board's responsibilities arise from the Crown Entities Act 2004, the Public Finance Act 1989 and the Accident Compensation Act 2004.

Responsibilities of the auditor for the audit of the financial statements and the performance information

Our objectives are to obtain reasonable assurance about whether the financial statements and the performance information, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers, taken on the basis of these financial statements and the performance information.

For the budget information reported in the financial statements and the performance information, our procedures were limited to checking that the information agreed to the Group's service agreement.

We did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board.
- We evaluate the appropriateness of the reported performance information within the Group's framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going

concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtain sufficient appropriate audit evidence regarding the financial statements and the performance information of the entities or business activities within the Group to express an opinion on the consolidated financial statements and the consolidated performance information. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

Other information

The Board is responsible for the other information. The other information comprises the information included on pages 1 to 10, 39 to 78 and 146 to 150, but does not include the financial statements and the performance information, and our auditor's report thereon.

Our opinion on the financial statements and the performance information does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements and the performance information, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements and the performance information or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independence

We are independent of the Group in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board.

In addition to the audit we have carried out engagements in the areas of provision of assurance related services and model methodology review, which are compatible with those independence requirements. Other than the audit and these engagements, we have no relationship with or interests in the Group.

Grant Taylor
Ernst & Young
On behalf of the Auditor-General
Wellington, New Zealand

Glossary of terms

ACC Scheme
New Zealand's no-fault accident insurance scheme that provides cover to all New Zealanders and visitors to our country.

Accident Compensation Act 2001 (AC Act)
The major piece of legislation under which ACC is governed.

Better Public Services Result Areas 9 and 10
The State Services Commission guidelines that relate to enhanced digital solutions from government to businesses and individuals.

Business customer
A business which pays a levy under the Scheme.

Case Manager
The ACC employee assigned to manage an injured person's treatment and recovery needs.

Client
A person who makes a claim under the Scheme.

Compensatory damages
The ability to sue following personal injury. Under the ACC Scheme, individuals forego the right to sue for compensatory damages.

Consumer price index
A measure of the price change of goods and services purchased by private New Zealand households.

CoverPlus Extra
Cover for self-employed people or contractors that allows them to choose how much income they want covered if they have an accident and can't work.

Crown entity
An organisation in which the Government has a controlling interest.

Customer
A client, provider or business customer.

Durable-return-to-work rate
A measure of the percentage of clients who have returned to work and have remained at work.

Earners' Account
The Account for injuries that occur outside work (eg at home or playing sport).

Entitlement claims
A claim that has received additional support such as weekly compensation or social or vocational rehabilitation for a covered injury, as well any funded medical treatment required.

Fully-funded

A claim that has received additional support such as weekly compensation or social or vocational rehabilitation for a covered injury, as well any funded medical treatment required.

Full-time equivalent (FTE)

The hours worked by one employee on a full-time basis, generally considered to be 35-40 hours per week.

Gradual process claims

Claims as a result of injuries that have occurred due to prolonged exposure in the workplace to conditions that result in some form of harm (eg hearing loss).

Grandparenting provision

A provision in which an old rule continues to apply to some existing situations while a new rule will apply to all future cases.

Health care inflation

The increase in the cost of health care, commonly expressed as an annual percentage.

In-between travel

Travel between clients by home and community support workers.

Key performance indicator (KPI)

A measure of whether an employee's, team's or business unit's agreed performance goals or result targets have been achieved or met.

Labour cost inflation

The increase in the cost of salaries and wages paid to workers, commonly expressed as an annual percentage.

Levied accounts

The three Accounts (Motor Vehicle, Earners' and Work) whose funds are derived from levies.

Levies

Amounts charged, separate from general taxation, and used to cover the cost of injuries caused by an accident within the Motor Vehicle, Earners' and Work Accounts.

Motor Vehicle Account

The Account for all road-related injuries.

Non-Earners' Account

The Account for people not in the workforce, such as children or retirees.

On-boarding programme

An induction process for new employees, which is more inclusive than traditional orientation programmes.

Outstanding claims liability (OCL)

An estimate of the present value of expected future payments on all existing ACC claims.

Pay-as-you-go basis

Funding the cost of injuries as the costs are incurred.

PAYE (pay-as-you-earn)
A system of taxation where an employer is responsible for deducting tax from an employee's taxable wage and salaries, and sending those deductions to Inland Revenue on the employee's behalf.

Provider
A person or organisation providing a treatment or rehabilitation service to a client (eg a GP or physiotherapist).

Return on investment
The return or benefit obtained from an investment over and above the original investment, commonly expressed as a percentage or ratio.

Service Agreement
The annual agreement with the Minister for ACC setting out the services we will deliver and the expected performance standards.

Shaping Our Future
Our overarching strategy to look at how we operate, from our technology to how we train our people, while putting the customer at the centre of everything we do.

SportSmart
Our sports injury prevention programme.

Statement of Intent
A statutory document that covers a four-year period and outlines our medium-term strategic intentions.

Strategic intentions
The areas that ACC has identified as needing the most focus during the period of the Statement of Intent (2015-2019).

Superimposed inflation
Increase in costs over and above baseline inflation.

Tika
An internal ACC programme to ensure we do the right thing, in the right way, at the right time for our customers to improve our internal and external customers' experience.

Transformation programme
A series of projects that are focused on improving our systems, processes, and employee capability.

Treatment Injury Account
The Account for injuries caused by treatment.

Weekly compensation
Payments to clients who cannot work because of an injury, based on 80% of weekly income (capped) before the injury occurred.

Work Account
The Account for injuries that occur in the workplace.

Directory

Corporate office

information@acc.co.nz	(04) 816 7400	PO Box 242, Te Whanga-nui-a-Tara / Wellington 6140

Accident Compensation Corporation
Level 2, Justice Centre
19 Aitken Street
Te Whanga-nui-a-Tara / Wellington 6011

Claims

claims@acc.co.nz	PO Box 242, Te Whanga-nui-a-Tara / Wellington 6140	
Claims helpline	0800 101 996	
Treatment Injury Centre	0800 735 566	PO Box 430, Ōtepoti / Dunedin 9054
Sensitive claims	0800 735 566	*sensitiveclaims@acc.co.nz* PO Box 1426, Te Whanga-nui-a-Tara / Wellington 6140
Accidental death	0800 222 075	
Deaf community fax	0800 332 354	*deaf@acc.co.nz*
Overseas callers	+64 7 848 7400	

Business and levies

business@acc.co.nz	PO Box 795, Te Whanga-nui-a-Tara / Wellington 6140	
Business Service Centre	0800 222 776	
Employers	0800 222 776	
Self-employed	0508 426 837	
Agents and advisors	0800 222 991	
Overseas callers	+64 4 816 7880	
Debt management	0800 729 538	PO Box 3248, Te Whanga-nui-a-Tara / Wellington 6140

Providers

providerhelp@acc.co.nz	PO Box 90341, Tāmaki-makau-rau / Auckland 1142
Provider helpline	0800 222 070

Injury prevention

information@acc.co.nz	PO Box 242, Te Whanga-nui-a-Tara / Wellington 6140
Publications	0800 844 657
ACC injury prevention unit	(04) 816 7400

Injury management (for employers)

returntowork@acc.co.nz	Private Bag 9000, Heretaunga / Hastings
Injury management team	0800 101 996

Concerns and complaints

customerfeedback@acc.co.nz	Freepost 264, PO Box 892, Kirikiriroa / Hamilton 3240
Customer resolution	0800 650 222
Overseas callers	+64 7 848 7403

Preventing fraud

collection.collation@acc.co.nz	
Preventing fraud	0508 2223 7283

Media

media@acc.co.nz	PO Box 242, Te Whanga-nui-a-Tara / Wellington 6140
Media enquiries	027 493 6858

More contact information, including branch details, Official Information Act requests and reviews, is available at *www.acc.co.nz/contact/*

PREVENTION. CARE. RECOVERY.

Te Kaporeihana Āwhina Hunga Whara

www.acc.co.nz
0800 101 996

New Zealand Government

ACC7811 September 2017 Print ISSN 1177–6013 Online ISSN 1177–6021

Printed in New Zealand on paper sourced from well-managed sustainable forests
using oil free, soy-based vegetable inks