PREVENTION. CARE. RECOVERY.
Te Kaporeihana Āwhina Hunga Whara

Annual Report 2015

Accident Compensation Corporation

How the Scheme works for you
2014/15 Actual

How you contributed last year

All New Zealanders contribute

Employers
Invoices sent by ACC
Levies paid by employers
$817m
Work account
Pays for injuries caused at work

Employees
Tax deducted from PAYE
Invoices sent by ACC
Levies paid by self-employed
$1,277m
Earners' Account
Pays for injuries caused outside work

All New Zealanders
Levies collected through the Earners' Account and Government funded from general taxation
$247m
Treatment Injury Account
Pays for injuries caused by medical treatment

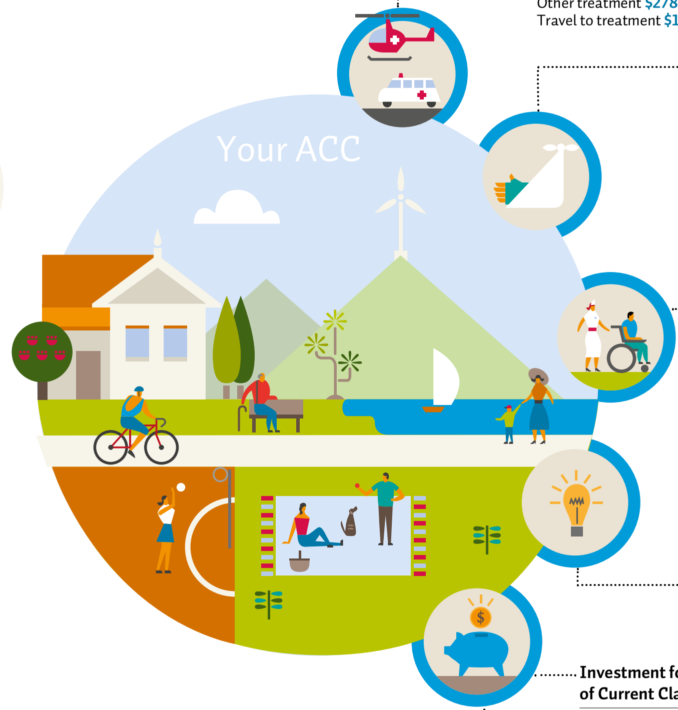
Not Employed
General taxation
Government funded
$886m
Non-Earners' Account
Pays for injuries caused outside work to people not in the paid workforce

Motor Vehicle Owners and Drivers
Petrol tax and motor vehicle licensing fee
$1,087m
Motor Vehicle Account
Pays for all road-related injuries

ACC's Investment Earnings
$3,998m

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

How you benefited last year



Treatment and Emergency Travel
$1,507m
Visits to a GP $130m
Physiotherapy $109m
Imaging including X-rays $115m
Hospital accident and emergency $460m
Surgery $311m
Other treatment $278m
Travel to treatment $103m

Financial Compensation and Vocational Rehabilitation
$1,190m
Weekly compensation $931m
Other compensation $175m
Rehabilitation to help people back to work $84m

Care and Support
$514m
Rehabilitation back to independence $263m
Carers who support those in the home $219m
Home and vehicle alterations $32m

Injury Prevention
$30m

Investment for Future Costs of Current Claims
$31,670m

ACC's financial position at 30 June 2015

$31,830m	–	$30,328m	=	$1,502m
Assets and investments that ACC currently has (net assets excluding outstanding claims liability)		The amount ACC needs to cover the cost of current claims (outstanding claims liability)		The gap between what ACC has and what ACC needs (net assets)

Contents

From the Minister for ACC

Last year, the Accident Compensation Corporation (ACC) turned 40. We should be proud of the no-fault accident insurance coverage the Scheme provides to all New Zealanders and visitors. It has become a critical part of New Zealand's economic and social fabric.

As Minister for ACC, I am committed to ensuring that:

- the Scheme is able to provide the support that injured people and our most vulnerable need to meet their needs long into the future
- there is effective investment in reducing the number and severity of injuries
- there is consistency and stability for levy payers
- the Scheme earns the confidence and support of New Zealanders.

Public trust and confidence in ACC has improved, along with client and levy payer satisfaction. Investment in injury prevention is increasing, with ACC focused on developing stronger partnerships with more organisations to produce better and more effective results.

It is worth celebrating that all three of the levied ACC accounts (the Work Account, the Earners' Account and the Motor Vehicle Account) now hold enough funds to meet the expected lifetime costs of all existing claims and the work-related gradual process risks that people have already been exposed to. Put simply, the accounts are now fully funded. This is a significant milestone, given that six years ago we inherited a Scheme that saw the gap between its assets and liabilities grow by $4.8 billion in one year alone.

As a result of sound financial management, ACC is now in the best financial shape it's ever been in. Achieving full funding is important, because New Zealanders need to have confidence that ACC will have sufficient funds to provide ongoing support should they be injured.

I'd like to acknowledge the outstanding contribution of the ACC investment function, as it has consistently exceeded benchmark returns over 20 years – a truly remarkable performance.

There is still more work to do. ACC is embarking on a significant programme (Shaping Our Future) to transform its people, processes and technology, to ensure they work more effectively to provide better services to New Zealanders.

Going forward, I expect ACC to improve rehabilitation performance, improve injury prevention performance and ensure the success of Shaping Our Future.

I am also committed to ensuring there is a more financially responsible and transparent levy system, which is why I introduced the Accident Compensation Amendment Bill.

The legislation I've introduced will see binding principles put in place to ensure the scheme is adequately funded to withstand economic volatilities, while ensuring levies are kept as low as possible and stable over time.

Greater transparency of the levy-setting process means people will also be able to clearly see the delicate balance between ensuring there's a sufficient buffer in each account to withstand volatilities, while demonstrating that money is not being over-collected. The new legislation also enables the removal of residual levies, to ensure pre-1999 claim costs aren't over-collected, and businesses pay fairer work levies that reflect recent injury costs.

I would like to thank and acknowledge the ACC Board for their efforts this year, particularly the Chair Paula Rebstock.

This was my first year as Minister for ACC and I have been fortunate enough to meet many ACC staff as I visited offices across New Zealand. I extend my thanks to them for the hard work they do every day to make a difference to people's lives.

New Zealanders can have confidence that we are building a safer country through better injury prevention, but we're also ensuring good care is there for those who need it following injury.

Hon Nikki Kaye
Minister for ACC

From the Board

ACC's role is to support people who have been injured, by helping them get back to work and everyday life as quickly as possible. We also work with businesses and the community, to try to stop injuries from happening in the first place.

We set a new vision for ACC in 2014 to create a unique partnership with every New Zealander, improving their quality of life by minimising the incidence and impact of injury.

ACC Board: *(top left to right) Anita Mazzoleni, Professor Des Gorman, Professor Gregor Coster, Gillian Spooner, Kristy McDonald QC; (bottom left to right) James Miller, Paula Rebstock (Chair), Trevor Janes (Deputy Chair)*

To achieve our vision, we approved the initial business case for Shaping Our Future which will deliver the improvements that our customers expect across people, processes, technology and information. The focus of Shaping Our Future over the past year has been on designing how ACC should operate in the future. The Board has established a Shaping Our Future Board Committee and engaged independent quality assurance to ensure there is appropriate governance oversight of the programme. We are committed to ensuring that Shaping Our Future delivers the expected benefits and that there is no disruption to our services or customers during change.

Looking back at our performance for the year, we have achieved a significant milestone with the Scheme now being fully funded and we welcome the Government's decision to discontinue residual levies. This means New Zealanders can continue to have confidence in the financial sustainability of the Scheme. The investments team had another outstanding year – again beating market benchmarks.

Public trust and confidence continues to increase and we note that our focus on privacy has led to significant improvements. While we just missed our target for the year, we've moved from an average of 68 breaches per month at June 2012 to 13 by the end of June 2015.

There were two areas where performance has not been at the level we would aspire to and they have had significant focus from the Board: injury prevention and rehabilitation performance.

Injury prevention is an area where ACC has in the past struggled to achieve consistent, long- term results. In November 2014 we agreed a new injury prevention strategy and set new targets to ensure our investment delivers a return through reductions in both the incidence and severity of injuries.

Our rehabilitation performance has not met target throughout the year despite significant attention and focus by management. Claim numbers continued to increase in line with improvements in the New Zealand economy. A deterioration in rehabilitation performance over the long term affects our outstanding claims liability and increases the costs to the Scheme. The Board will continue to focus on this area and we anticipate improvements in performance during 2015/16.

Finally we would like to thank Scott Pickering, his Executive team and all staff in recognition of their efforts during the year delivering high quality services to our customers and ensuring that we design the right operating model for our customers in the future.

Paula Rebstock
Board Chair

Trevor Janes
Deputy Chair

From the Chief Executive

This year under Shaping Our Future we started to make changes that will improve our customers' experience and help create an organisation that Kiwis trust and value. An important first step was looking through the eyes of our customers and setting ACC's new vision and values.

We are looking for ways to take the complexity out of the work we do so that in the future people will know exactly what we do, how to access the services we provide, and trust the advice we give them.

The changes we are making are not 'big bang' changes happening all at once. They are happening every day. Some changes will be more significant than others but they're all about improving what we do for our customers.

There have been some great examples of this during the year. From the redesign of our sensitive claims service to be more customer-orientated and our wide-ranging review of how elective services are funded, managed and delivered, to working with national sports organisations to develop concussion guidelines that are now being used by sports clubs across the country. These all demonstrate our renewed commitment to living our values and working in partnership with our customers and stakeholders to deliver better outcomes for New Zealanders.

These changes are starting to make a difference. Client satisfaction, levy payer satisfaction and public trust and confidence have all improved and met or exceeded our targets for the year.

It's also important that we support injured people to return to independence as soon as possible after injury. While 93% of people have returned to work within nine months, our short-term rehabilitation performance is below target for the second year in a row and this continues to be an area of focus for us.

We continued to look at the way we are organised and have made changes to align our operations with ACC's three customer groups – injured people, business customers and providers. The revised structure will come into effect during 2015/16.

We're in a strong financial position. While levy revenue and claim costs were both above expectations largely due to a strong economic environment, the changes in interest rates and movements in financial markets over the past 12 months had significant impacts on both our outstanding claims liability and our investment income.

I'd like to thank all our staff for their efforts this year. I'm proud of how our people are making everyday improvements in the work they do to benefit our customers.

There is much more to do. We are targeting substantial improvements in the public's trust and confidence over the next four years by providing a high quality and consistent level of service.

Scott Pickering
Chief Executive

Our role and strategic direction

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 forego 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 current 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.

In 2014 we celebrated ACC's 40th anniversary and shared our new vision and values for the organisation.

Our new vision for ACC is to create a unique partnership with every New Zealander, improving their quality of life by minimising the incidence and impact of injury.

The values we have adopted as we set about realising this vision are: putting *People before process*, being *Good partners*, promoting *Safe Kiwis*, being *Responsible stewards* and being *Fair and open* in all our dealings.

You'll find examples of how we are bringing our values to life throughout our annual report.

Our outcomes

ACC's 2015-2019 Statement of Intent sets out the outcomes on which we report at the end of each year.

These are:

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

Our strategic intentions

Our strategic intentions reflect the areas that we have identified as needing the most focus. There is a strong alignment between our outcomes and our strategic intentions.

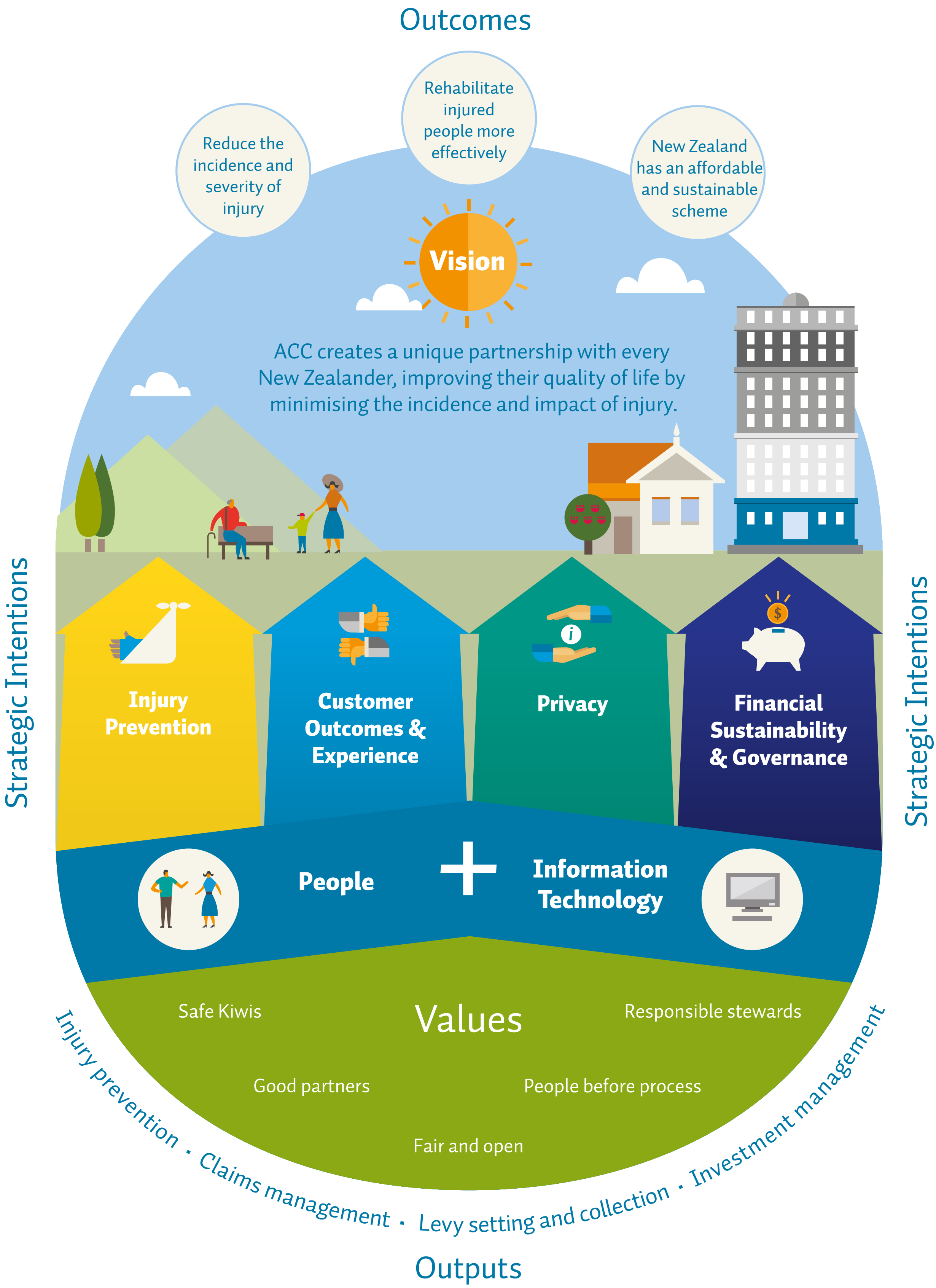
We report on performance against our strategic intentions using a public value framework. See the statement of performance for more details on this framework.

Our outputs

We aim to achieve the best possible delivery of New Zealand's unique accident compensation scheme through the following outputs:

- Injury prevention
- Levy setting and collection
- Investment management
- Claims management

Our annual performance against the 2014/15 Service Agreement is reported in the statement of performance.


Outcomes
Reduce the incidence and severity of injury
Rehabilitate injured people more effectively
New Zealand has an affordable and sustainable scheme
Vision
ACC creates a unique partnership with every New Zealander, improving their quality of life by minimising the incidence and impact of injury.
Strategic Intentions
Injury Prevention
Customer Outcomes & Experience
Privacy
Financial Sustainability & Governance
Strategic Intentions
People
+
Information Technology
Values
Safe Kiwis
Responsible stewards
Good partners
People before process
Fair and open
Injury prevention · Claims management · Levy setting and collection · Investment management
Outputs

Delivering on our outcomes

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

Reduce the incidence and severity of injury

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

We help to avoid injuries by investing in injury prevention programmes and working across government in order to encourage individuals, businesses, families and communities to take specific actions to reduce the risk of injury to themselves and to others.

We are lifting the performance of our injury prevention activities and this is a priority for the Board. During 2014/15 we focused on increasing the reach of our injury prevention messages and developing stronger partnerships.

We've met our return on investment target for the year, but more needs to be done to improve the reach of injury prevention activity.

Rehabilitate injured people more effectively

Delivering high quality rehabilitation services to clients and businesses is critical to the Scheme's success, as financial sustainability can only be achieved through the provision of quality outcomes for our clients.

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

Our aim is to ensure that people with injuries covered by the Scheme get the rehabilitation they need to return to full roles in society as quickly as possible.

We demonstrate that we are effectively supporting our clients to return to work by measuring the durable return-to-work rate. This increased from 77% to 80% this year.

New Zealand has an affordable and sustainable Scheme

The Government expects the Scheme to be financially sustainable, be fair to current and future generations and remain affordable for New Zealanders.

By raising enough revenue each year to cover the lifetime cash costs of injuries that occur in that year, the Scheme will be financially sustainable and fair to each generation of New Zealanders.

We target the ratio of this year's total levies to the total claims incurred for this year's accidents to be between 0.9 and 1.1 over time. We have achieved the target with a ratio of 1 to 1 this year.

Delivering on our strategic intentions

The following pages summarise our performance and key highlights for the year against each of our strategic intentions.

Our strategic intentions are to:

- 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 and governance of the Scheme.

In 2014/15

ACC accepted **1.8 million** new claims

These claims were looked after by **1,917** staff

This equates to **30.5%** of New Zealanders receiving compensation or rehabilitation services.

More than **989,000** clients visited their GPs

More than **37,000** clients had surgery

More than **472,000** clients received physiotherapy

More than **92,000** clients received weekly compensation

ACC approved

6,403 shoulder surgeries

11,742 knee surgeries

More than **103,000** clients received rehabilitation services. Of these, more than **4,600** were serious injury clients

More than **41,000** clients received vocational rehabilitation services

Locations of branches and service centres throughout New Zealand

Increase the success of our injury prevention activities

Cost Effectiveness

Are we fair and affordable?

Measuring our contribution to New Zealand	Actual 13/14	Target 14/15	Actual 14/15	Target met?
Return on investment in injury prevention programmes	New	$1:$1	$1.34:$1	✓

Why this is important to us

We invest in injury prevention because effective programmes will reduce harm to individuals and reduce long term costs, not only for ACC but also for other agencies providing responses to the consequences of injuries.

Our performance this year

Many of our successful programmes are long term programmes and therefore measuring effectiveness in the short term is difficult. Overall we expect the portfolio of activities to deliver a return on investment (ie the estimated savings from injuries prevented are greater than the amount we invest in injury prevention activity).

We have exceeded our return on investment target for the year.

A Performance Improvement Framework review of ACC was completed in December 2014 by external reviewers who highlighted that:

- we are investing more in injury prevention and in a more disciplined way
- we are focusing on a wider set of causes of serious injury (eg family violence, sexual abuse and mental health)
- we have been proactive in using levy pricing and conditions, such as in the Accredited Employer Programme, to strengthen private incentives for large employers to improve safety in the workplace and to engage these employers in the rehabilitation of employees.

However, the review identified that much more was needed to increase the effectiveness of our injury prevention investment. In particular, that our injury prevention strategy should make greater use of data and consider a broader range of interventions.

In response, we have reshaped the way we think about injury prevention and put in place:

- a revised injury prevention strategy that includes measurable targets for improving the performance of injury prevention activities
- new approaches so that we have a strong pipeline of potential programmes
- a greater focus on developing and sustaining partnerships.

Injury prevention highlights

Partnering with WorkSafe NZ to deliver the Government's targets for a reduction in deaths and serious injuries in the workplace

We continued to work closely with WorkSafe NZ during 2014/15 to develop a joint three year action plan covering nine focus areas to reduce deaths and serious injuries in workplaces by 25% by 2020. Our joint operating model will ensure that future injury prevention programmes are evidence based and that industry is involved in the development of any programmes.

The Safety Star Rating Scheme is being developed with WorkSafe NZ and the Ministry of Business, Innovation and Employment. A test of the assessment tool across businesses in a range of sectors and regions is planned to run over 2015 and 2016.

We have started a review of our workplace products to ensure that ACC's future product suite supports our injury prevention strategy and contributes to our injury prevention targets.

Maintaining a focus on priority areas such as family and sexual violence

As part of the Cross-Government Family Violence and Sexual Violence Work Programme, ACC is leading reviews of primary prevention programmes in schools, counselling services for victims and a wider follow up of long-term recovery responses for victims.

We are supporting initiatives that aim to:

- increase reporting and decrease the time between any incidence of violence and seeking help
- reduce rates of re-victimisation
- encourage healthy, respectful and safe relationships across people's lifespans.

An example is 'Mates and Dates', a secondary schools-based healthy relationships programme that we developed and piloted, and are now extending to more schools.

Building cross-government and other partnerships

We signed a contract with New Zealand Rugby League's (NZRL's) 'It's More Than Just a Game', formally establishing the partnership with the Ministry of Education, the Health Promotion Agency, New Zealand Police and NZRL to find smarter ways to build strong and safe rugby league communities.

As a result, Community Hubs have been developed in rugby league clubs to support early childhood playgroups and health and wellness. Life skills subjects including respectful relationships are also being introduced to young players through the NZRL development pathway.

We have also partnered with the Ministry of Social Development, the Ministry of Health, Sport New Zealand and the Office for Senior Citizens to develop an information resource that will be included with the SuperGold Card for people who have just turned 65. This resource will promote safe physical activity and avoiding injury risk and is due to be rolled out from July 2015.

We are partnering with St John, Wellington Free Ambulance and Freedom Alarms to deliver initiatives that enable the early identification of older people at risk of falling so that they can be referred to the appropriate preventive services.

LIVING OUR VALUES

Being good partners

Jointly developed through close work between ACC and our partners, WorkSafe NZ and the forestry industry, Safetree is part of the Government's commitment to reducing serious harm and fatalities in New Zealand's workplaces by 25% by 2020. This injury prevention programme is the brand under which all forestry injury prevention resources are being developed.

The Safetree website brings together all forestry safety information in one place, so if someone wants to know how to do something safely, they will find it on www.safetree.nz. It includes resources and videos targeted at forest owners and managers, contractors, supervisors, head breaker outs, breaker outs, tree fallers, hauler and machine operators, and other forestry workers.

Safetree has only been up and running since March 2015, but early signs are indicating a small but important reduction in claims during that short period.

Promoting safer working in forestry

Promoting safe Kiwis

Sport related activities account for more than 7,000 head injuries a year, and concussion claims have cost ACC $76 million in the past four years. In response, we have produced guidelines on how to identify, assess and manage concussion injuries.

Over the past year we have worked with four national sports organisations (rugby, league, netball and football) to develop guidelines to inform all national sports organisations why they need to have policies around concussion and what they should include. The guidelines have been positively received and we are working with the National Sport Collaboration Group to ensure the successful implementation of the guidelines. We have also been providing education to primary care clinicians on how to assess and manage concussion.

AUT University is working with St John and all agencies that provide first aid training in New Zealand to ensure that ACC's Sport Concussion Guidelines are included in all training materials and resources.

This is a great example of how we are using our data to identify priority areas for injury prevention activity and working alongside partners to develop and share practical tools that will prevent injuries.

Launch of ACC Sport Concussion Guidelines

Image courtesy of Wellington City Council

Improve our customers' outcomes and experience

Why this is important to us

We ensure that people with injuries covered by the Scheme get the rehabilitation they need to return to full roles in society as quickly as possible. Research confirms that when people make a rapid return to independence after injury, their overall health and wellbeing is significantly improved and the adverse social and economic impacts of their injuries on their families, communities and New Zealand are greatly reduced. To this end, we are focused on ensuring that our clients receive the right care, at the right time.

More broadly, we want to improve the experience of those who interact with us, including injured people, levy payers and providers.

Shaping Our Future

We've helped millions of Kiwis to recover from injury over the past 41 years; however, as ACC has grown, our processes have become more complex.

Shaping Our Future is our long-term strategy to improve our customers' outcomes and experience and increase public trust and confidence in ACC. To do that, we're transforming ACC and taking the complexity out of the work we do.

Delivering the improvements that our customers expect requires an integrated approach across people, processes, technology and information. The initial business case for Shaping Our Future was approved by the ACC Board and noted by Cabinet in July 2014.

Our main focus in 2014/15 was on the integrated design and planning phase. This phase is important as it allows us to start working back through 41 years of processes and practices and design a new operating model to take us into the future.

In late 2014 we developed an in-depth understanding of our requirements in order to compare the technology solutions available to us and identify the subsequent phases we'll need to go through before we make a final decision.

We are creating a plan which will set out how and when we will deliver change, and the outcomes we want to deliver for our customers.

By the end of 2015, we expect that we will have endorsed our new operating model, along with the plan for change.

Our performance this year

Customer
Do we meet expectations?

Measuring our contribution to New Zealand	Actual 13/14	Target 14/15	Actual 14/15	Target met?
Cover decision timeliness	1.2 days	1.3 days	1.2 days	✓
Average time to commence payments	11 days	<11 days	9.2 days	✓
Formal reviews as a % of entitlement claims	3.3%	2.9%	2.7%	✓
% of ACC reviews upheld	84.5%	84%	84%	✓
Average time to resolution for claims with reviews	91 days	87 days	92 days	✗
Customer satisfaction - clients	75%	76%	76%	✓
Customer satisfaction - levy payers	59%	60%	69%	✓
Public trust and confidence	54%	60%	60%	✓

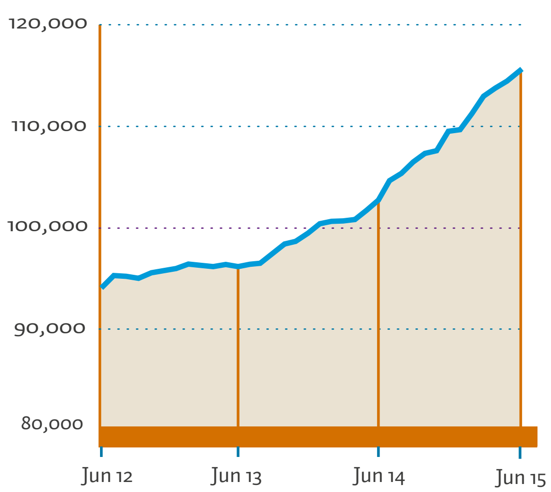
Impact
Have we delivered?

Measuring our contribution to New Zealand	Actual 13/14	Target 14/15	Actual 14/15	Target met?
Return to work within 10 weeks	67.8%	70.3%	67.3%	✗
Return to work within nine months (273 days)	93.3%	93.9%	93.2%	✗
Durable return-to-work rate	77%	1% higher than Australia	80%*	✓
Return to independence for those not in the workforce	86%	86%	86%	✓
Number of long-term clients returned to independence in the past 12 months	2,272	2,424	2,467	✓

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

Many of the improvements we want to make through our Shaping Our Future strategy won't happen overnight. However, we have started to make changes to how we work with our customers, and the public's trust and confidence in ACC is moving in the right direction – to 60% in June 2015. There have also been positive improvements in both client and levy payer satisfaction rates.

The growth in both overall claim numbers and entitlement claims continued to provide a challenge to our ability to achieve rehabilitation performance targets for 2014/15.



Growth in entitlement claims

The durable return-to-work rate[1] improved by 3% from the prior year and we met our target for the return to independence for those not in the workforce. Other return to work performance measures were below target and action is underway to address this.

Understanding and improving rehabilitation performance continues to be a significant area of focus for us. To manage demand effectively, we completed analysis during the year to understand the drivers of overall claim volumes. This analysis identified that overall claim volumes show a strong dependence on gross domestic product growth, demographics (ie population growth), the unemployment rate and kilometres travelled (for the Motor Vehicle Account).

1 *The durable return-to-work rate is independently assessed by the Social Research Centre in Australia, and reports on return-to-work outcomes and injured workers' perceptions of the return-to-work process.*

Customer experience highlights

Improving levy payers' experience

Levy payer satisfaction has increased by 10% this year, and in September 2014 our Business Service Centre won second place for customer service in New Zealand at the Contact Centre Institute of New Zealand Awards, in the category of contact centres with over 50 seats.[1]

We have made a number of changes that have improved the invoicing process for self-employed customers, including:

- aligning our invoicing dates for self-employed customers with Inland Revenue information
- issuing more timely invoices when a business ceases to operate
- putting in place processes that ensure any multi-invoice customers receive all their invoices at the same time.

We know more can be done to improve the clarity of the invoices we provide to business customers. We have been consulting on changes and expect business customers to see improvements in invoices issued in the next year.

Improving outcomes for clients who need elective services

Each year, roughly 90% of the 1.8 million injuries claimed for enjoy a relatively straightforward pathway to recovery (eg a sprained ankle that heals quickly after a GP visit and some physiotherapy). Around 220,000 of our clients require higher levels of specialist care (that may or may not include surgery) to recover from their injuries.

ACC delivers elective services through three main contracts: elective surgery, clinical services and diagnostic imaging. The total cost of delivering the elective services contracts to clients is approximately $495 million each year and this cost is expected to increase with New Zealand's ageing population and increased prevalence of co-morbidities (where people are being treated for illnesses or disorders at the same time as being treated for the injuries).

In late 2013 we began a review of our clients' experience, treatment and rehabilitation from elective services to identify what's needed to achieve the best outcomes for clients, now and in the future.

1 *These awards are the largest annual event in the New Zealand contact centre industry.*

We took a collaborative approach to the review, engaging with the sector through more than 200 individual health sector interviews, 11 sector workshops with more than 80 representative associations and groups, and extensive collaboration with ACC's Consumer Outlook Group.

In December 2014 we concluded that while some things are working well there are a number of key areas that we need to address to ensure the future success and sustainability of elective services for our clients.

Since then a programme has been set up to address the issues identified in the review. This includes redesigning the funding, management and delivery of elective services to ensure that care is integrated across the patient pathway from end to end, is outcome driven, and is cost effective. We are aiming to encourage services where the people, not the processes, become the focus. We expect the programme to be delivered over three years.

Using our data to predict expected recovery times better

With more than 40 years of claims experience, we have a wealth of data to help guide clients, providers and our staff on likely rehabilitation pathways and expected times to recovery. This year we have been trialling how to use our data to better predict the likely duration of clients' recovery.

Since February 2015 the expected return to work duration for our clients has been automatically populated in our claims management system using a predictive modelling tool. This enables us to plan our support for clients better and identify where their recovery may not be progressing as expected to help achieve better outcomes.

Improving the timeliness of weekly compensation payments

It is important to our clients that they receive timely weekly compensation payments. During the year the number of days to make payment improved by an average of 1.8 days.

We achieved this by putting in place a central team that identifies where the nature of a client's injury means they are likely to require weekly compensation. We now get in touch with our clients earlier to help ensure they receive their entitlements on a timely basis.

Feedback from our clients has been positive. Since August 2014 more than 18,600 clients have completed our post call survey, recording an average satisfaction rating of 3.8 out of 4.

Improving outcomes for Māori

We have started the following programmes to tackle known disparities, build capability and establish key relationships with iwi and service providers.

- Entering into memoranda of understanding with Waikato-Tainui and Te Whānau o Waipareira Trust. Growing strategic relationships with iwi and providers is a key element of our strategy, underlining the importance of working in partnership to improve outcomes for Māori. We are now working towards key initiatives with these partners to establish a Job Brokerage Service to reduce the disparity between Māori and non-Māori seriously injured clients and to establish a car seat lending service.
- Identifying three high injury risk sectors (agriculture, forestry and fishing) where Māori have both a high employment rate and substantial ownership. We are working alongside key Māori businesses that operate in these sectors to understand how we can jointly improve safety for Māori in these industries.
- Monitoring, publishing and sharing referral information with primary health organisations and practices in order to increase the number of GP referrals to specialists for Māori clients.
- Running a training refresher for branch staff and providing material for Waikato-Tainui and Te Whānau o Waipareira Trust to distribute through their networks in an effort to improve access to quality home and community support for Māori women.

Enabling independence for those not in the workforce

The elderly, children and people who weren't working at the time of injury tend to need different support from ACC than clients whose focus is on getting back to work.

Our 'Enabling Independence' initiative has been designed to improve the customer experience by centralising our management of clients who are not in the workforce within regional hubs.

The regional hubs:

- help us to deliver an improved, nationally consistent service for clients who are non-earners at the time of their accidents
- work collaboratively with community groups and District Health Boards in order to simplify the process and help our clients to receive a coordinated service, irrespective of the funding source.

Improving our support for vulnerable clients

While many of our clients have the support and resilience they need to cope with their injuries and rehabilitation, some are more vulnerable. It is important that we are able to identify and support these clients.

Working alongside our providers and other government agencies we have improved our awareness of, understanding of and support for vulnerable clients. As a result we have been better able to tailor our services to meet clients' needs. We are also now better placed to look out for our clients during significant events, eg the floods in Wellington during May 2015.

Improving the transparency of medical assessments

We pay medical experts to assess the decisions we make about clients' cover, entitlements and rehabilitation support. In 2012 we recognised the need to improve the quality of our assessment services and provide greater transparency for clients on how, when and from whom we seek external medical advice.

At that time our contracts with these medical experts were complicated and made it hard to get the assessments we needed when we needed them. We wanted to ensure that the processes we used to determine when an assessment was required and who was best placed to deliver the assessment were consistent nationwide. In response, we established a programme of work to improve our medical assessments.

This has resulted in:

- a new Vocational Medical Service contract, which merges three existing types of contract into one, allows greater flexibility when requesting clinical advice and clearly states our quality requirements to assessors
- improved nationwide access, so our clients receive more timely access to the assessments they need
- access to specialist clinical support at any stage in a client's rehabilitation to ensure they receive the best possible advice regarding their rehabilitation options.

We will continue to improve assessment services by using panels of independent medical experts to inform our management of complex clinical cases.

Better support for birth injury babies and their families

Birth injuries can be devastating and may affect the rest of a child's and their family's lives.

We have put in place a liaison service for families of children with birth injuries to help parents feel assured that their children are getting the right support, and know where and whom to ask for assistance while cover is being determined.

This includes:

- an information booklet for parents
- a *Voice of the Family* document so that families can provide feedback about their experience, and allows parents to identify key people involved
- changes to our communications to keep parents better informed about what is happening with cover decisions.

Once a claim has been accepted, the family does not have to tell their story again as the liaison support person becomes their case owner.

Implementing the Spinal Cord Impairment Action Plan

Spinal cord injuries are extremely complex and have significant lifelong effects for the people, their families, whānau and their community.

In June 2014 the Minister of Health and Minister for ACC jointly launched the New Zealand Spinal Cord Impairment Action Plan, which aims to ensure that we achieve the best possible health and wellbeing outcomes for people with spinal cord injuries that will enhance their quality of life and ability to participate in society.

During 2014/15:

- a National Governance Group was established by ACC and the Ministry of Health, with strong clinical and sector representation
- a coordinated, integrated national Spinal Cord Impairment service was implemented at Canterbury District Health Board and Counties Manukau District Health Board, along with one national paediatric service (Starship Children's Health) to provide specialist high quality services to improve client outcomes
- policies were implemented that ensure clients are transported to places of definitive care as quickly as possible following injury.

Better Public Services Result Area 9 – Better for Business programme

We are one of eight core agencies supporting the Better Public Services Result Area 9 – Better for Business programme. Throughout the year we have supported the Result Area 9 programme, led by the Ministry of Business, Innovation and Employment, to progress various initiatives including the implementation of the New Zealand Business Number. We continue to work with the programme and ensure alignment between Result Area 9's targets for improving services to business and our own transformation programme.

Making review processes easier for clients

FairWay is an independent organisation that handles disputes that people have with ACC. When a client asks for a review of an ACC decision, early resolution is important as this is likely to be a stressful time for them.

As part of a wider disputes and decision making project, we conducted an early resolution trial in association with two providers (FairWay and Linkage Trust) between April and December 2014 at six offices. Following evaluation this will be fully implemented in 2015/16.

FairWay has also been trialling changes to make the review process more client centric, focusing on reducing unnecessary adjournments and helping ACC clients understand the review process and decisions better. There is also a greater focus on consistent decision making, including a trial of a robust peer review process before a decision is issued.

LIVING OUR VALUES

Putting people before process

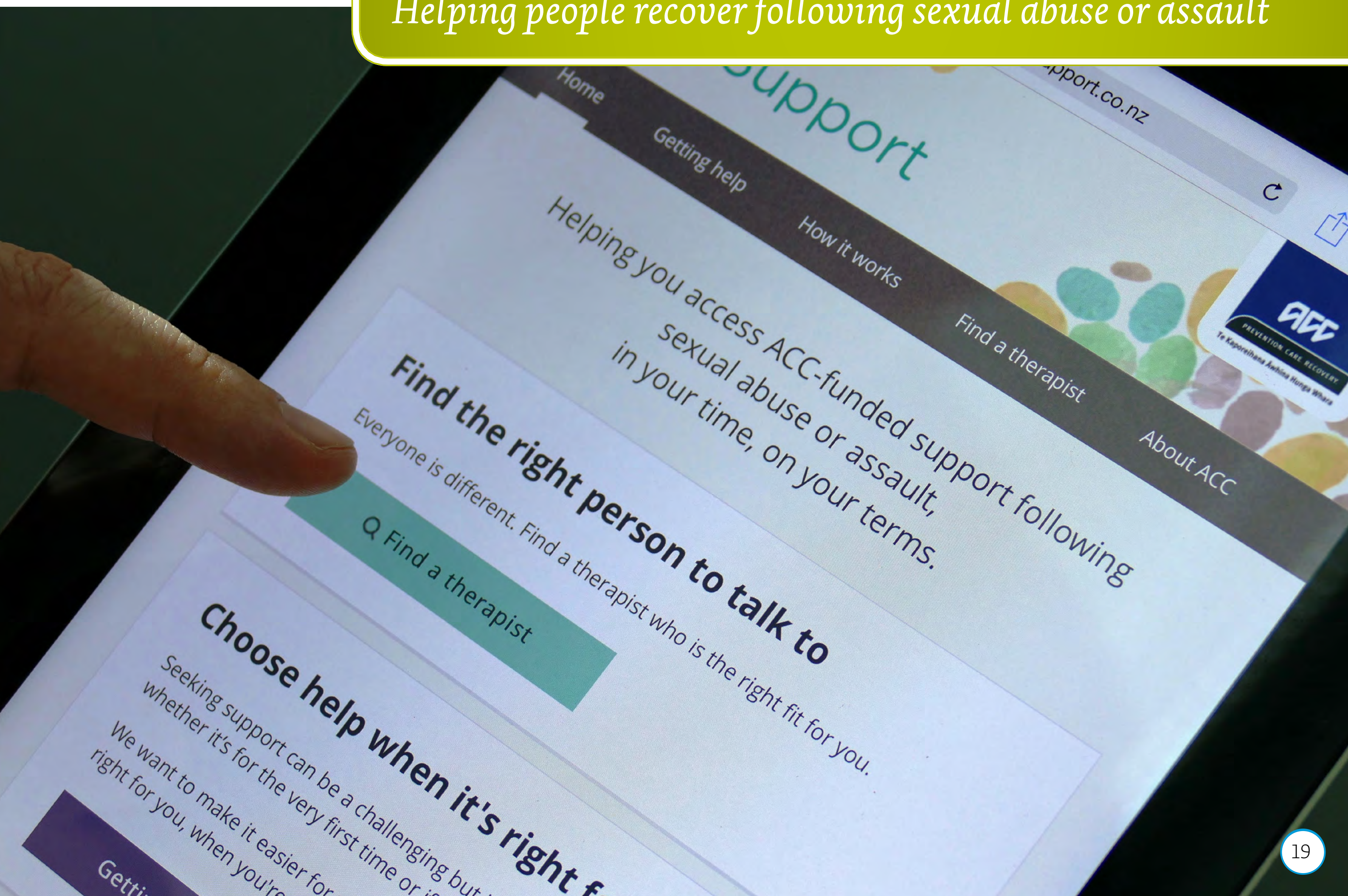
In November 2014 we implemented the Integrated Services for Sensitive Claims. These services provide children, adolescents, adults and their families and whānau with support to help people recover following sexual abuse or assault.

We listened to both survivors and providers and have changed the way we purchase services to support a flexible and client centred service. The client's recovery is at the centre of our new service and we're aiming to ensure that clients feel supported to engage with recovery services at times and at a pace that work for them. At any stage a client may also receive support services in the form of social work, family and whānau support, cultural advice or active liaison.

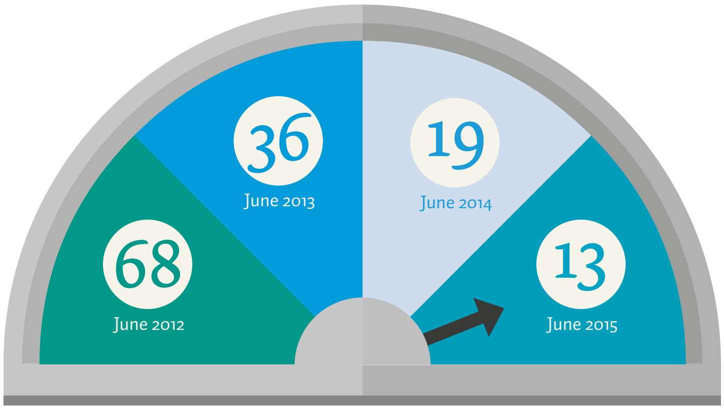
A website was launched in November 2014 (www.findsupport.co.nz) to assist people seeking help following sexual abuse or assault. A person can find a therapist of their choice and begin fully funded sessions straight away, without having to wait for their ACC claim to be processed or accepted.

The new service aims to make it easier for clients to access support and increase the number of clients we help. Since launching the new service we have seen an increase in the number of clients seeking help from ACC and we are continuing to focus our efforts on providing the right service, at the right time with the right people.

Helping people recover following sexual abuse or assault



Improve the way we protect our customers' personal information



The rolling three-month average of monthly privacy breaches.

Why this is important to us

We deal with confidential and sensitive information for a large number of people and entities, including clients, providers and employers.

We have made significant improvements in the way we manage our customers' information through our dedicated focus on privacy, and investment in people and improved processes. Our transformation programme gives us the opportunity to implement privacy by design and enhance our processes and technology further to ensure that we continue to protect personal information.

Our performance this year

We measure our success with privacy by aiming to reduce the number of privacy breaches per month. We have come a long way, from 68 in June 2012 to 13 by June 2015. We just missed our target of 12.

Privacy highlights

KMPG's follow-up review of the 2012 independent review of privacy at ACC found we have made good progress

KPMG completed a follow-up of the independent assessment of our privacy progress following two years of significant investment in training and privacy initiatives. The review provided a positive assessment of our progress and has given us a clear direction on where we need to continue to focus.

ACC's privacy incident reporting is mature and well regarded in the sector, and we are sharing the knowledge we have gained with the Government Chief Privacy Officer, who is developing the government sector's privacy breach definition and reporting framework.

Controls over emails have been strengthened

In September 2014 emails were able to be sent directly from ACC's claims management system. This initiative was designed to prevent breaches caused by inadvertent crossovers with other externally-bound emails.

In December 2014 we launched a new email tool to notify staff of any potential risks in their outgoing emails and let them perform final checks prior to sending emails outside ACC.

Continued focus on training and our culture

Our inductions for new staff were changed during the year and these now include mandatory privacy training explaining how to protect customers' information.

LIVING OUR VALUES

Being fair and open

We have developed a new customer feedback strategy that will ensure we take customers' feedback seriously and learn from it.

How an organisation manages feedback is a useful barometer of its commitment to delivering services that meet people's needs. Across the world, new technologies and increasing consumer expectations are leading to more people providing feedback about the services they receive.

For us, feedback provides valuable insights into poor service, systemic errors and problems with specific processes. Feedback also provides an opportunity to understand the motives, feelings and expectations of those who use our services and can also help to confirm when we're getting things right.

In August 2014 the Office of the Auditor-General released a report on how ACC deals with complaints. While some positive aspects were acknowledged, the report had a number of suggestions for improvement.

In response, we've agreed a customer feedback strategy that contains a three-year programme of activity to:

- regularly monitor our performance and publicise our progress by setting key performance indicators and reporting quarterly
- establish a single point of accountability for reviewing and responding to customer feedback
- improve our processes to ensure we welcome and proactively seek feedback, conduct trend and root cause analysis, and make process improvements where required.

Improving the way we respond to customer feedback

Maintain the financial sustainability and governance of the Scheme

Cost Effectiveness

Are we fair and affordable?

Measuring our contribution to New Zealand	Actual 13/14	Target 14/15	Actual 14/15	Target met?
% of total expenditure paid directly to clients or for services to clients	New	80%	82.1%	✓
% of total ACC levies to gross domestic product	2.2%	1.9%	1.8%	✓
Health $ per injury - annual growth	3.0%	3.5%[1]	3.4%	✓

Measuring our contribution to New Zealand	Actual 13/14	Target 14/15	Actual 14/15	Target met?
Ratio of this year's total levies to the total claims incurred for this year's accidents over time	1.2	0.9-1.1	1.0	✓
Funding ratio[2]	99.6%	103.4%	105.0%	✓
Investment performance after costs relative to benchmark	0.10%	0.30%	0.49%	✓
Returns from insurance operations	$1,218m	$868m	$320m	✗

1 Based on OCL assumptions.

2 Details of the funding ratio by account can be found in the statement of performance.

Why this is important to us

One of the Government's priorities is that the Scheme is financially sustainable, is fair to current and future generations and remains affordable for New Zealanders.

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 ACC accounts, each account covering a specific group of injuries. Each account operates independently and cannot cross-subsidise another.

Our objective is to reach and maintain full funding of all accounts whilst maintaining levy stability, with the exception of government funded non-earners' injuries incurred prior to 1 July 2001, which are funded on a pay-as-you-go basis.

Supporting a stable levy path

Full funding assumes that the funding to pay all current obligations comes from the current assets and future investment income earned on these assets. By raising enough revenue each year to cover that year's full cost of claims, the Scheme will be financially sustainable and fair to each generation of New Zealanders.

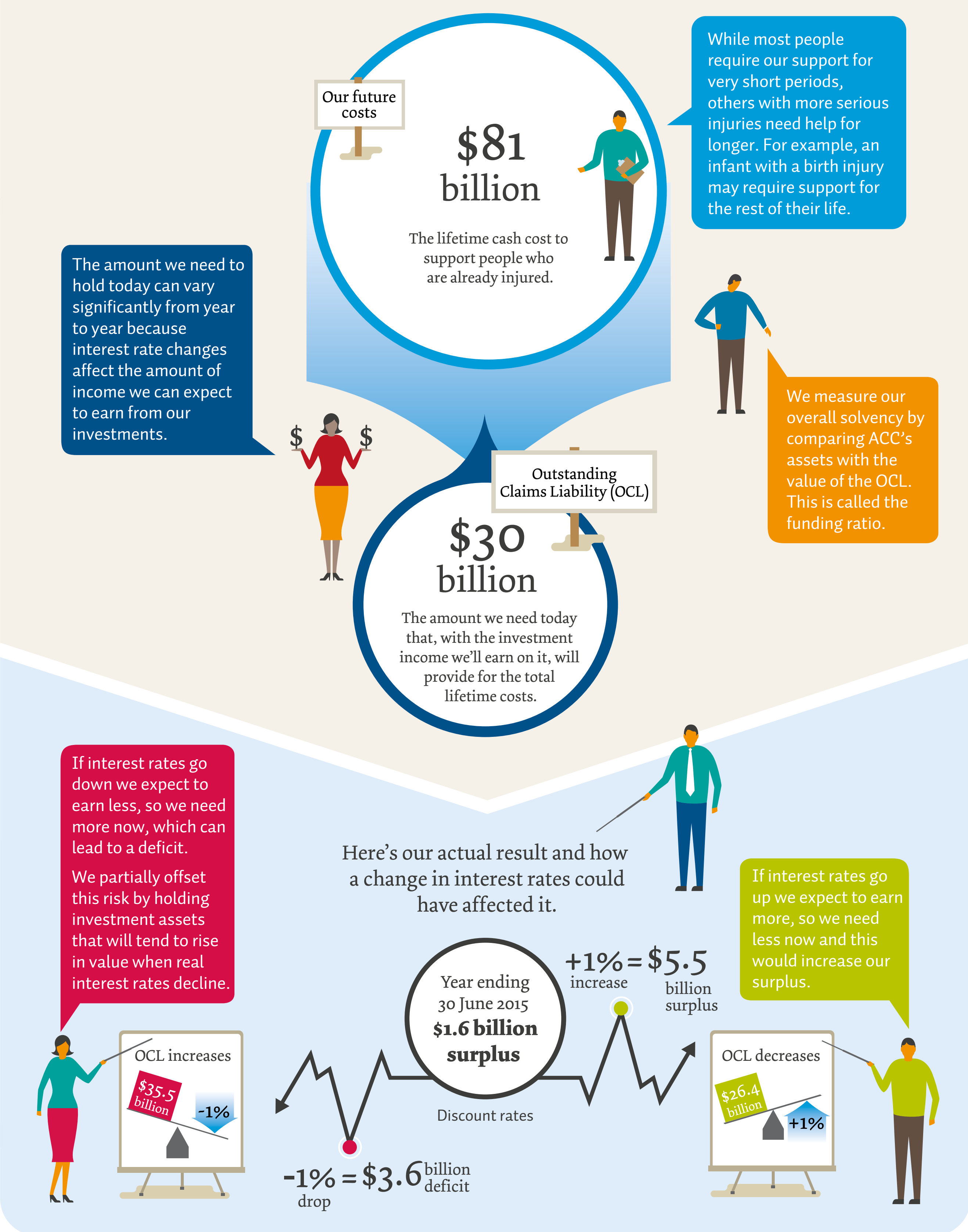
Levies are set by the Government and we welcome the Government's decision to discontinue residual levies before the legislated date of 31 March 2019. Our role is to provide high quality services to customers and manage our controllable costs in order to minimise the burden of levies on the New Zealand public.

In considering financial results, it is important to recognise that ACC is not a profit-making entity. We collect and invest levies in order to meet claims and related expenses. In the fullness of time, every cent of levy and investment income received must be returned to the public in the form of claim payments, used in the administration of the Scheme, or invested in injury prevention activity.

The term 'surplus' or 'deficit' for ACC refers to the movement towards or away from full funding. As explained in the diagram, external economic factors (that are outside our control) have a significant impact on our annual financial result and whether ACC reports a surplus or a deficit.

That's why we also monitor the returns from insurance operations, which measure our internal operational performance, excluding gains or losses driven by external economic factors, and this measures how well we are managing our controllable costs.

Movements in interest rates have a significant impact on ACC's financial results for the year.



Our performance this year

ACC's financial surplus for 2014/15 of $1.6 billion is $0.7 billion higher than budget. This was influenced by a number of factors:

- Investment returns after costs of 14.43% generating income of $4 billion for the year ($2.5 billion higher than budget)
- A $2 billion reduction in the outstanding claims liability for future costs as a result of reduced inflation assumptions
- An increase in the outstanding claims liability of $3.2 billion due to decreases in interest rates (with the single effective discount rate reducing from 5.09% to 4.34% over the year)
- Returns from insurance operations were $0.55 billion below budget. This was a result of increased claim volumes and includes a $0.3 billion impact from the discontinuation of residual levies from 1 April 2016.

Returns from insurance operations were below budget by $0.55 billion

Levy revenue was higher than expected ($71 million above budget). The higher revenue in the Earners' Account reflects higher liable earnings due to improved economic conditions increasing both the work force and wage inflation. The Motor Vehicle Account levy revenue reflects increases in both the number of vehicles licensed and petrol volumes (a total of three billion litres in the year). Levy revenue in the Work Account was below budget as a result of an $87 million impact due to the discontinuation of residual levies.

The higher than expected revenue countered the increase in cash claim costs, which were $126 million above budget. Total claim volumes were up 2.8% and entitlement claims (those where moderate or serious injuries have occurred and people required weekly compensation and/or additional support) were 12.4% up year on year, which led to higher claim costs than expected.

The net increase in the outstanding claims liability (excluding the impact of economic assumptions and other factors) was $294 million more than budget. There are a number of factors that explain this but put simply, the net increase reflects the increase in future costs as a result of claim volume increases and the number of active claims being higher than expected for those clients with longer claim durations.

There was a negative impact of $238 million compared to budget from the movement in the unexpired risk liability. This includes a $211 million impact due to the discontinuation of residual levies.

Financial sustainability and governance highlights

The Accident Compensation (Financial Responsibility and Transparency) Amendment Bill has been passed into legislation

The Bill establishes a principle-based framework for determining how ACC's levied accounts are funded and aims to improve continuity of decision making and transparency of the levy setting process. The Government will set the funding policy to inform ACC's public consultation on levy rates, with ACC reporting on long-term implications for future levy paths and account solvency when the Government makes a final decision. The Bill also provides a mechanism to cease collection of residual levies from 1 April 2016. The purpose of residual levies is to fund pre-1999 claims.

Investment performance report – returns 0.49% above market benchmark

This was the 20th consecutive year in which our reserves portfolios beat their market benchmarks.

ACC's investment porfolios exist to ensure that we can meet the future costs of claims as a result of injuries that have already occurred without the need for any catch-up contributions from future levy payers.

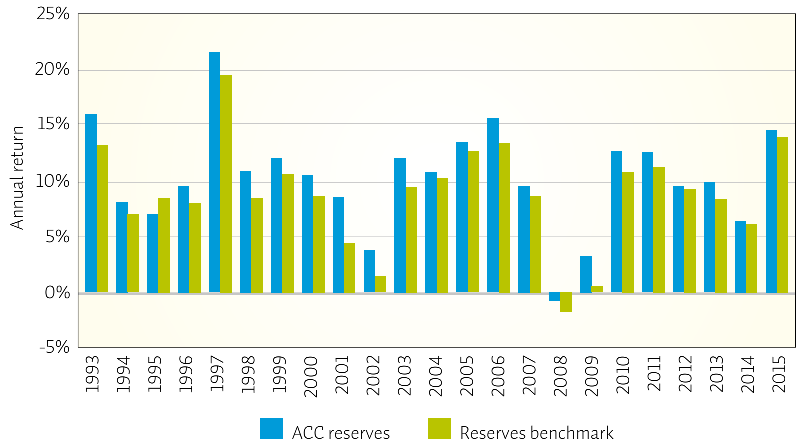
Our reserves portfolios achieved an aggregate return of 14.55% over the year, beating market benchmarks by 0.61%. After adjusting for investment expenses and taxes, this represented net added value of about 0.49%. This is in line with what we hope to achieve on average over time.

Most of ACC's internally managed investment portfolios outperformed their benchmarks during the year, and asset allocation decisions also contributed to the outperformance.

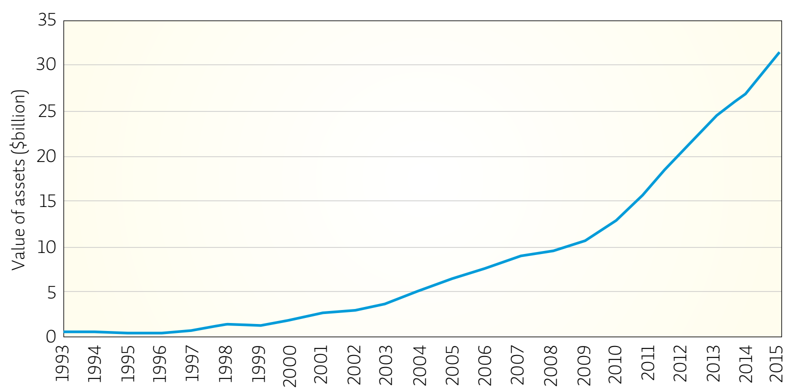
The higher than expected absolute investment return was due to strong returns from bond and equity markets, as well as the weakness of the New Zealand dollar during the year.

ACC's relatively low allocation to equity markets will have depressed returns in comparison with other funds (as equity markets were strong over the year, boosting the returns of funds that had higher equity allocations), although this had less of an impact on returns than in the previous year, as bond markets also showed strong returns.

ACC financial year returns against benchmark



ACC growth of assets under management



LIVING OUR VALUES

Being responsible stewards

ACC, through the Wellington Gateway Partnership, is a 45% investor in New Zealand's first state highway to be delivered as part of a Public-Private Partnership.

In July 2014 the Wellington Gateway Partnership and the New Zealand Transport Agency completed contract negotiations and financial arrangements for the $1 billion Transmission Gully project, a 27km motorway north of Wellington.

Under the Public-Private Partnership arrangement, the Wellington Gateway Partnership will finance, design and construct the project, then operate and maintain the Transmission Gully Motorway from 2020 for a period of 25 years.

ACC will be providing $57.3 million of equity to the project, and additionally will be lending $123.1 million of long-term debt.

If successful, this investment will deliver stable, long-term cash flows. The motorway design embeds high standards of safety for commuters and freight movers, and we see a natural alignment between our injury prevention responsibilities and a project that will strengthen the quality of New Zealand's road network. At its peak the construction phase will employ approximately 700 people.

Transmission Gully

Mark Tantrum

Organisational culture, capability and capacity

People

Measuring our contribution to New Zealand	Actual 13/14	Target 14/15	Actual 14/15	Target met?
Staff turnover	10.3%	≤15%	12.1%	✓
Ratio of engaged staff to actively disengaged staff	7.14:1	6.25:1	6.00:1	✗

Information Technology

Measuring our contribution to New Zealand	Actual 13/14	Target 14/15	Actual 14/15	Target met?
Overall operational system availability	99.4%	99.5%	99.7%	✓

Why this is important to us

We remain committed to building and investing in a diverse and inclusive workforce so that our people can continue to deliver high-quality customer services that will help New Zealanders improve their quality of life by minimising the incidence and impact of injury. Providing staff with a safe workplace and supporting their wellbeing continues to be a key priority.

Our performance this year

In 2014, ACC recorded its highest-ever staff engagement ratio. This year the ratio of engaged to disengaged employees returned to the same level as 2013 and was just below target.

More pleasingly, overall staff satisfaction calculated by the annual Gallup survey was the same as last year (3.90 from a possible score of 5), highlighting that our staff were optimistic about their future at ACC. We will continue to put in place actions to help our people feel engaged and empowered to make decisions so that we can deliver a consistently great customer experience.

Organisational culture and capability highlights

Focusing on small changes that make a big difference to our customers' experience

In February 2015 we launched a new customer experience programme called Tika, building on the introduction of ACC's new vision and values.

The Māori word Tika has a rich meaning and varies depending on context. In its plain form it is to be correct, right, fair or accurate.

If we're being Tika, we're doing the right thing for our customers in the right way, at the right time.

We are asking our staff to identify and record the small changes they are making to improve our customers' experience every day.

Since the programme launch our staff have generated close to 300 ideas that they have implemented to improve our customers' experience.

Building the capability of our people

In 2014 we partnered with Auckland University of Technology to develop undergraduate and postgraduate qualifications in case management and leadership with an ACC context. The first group completed their Graduate

Certificates in Health Science in June 2015 whilst the remaining groups have made good progress towards their qualifications.

Throughout the year we implemented a number of initiatives that focused on nutrition, physical activity, sleep and resilience with the aim of improving staff wellbeing.

Becoming an exemplar in workplace health and safety

In November 2014 the Board endorsed a three year Health and Safety Strategy and action plan that will help us to achieve our aim of making our environments and those over which we have influence injury-free. The work plan is focused on three areas: demonstrate safety leadership, deliver a mature system and strengthen our safety culture.

Human Resources Information System upgrade

During 2014/15 we upgraded the Human Resources Information System platform to ensure that ACC has a secure, supportable, modern and maintainable payroll solution. We introduced a new look and feel for staff and new integrated tools for analysis, dashboard creation and improved reporting functionality. This upgrade will help us deliver effective talent management in ACC.

Workforce profile and equal opportunities

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

Full-time equivalent

3,220

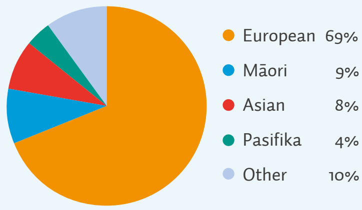
3,220 permanent and temporary staff
2,034 direct frontline staff
500 indirect frontline staff

Headcount

3,425

3,425 permanent and temporary staff

Ethnic profile*



Ethnic diversity remains stable

Age profile

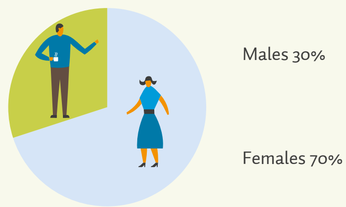
Average age 41 years

Disability profile*

1.3%

Our proportion of employees with disabilities is 1.3% (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.

Our activities this year are summarised against the seven key elements of being a 'good employer' below.

Element	Our activity 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. • Enhanced manager induction programme. • Developed a talent management toolkit which includes a matrix for assessing talent, and a career board approach, which is considered best practice and is being promoted by the State Services Commission.
Recruitment, induction and selection	• Robust recruitment and selection processes are in place including regional assessment centres to ensure consistency. • Commenced a review of our approach to diversity and inclusion. • Use of broad assessment and selection tools to encourage diversity of age, ethnicity, gender and disability. • Undertook a joint initiative with Be.Institute and Ministry of Social Development with the goal of supporting employment for people with disabilities.
Employee development, promotion and exit	• Performance development and remuneration framework in place. • Graduate and postgraduate qualifications offered in health science for case management and business administration. • Comprehensive range of training programmes available to staff. • A customer service programme for all staff has been rolled out.
Flexibility and work design	• Organisation-wide flexible working programme. • Parent rooms in some locations.
Remuneration, recognition and conditions	• Initiatives in place to recognise high performers. • Transparent, equitable and gender-neutral job evaluation practices.
Harassment and bullying prevention	• Contributed to the development of State Services Commission guidelines on sexual harassment and ensured ACC's guidelines align.
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: – a dedicated workplace wellness programme – an Employee Assistance Programme – a professional supervision support programme – ergonomic workstation assessments – health and safety/WorkSAFE policy and training for all staff – on site health checks and flu vaccinations – the roll out of an interactive health and safety workshop called the 'Reality Room'.

Governance and managing our risks

ACC Board and governance framework

ACC is governed by a Board of up to eight members appointed by the Minister for ACC.

The Board exercises ACC's statutory powers and performs its functions. The Board may only act for the purpose of performing ACC's statutory functions.

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

The Board's governance role is largely governed by the provisions of the Crown Entities Act 2004 (CE Act), the AC Act, the State Sector Act 1988 and the Public Finance Act 1989 and includes the elements below:

- Maintaining appropriate relationships with the Minister, the House of Representatives 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 staff 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.

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

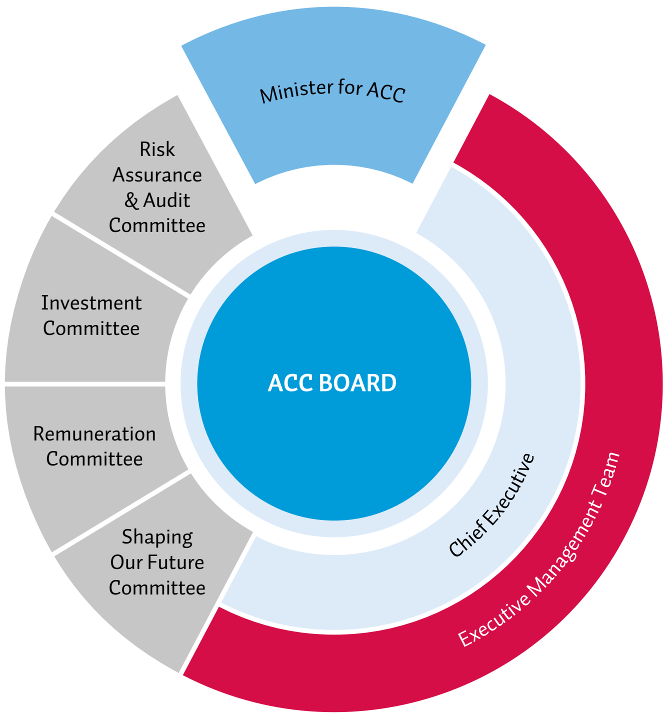
The Board can appoint committees, by resolution, to:

- advise it on any matters relating to ACC's functions and powers that are referred to the committees by the Board
- perform or exercise any of ACC's functions or powers that are delegated to the committees.

The Board must ensure that at least one Board member is on any committee that is to exercise a Board power or function. If a committee does not include a Board member, it can only have an advisory function.

As approved by the CE Act, 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.

Full biographies of Board members and ACC's Executive Management Team can be found at www.acc.co.nz.



Board and sub-committee attendance and fees[1]

Board members	ACC Board	Board Risk Assurance and Audit Committee	Board Investment Committee	Board Remuneration Committee	Board Shaping Our Future Committee	Board member remuneration received
Ms Paula Rebstock[2]	12/12	–	8/9	4/4	–	$98,000
Mr Trevor Janes[3]	12/12	–	9/9	4/4	–	$61,250
Ms Anita Mazzoleni[4]	10/11	7/8	–	–	3/4	$44,917
Mr James Miller[5]	12/12	–	9/9	–	4/4	$49,000
Ms Gillian Spooner[6]	12/12	8/8	9/9	–	4/4	$49,000
Prof Des Gorman	11/12	2/4	–	3/4	–	$49,000
Ms Kristy McDonald QC	10/12	8/8	–	4/4	–	$49,000
Prof Gregor Coster	11/12	5/6	–	–	–	$49,000
Mr John Meehan[7]	1/1	–	–	–	–	$4,083
Mr Patrick Duignan[8]	–	–	9/9	–	–	$30,000
Mr Stephen Greenwood[9]	–	–	8/9	–	–	$30,000

1 *Committee meeting attendance is recorded for members of committees only. A special meeting of the Board was held in July.*

2 *Board Chair and Chair of the Board Remuneration Committee.*

3 *Deputy Board Chair and Chair of the Board Investment Committee.*

4 *Appointed to the Board on 19 July 2014. Appointed Chair of the Board Risk Assurance and Audit Committee in July 2014.*

5 *Chair of the Board Shaping Our Future Committee.*

6 *Acting Chair of the Board Risk Assurance and Audit Committee in August and September 2014.*

7 *Board member term ended on 18 July 2014.*

8 *External member.*

9 *External member.*

Disclosure of interests

The Board has a conflicts of interest process through which Board members are required to disclose their interests on a monthly basis. Section 68(6) of the CE Act 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 permissions granted.

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 Des 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 NZ Board	1 December 2013	Professor Gregor Coster's conflict is managed according to the Letter of Expectations between ACC and WorkSafe NZ.
Mr James Miller	Chair of NZX	21 May 2015	Mr James Miller's conflict will be managed in accordance with the Letter of Expectations between ACC and NZX.

Remuneration

Board

Remuneration for Board and external committee members is set in accordance with the rates set by the Government under the Cabinet Fees Framework (the Framework). In 2013 the Minister for ACC conducted a review of the Board and committee member fees. The fees were increased to the current levels 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.

Executive

The Remuneration Committee reviews the performance and remuneration of the Chief Executive and senior management.

Government directions

On 22 April 2014 the Minister of State Services and the Minister of Finance issued directions to apply to whole-of-government approaches to ICT, Property and Procurement. These directions came into force on 19 June 2014 and apply to ACC as a Crown entity.

Whole-of-government area	Date applies from
ICT	19 June 2014
Property	1 July 2014
Procurement	1 February 2015

ACC's Board is responsible for ensuring ACC's compliance with the whole-of-government directions.

A further direction to support the implementation of the New Zealand Business Number is in development. The current timeframes indicate that the New Zealand Business Number direction will come into force by the end of 2015.

Ethical responsibilities

Our Code of Conduct specifies business standards and ethical considerations.

Subsidiary companies

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.

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 risks

We manage risks in line with current international risk management best practice. This facilitates 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 policy supports our commitment to a comprehensive and systematic approach to identifying, managing and documenting risks, and communicating and escalating risk matters to the Executive Risk and Compliance Committee and the Board.

We apply a 'three lines of defence' model in which staff are primarily responsible for identifying and managing risks and ensuring that risk management is fully integrated in their normal course of activities. They are supported by the Risk and Compliance Office, with the Assurance Services team providing independent assurance.

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

The table below lists risks under active management.

Risk description	Key mitigations
Change management We may not have the ability to deliver and absorb sustainable change over a long period of time.	• The Enterprise Programme Management Office's function is being strengthened to support management and ensure visibility and oversight of all significant change activities. • A target operating model will provide overall direction for design activity.
Operational performance Challenge of maintaining business operations while delivering transformational change.	• Business group plans are aligned to our strategic intentions and reported on regularly. • Performance is being monitored monthly against organisational measures.
Our people We may not have effective attraction, retention, succession planning, or safety practices in place throughout our transition to our future state.	• A talent workforce strategy is being developed to support the retention and development of high performing staff. • Methods are being developed to mature organisational change management.

Investments report

Why ACC invests

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

On an ongoing basis we fully fund all new injuries by collecting sufficient levies each year to provide for all the immediate and future costs of injuries occurring in that year. Because ACC is now fully funded, we no longer need to collect further levies to pay for the past cost of injuries.

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 a long-term and a short-term aspect to it:

- 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 as a slightly conservative 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 the large increases in levy rates that could be required if ACC were to stray significantly 'off-course' in terms of its ability to meet future obligations. Specifically, we measure whether we are 'on-course' for funding our future claims obligations by comparing the value of ACC's assets (mainly investment assets) with the value of our claims liabilities (which we must value at risk free discount rates, under New Zealand accounting standards) for the private-sector-funded Accounts that have a policy 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. 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.[1] 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 will 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

1 *'Real' long-term interest rates refers to 'nominal' long-term interest rates minus the anticipated impact of inflation on investment returns.*

outlook increases and bond yields show a corresponding increase, this would have an adverse impact 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. This could occur due to widespread credit defaults, a strengthening in the New Zealand dollar against foreign currencies, or if our investment performance was worse than market benchmarks.

The balance of ACC's assets and liabilities can also be significantly affected by actuarial factors that have nothing to do with interest rates, inflation, or other clearly identifiable economic variables. 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 or 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 fully offset 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. Compared with many other funds, 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, owning about 3% of the market capitalisation of the New Zealand sharemarket, which equates to 4.5% 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 40% of the inflation indexed bonds that have been issued by the New Zealand Government, and 6% of the regular (not inflation indexed) New Zealand Government bonds.

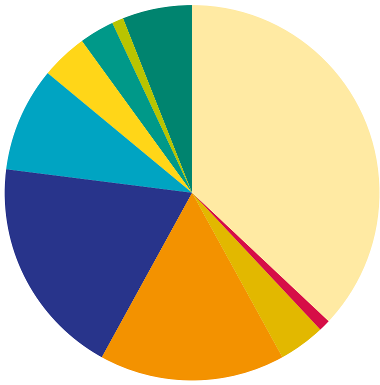
Each of ACC's Accounts splits its investment funds between an investment in ACC's short-term 'cash portfolio', used to meet near-term expenditure requirements, and its own longer-term 'reserves portfolio', set aside to meet the future costs of existing claims.

The investment allocations of the Reserves Portfolios differ by Account, reflecting different funding positions, different projected growth rates, and 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 fully funded Accounts have investment portfolios that are several times as large as their annual levy income, we must limit these Account's exposure to equity markets to avoid investment results causing excessive variability in levy rates. 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 almost tripled in size over the past six years.

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

Composition of aggregate Reserves Portfolio[1]



- New Zealand Bonds 38%
- New Zealand Private Equity <1%
- Australian Equity[2] 4%
- Global Equity[2] 16%
- New Zealand Index Linked Bonds 20%
- New Zealand Equity 9%
- New Zealand and Aust Property and Infrastructure 4%
- Global Bonds 3%
- Other <1%
- Reserves Cash 6%
- Foreign currency overlay 0%

1 *The pie chart demonstrates allocation by portfolio rather than by investment type.*

2 *The Global Equity and Australian Equity slices include effective exposure to equity 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 effective exposure of interest rate derivatives represented 6% of total reserves at the end of June 2015.*

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 Team directly manages almost all of ACC's investments in New Zealand investment markets, and the majority of ACC's investments in Australia. Since April 2011 the Investment Team has also been directly managing a portion of ACC's investment in global equities. The manager of each portfolio aims to identify and take advantage of situations where some sector or security within their market is being mis-priced in relation to its 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 large proportion of ACC's private equity investments) are outsourced to external funds 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 do balance this diversification against 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.

The management of ACC's investment portfolios is overseen by the Investment Committee of ACC's Board. This committee makes high level decisions like setting asset allocation benchmarks, appointing external fund management companies, setting the rules for the management of ACC's portfolios, and specifically approving some large or unusual investment transactions. The Investment Committee also reviews the performance, strategy, and controls for ACC's portfolios and ACC's Investment Team.

Overlay strategies

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

- An 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.
- Regularly buying or selling 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 implement this through the purchase or sale of physical equities.

- 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, such that ACC may have net unhedged foreign exchange exposures that are either higher or lower than this neutral 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. We also have limits and controls governing derivative use and credit exposures.

Overview of investment markets in the past year

Developed country sharemarkets were strong this year, delivering average returns of about 9% in local currency terms. The New Zealand sharemarket outperformed most other markets when expressed in local currency terms, but the Australian equity market lagged global markets.

The New Zealand dollar declined against most major currencies over the year, which enhanced the New Zealand dollar returns from holding unhedged investments in offshore markets. Hence, ACC's investments in global equities delivered returns of over 30% prior to currency hedging.

New Zealand bond yields fell by about 0.75% over the course of the year. Bond yields also declined in most other developed countries (although the decline in rates was smaller).

Future investment returns

The decline in New Zealand bond yields boosted our investment income over the past year, but it reduces the returns that we can anticipate from bonds in the future. A large proportion of ACC's investments are held in New Zealand Government bonds, which are now yielding less than 4%. This is reflected in a lower discount rate, which has had an upward influence on the valuation of our claims liability.

Investment returns for 2014/15

ACC's Reserves Portfolios delivered an average return of 14.55%.

Although most of this return was due to general market effects, it was nonetheless a good result for ACC even after taking account of the effects of changes in bond, equity and currency markets.

Our investment return exceeded the average return of ACC's market-based benchmarks by 0.61% over the year.

The reported return is expressed prior to the deduction of 0.137% of investment related costs, but they are expressed after the deduction of 0.02% of offshore withholding taxes paid by ACC (whereas ACC's benchmarks are calculated on the basis of 'gross' indices which make no deduction for withholding taxes). Taking account of both of these factors, we outperformed our market benchmarks by 0.49% on a pre-tax net-of-costs basis. This is a satisfactory outcome for ACC, and is broadly in line with the outperformance that we hope to average over the long-term.

This outperformance was the combined result of several contributing factors.

- ACC's internally managed bond portfolios meaningfully outperformed their benchmarks. The portfolios benefited from a further narrowing in yield spreads on non-government bonds.
- ACC's internally managed New Zealand equity portfolios significantly outperformed their benchmarks. The outperformance was due to contributions from a large number of distinct positions, and was not dominated by a single theme or holding. The biggest contributions to this outperformance came from significant investments in Chorus and Infratil, and from having a lower exposure to Xero than the benchmark index.
- In aggregate, ACC's global equity portfolios outperformed ACC's benchmark. This was mainly due to how we allocated the global equity asset class between portfolios (favouring portfolios that were focused on growth and lower risk companies, whilst underweighting emerging markets). ACC's internally managed global equity portfolio outperformed its benchmarks, but the performance of externally managed portfolios was mixed (with a slightly negative impact on overall relative performance).
- ACC's asset allocation positioning contributed about 0.17% to overall reserves performance. This included positive contributions from maintaining a higher level of exposure to foreign currency than was implicit in

ACC's benchmarks, and also gains from changes to ACC's positioning in bond and equity markets during the course of the year. These asset allocation gains were partly offset by a negative impact from ACC favouring inflation indexed bonds and cash ahead of conventional bonds.

- ACC's externally managed global bond portfolio also outperformed its benchmarks.

These positive contributions to relative performance were only partly offset by slightly disappointing returns from other investment activities.

- ACC's Australian equity portfolios under-performed their benchmarks by an average of 0.8% prior to the effect of currency hedges. This was due to disappointing performances from an externally managed resource equity portfolio and from an internally managed portfolio of large capitalisation industrial equities.
- Although ACC's direct investments in property and infrastructure achieved strong returns, these returns failed to keep up with the listed equity benchmarks that we use as a yardstick to measure ACC's property and infrastructure investments. We attribute this underperformance firstly to ACC's direct investments being less sensitive to changes in market levels than the listed benchmarks and secondly to the 'noise' inherent in any comparison of returns from unlisted assets with a listed equity benchmark over a short period of time.
- ACC's private equity investments showed lower returns than the listed equity market. Like the property and infrastructure investments, the reported returns from private equity depend on the valuations assigned to unlisted investments, and there can be considerable year-to-year dispersion between changes in these valuations and changes in the listed equity market.

We think about returns on a risk adjusted basis, as we believe that we should require a higher return if we are taking a greater than normal level of risk, but should also be willing to accept a lower return if we are taking a lower than average level of risk. In our assessment, ACC's Reserves Portfolios took marginally less risk than the benchmark position for most of 2014/15, and the Reserves Portfolios therefore achieved significant outperformance on a risk-adjusted basis.

	Annual portfolio returns				
		2014/15 financial year		Average last 3 years	
	$million	Portfolio	Benchmark	Portfolio	Benchmark
Cash portfolio	**345**	**4.0%**	**3.7%**	**3.4%**	**3.1%**
Reserves Portfolios by asset class:					
Reserves Cash	1,200	3.9%	3.7%	3.4%	3.1%
New Zealand Index Linked Bonds	6,146	8.8%	8.5%	3.8%	2.6%
New Zealand Bonds	12,022	11.8%	11.1%	5.8%	4.3%
New Zealand Equity	2,800	14.6%	12.7%	20.4%	19.3%
New Zealand Private Equity[*]	147	8.3%	0.0%	12.6%	0.0%
New Zealand and Aust Property & Infrastructure	1,159	16.7%	20.3%	13.8%	15.5%
Australian Equity	1,317	9.5%	10.1%	6.4%	7.5%
Global Bonds	938	24.8%	23.3%	9.7%	8.5%
Global Equity	5,566	31.4%	31.1%	21.0%	20.3%
Interest Rate Derivative overlay[1]	112	0.6%	0.5%	0.1%	0.0%
Equity Future overlay[1*]	117	0.3%	0.0%	0.0%	0.0%
Foreign Currency overlay[1,2]	-118	-1.1%	-1.2%	N/a	N/a
Total Reserves Portfolio	**31,406**	**14.5%**	**13.9%**	**10.2%**	**9.5%**
By Funding Account:					
Earners'	7,958	14.0%	13.4%	9.8%	9.1%
Motor Vehicle	9,628	14.9%	14.3%	10.2%	9.5%
Work	7,742	13.9%	13.4%	9.8%	4.6%
Non-Earners'	2,984	15.6%	14.7%	11.1%	10.3%
Treatment Injury	3,094	15.5%	14.8%	11.3%	10.5%
Total Reserves Portfolio	**31,406**	**14.5%**	**13.9%**	**10.2%**	**9.5%**

1 *Percentages are expressed as contributions to the total Reserves Portfolio, rather than as a return on the funds physically invested in these derivative strategies.*

2 *Inception date is 1 April 2015. The benchmark is the hedge return represented by the difference between the hedged and unhedged total reserves returns. Due to the recent inception date, three year averages are not available.*

* *The benchmark weight is zero for these asset classes.*

Please note: Total reserves and cash are valued at last sale price. The investments in the financial statements are measured at fair value under 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 $37.8 million (including fees paid to external fund managers and the remuneration of ACC's investment staff), which detracted 0.14% from investment returns in 2014/15. 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 return by just 0.04%.

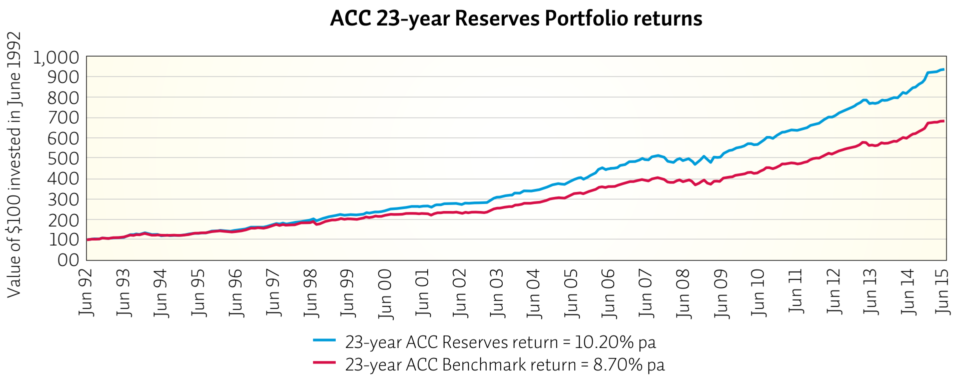
Long term investment performance

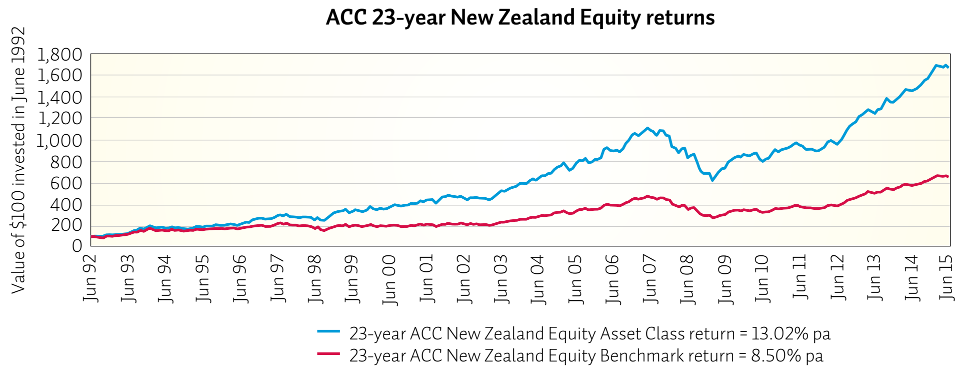
ACC has now been measuring the performance of its investment portfolios on a market-value basis for 23 years.

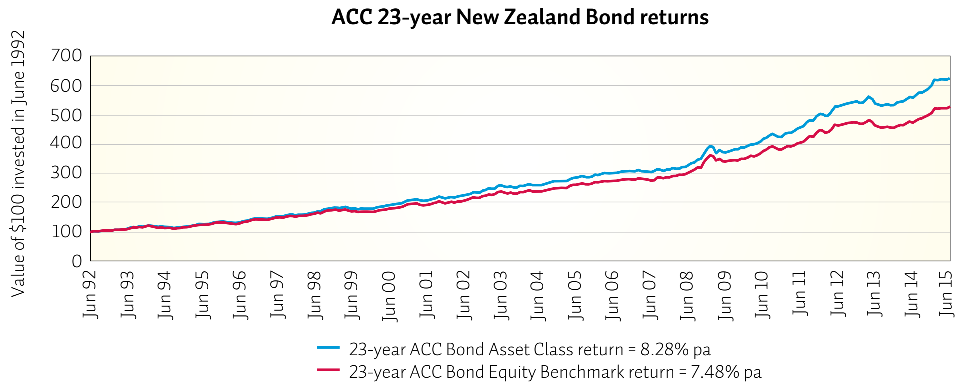
- The New Zealand bond portfolio has outperformed its benchmark in 22 of the past 23 years.
- The New Zealand equity portfolio has outperformed its benchmark in 20 of the past 23 years.
- ACC's overall Reserves Portfolio has outperformed its composite benchmark for 22 of the past 23 years, including 20 consecutive years of outperformance from June 1995 to June 2015 (but note that in one of these 23 years, ACC only performed in line with benchmark after allowing for investment costs).

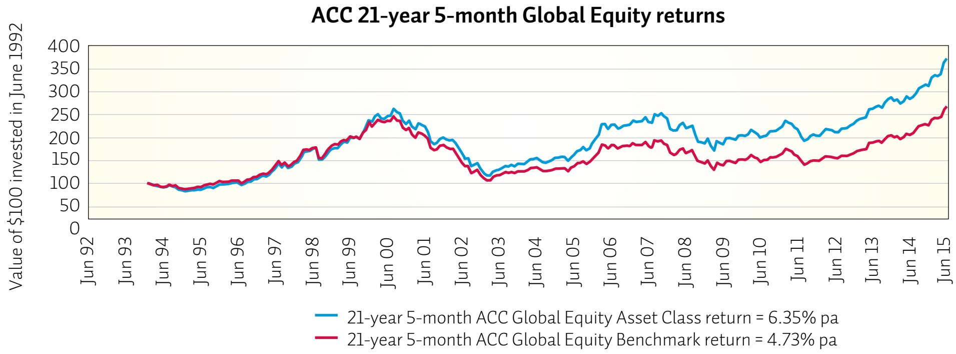
We are not aware of any other large diversified fund anywhere in the world that can match the consistency of ACC's Reserves Portfolio's outperformance during this turbulent period for investment markets.

This consistency has helped ACC's Reserves Portfolios to achieve compound returns of more than 10% per annum for the past 23 years, which is higher than the returns that could have been achieved by passively investing in any major investment market over that 23-year period. Through the returns that ACC has achieved, every $100 that ACC had invested 23 years ago has effectively grown to be worth $934 today.









Note: Global equity returns are shown on a hedged basis up to 30 June 2001, and unhedged after this date. The period of 21 years and five months reflects the full period over which ACC has been invested in global equities.

ACC's unusually strong investment performance over the past two decades may be partly explained by the fact that ACC's internal management avoids many of the agency issues 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 ACC's funds management team has generally managed to focus on making investments where they believe they understand something that other market participants do not, whilst avoiding large risk exposures to investments where ACC's understanding is no greater than that of other investors.

Growth in ACC's investment portfolios

ACC's Reserves Portfolios increased in value by 16.5% from $27.0 billion last year to $31.4 billion at the end of June 2015. Although most of this growth came from investment returns, ACC also added extra funds from the surplus of levy income over Scheme expenditure.

Most of ACC's accounts are now '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 be funded entirely out of investment income. However, if bond yields were to decline further, there is a risk that future investment income could be insufficient to keep up with the growth in ACC's claims obligations.

Investment benchmarks

Like most other fund managers, we compare the make-up and performance of ACC's investment portfolios with 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 recognised market benchmark is appropriate for ACC, but in other cases we manage ACC's portfolios against a different benchmark that better reflects 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 element 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 Reserves Portfolios belonging to ACC's various accounts are measured against composite benchmarks, which 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 typically reviewed each year, and are intended to reflect a sensible starting point for the allocation of each account's funds, based on the financial positions of these accounts and the pricing of investment markets at the time of each review. Benchmark allocations between investment markets have changed several times over the past 23 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 with the same unchanging 'reference portfolio', an approach which is taken by many other funds. However, ACC aims to encourage 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 is particularly important for ACC, as large changes in ACC's funding position over the past decade have had a significant impact on the appropriate benchmark 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 the 23 year return 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, unhedged global bonds, New Zealand equities or global equities over the 23 year period.

Probability of negative returns

A typical risk analysis based on the past performance of investment markets and the current composition of ACC's portfolios would suggest that each year there is roughly a one-in-six chance that we could record negative returns. In reality we have had just one financial year of negative returns in the past 23 years (2007/08, when the Reserves Portfolio returned -0.8%).

Statistical analysis based on the past two decades would suggest that over 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 claims liability 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 12% or more would tend to result in ACC recording negative overall investment returns.

ACC's investments in individual companies or securities are generally too small to significantly endanger total investment returns in a single financial year. ACC holds just five equity investments that individually represent more than 0.5% of the Reserves Portfolio (ie $157 million). The only individual credit exposures representing more than 1% of the Reserves Portfolio (ie $314 million) are to the New Zealand Government, the Local Government Funding Authority, four banking Groups with strong credit ratings and New Zealand banking licenses, the Auckland Council, and two AAA rated funding vehicles controlled by fiscally secure European governments.

ACC's 50 largest equity investments[1]

Name	ACC's investment value (NZ $million, under IPSAS)
Fletcher Building	186.98
Infratil	186.90
Spark New Zealand	162.70
Kiwi Property Group	158.85
Auckland International Airport	158.44
Fisher & Paykel Healthcare Corporation	141.25
Ryman Healthcare	117.11
Contact Energy	115.01
Commonwealth Bank of Australia	107.76
Mainfreight	87.63
Nestlé	84.01
Precinct Properties New Zealand	83.83
Goodman Property Trust	83.60
Westpac Banking Corporation	80.09
Chorus	75.05
Australia and New Zealand Banking Group	70.15
Accenture	69.95
National Australia Bank	68.98
Sky Network Television	68.07
Visa	66.57
Wellington Gateway Partnership	65.20
Skycity Entertainment Group	64.61
Argosy Property	61.51
Z Energy	60.67
Colgate-Palmolive	54.77

Name	ACC's investment value (NZ $million, under IPSAS)
Telstra Corp	53.65
Google	51.17
Xero	51.00
Templeton Emerging Markets Investment Trust	50.97
Nuplex Industries	48.58
Metlifecare	48.47
Danone	47.74
American Express	47.61
Procter & Gamble	47.14
Vector	44.90
CME Group	44.72
DNZ Property Fund	44.55
Diageo	44.29
United Health Group	44.17
Experian	44.09
Ebos Group	43.93
Trustpower	43.20
LVMH Moët Hennessy Louis Vuitton	42.68
Diligent Coporation	42.18
Trade Me Group	41.94
Apple	40.88
Roche Holding	40.44
Johnson & Johnson	40.15
Compass Group	38.48
SAP	38.22

1 *Note that this table excludes indirect investment exposures held through investments by ACC in pooled investment vehicles.*

Statement of responsibility

(Pursuant to section 155 of the Crown Entities Act 2004)

We are responsible for the preparation of ACC's 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 2015.

Signed on behalf of the Board

Paula Rebstock
Board Chair

Trevor Janes
Deputy Chair

Statement of performance for the year ended 30 June 2015

The statement of performance reports against the measures contained in ACC's 2014/15 Service Agreement. We have provided explanations for performance measures that were not achieved.

Public value scorecard

Section one 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 have identified four categories of measures 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 two 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 2014/15 Service Agreement (excluding those already reported in our public value scorecard).

SECTION 1:

Public value scorecard

Category	Measuring our contribution to New Zealand	Actual 2013/14	Target 2014/15	Actual 2014/15	Target met?	
 **Reach** How many New Zealanders do we help?	Number of new entitlement claims per 1,000 population	24	25	27	✗	Refer to Note 1
	Percentage of population who receive compensation or rehabilitation services	30.0%	30.0%	30.5%	✗	Refer to Note 2
 **Customer** Do we meet expectations?	Cover decision timeliness	1.2 days	1.3 days	1.2 days	✓	
	Average time to commence payments	11 days	<11 days	9.2 days	✓	
	Formal reviews as a percentage of entitlement claims	3.3%	2.9%	2.7%	✓	
	Percentage of ACC reviews upheld	84.5%	84.0%	84.0%	✓	
	Average time to resolution for claims with reviews	91 days	87 days	92 days	✗	Refer to Note 3
	Public trust and confidence	54%	60%	60%	✓	
	Customer satisfaction – clients	75%	76%	76%	✓	
	Customer satisfaction – levy payers	59%	60%	69%	✓	
	The rolling three-month average of privacy breaches	19	12	13	✗	Refer to Note 4

Category	Measuring our contribution to New Zealand	Actual 2013/14	Target 2014/15	Actual 2014/15	Target met?	
 **Impact** Have we delivered?	Return to work within 10 weeks	67.8%	70.3%	67.3%	✗	Refer to Note 5
	Return to work within nine months (273 days)	93.3%	93.9%	93.2%	✗	Refer to Note 5
	Durable return-to-work rate	77%	1% higher than Australia	80%[1]	✓	
	Return to independence for those not in the workforce	86%	86%	86%	✓	
	Number of long-term clients returned to independence in the past 12 months	2,272	2,424	2,467	✓	
 **Cost effectiveness** Are we fair and affordable?	Percentage of total expenditure paid directly to clients or for services to clients	New	80%	82.1%	✓	
	Percentage of total ACC levies to gross domestic product	2.2%	1.9%	1.8%	✓	
	Health $ per injury – annual growth	3.0%	3.5%[2]	3.4%	✓	
	Ratio of this year's total levies to the total claims incurred for this year's accidents over time	1.2	0.9-1.1	1.0	✓	
	Funding ratio	99.6%	103.4%	105.0%	✓	
	Investment performance (after costs) above benchmark	0.10%	0.30%	0.49%	✓	
	Return on investment in injury prevention programmes	New	$1:$1	$1.34:$1	✓	

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

2 Based on OCL assumptions.

The rationale for each measure is contained within the 2014/15 Service Agreement.

Note 1: Number of new entitlement claims per 1,000 population has exceeded target

New entitlement claims grew 12.4% this year, much higher than expected. While the entitlement claim reduction target for injury prevention was achieved, this was not of sufficient volume or in enough areas to counteract the growth.

Note 2: Percentage of population who receive compensation or rehabilitation services has grown slightly

This measure is contextual and indicates the reach of our services. New claims registered has grown 2.8% this year, a higher rate than expected. The number of unique clients registering claims this year grew slightly more than the claims growth.

Note 3: Average time to resolution for claims with reviews has improved, but did not meet target

FairWay is currently trialling changes to its service delivery to focus on reducing unnecessary adjournments and helping ACC clients better understand the review process and decisions.

We conducted an early resolution trial between April and December 2014 at six offices. An evaluation of the trial has been completed and implementation has been recently approved.

Note 4: Rolling three-month average of privacy breaches just missed target

The three-month average of monthly breaches as at June 2015 was 13, a reduction from 19 in the prior year. Privacy breaches continue to occur due to processes that are manual and paper based. We continue to undertake activity to reduce our reliance on manual processes and 'privacy by design' is a fundamental principle of Shaping Our Future.

Note 5: Return to work within 10 weeks (70 days) and nine months (273 days) are below target

While growth in claim volumes continues to exceed expectations, we face pressure in maintaining high levels of rehabilitation performance. We are taking a number of actions to help improve our short term rehabilitation performance. These include:

- opening a new short term claims centre to increase visibility and accountability for performance
- centralising approximately 1,400 stable long-term, non-complex claims to be managed by one team
- investigating whether variations in claim and client profiles, rehabilitation pathways (including access to services) and claim volume increases associated with a stronger economy are increasing rehabilitation durations.

SECTION 2:

Performance against output delivery

The breakdown of our revenue earned and costs incurred compared with expected revenue and costs reported in the 2014/15 Service Agreement is as follows:

	Administration		Claims paid		Revenue	
$million	**Actual**	**Budget**	**Actual**	**Budget**	**Actual**	**Budget**
Output class 1 – injury prevention	30	50				
Output class 2 – levy setting and collection	40	40			4,313	4,243
Output class 3 – investment management	61	62			3,998	1,473
Output class 4 – claims management	401	403	3,219	3,094		
Total	**532**	**555**	**3,219**	**3,094**	**8,311**	**5,716**
Other operating costs	53	68				
Total ACC	**585**	**623**	**3,219**	**3,094**	**8,311**	**5,716**

Measure	Rationale	Actual 2013/14	Target 2014/15	Actual 2014/15	Performance against target
Returns from insurance operations	This measures our internal operational performance, excluding gains and losses driven by external economic factors	$1,218 million	$868 million	$320 million	Not achieved

Returns from insurance operations did not meet budget

Returns from insurance operations were $548 million below budget. This was affected by a number of factors. Claim costs were $125 million above budget. The decision to discontinue residual levies from 1 April 2016 had a negative impact of $298 million overall. There was also a significant increase in the outstanding claims liability of $294 million more than budget. There are a number of factors that explain the increase in the outstanding claims liability but put simply the net increase reflects the increase in future costs as a result of claim volume increases and the number of active claims being higher than expected for those clients with longer claim durations.

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 outstanding claims liability and levies.

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

The public value measures relevant to this output class are:

- number of new entitlement claims per 1,000 population
- percentage of population who receive compensation or rehabilitation services
- return on investment for the portfolio of injury prevention investments approved during 2014/15. This shows the ratio of savings to expenditure for injury prevention initiatives. Savings include a 10 year forward forecast of benefits from claim reductions on programmes, in addition to the historical returns.

Refer to section 1 for performance against public value measures.

Other injury prevention output measures

Measure	Rationale	Actual 2013/14	Target 2014/15	Actual 2014/15	Performance against target
All injury prevention programmes will be evaluated by the injury prevention Investment Committee by March 2015. As a result of this evaluation, they will: • be stopped; or • have a managed exit plan in place; or • be included in the injury prevention investment portfolio return on investment measure above	To ensure all injury prevention programmes have been evaluated against the new injury prevention investment criteria and appropriate actions are taken as a result	New measure	100%	100%	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 lifetime cost of claims incurred in that year.

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.

How we are funded

The account and who funds it	What's covered		2012/13	2013/14	2014/15	2015/16
Work Account **Employers:** Based on wages paid to staff **Self-employed:** Based on income earned	WORK-RELATED INJURIES		$1.15 per $100 liable earnings	$1.15 per $100 liable earnings	$0.95 per $100 liable earnings	$0.90 per $100 liable earnings
Earners' Account **Employees:** Based on income earned **Self-employed:** Based on income earned	NON-WORK INJURIES TO PEOPLE IN EMPLOYMENT		$1.48 per $100 liable earnings	$1.48 per $100 liable earnings	$1.26 per $100 liable earnings	$1.26 per $100 liable earnings
Motor Vehicle Account **Vehicle owners:** Funded through petrol use and the motor vehicle licensing fees	INJURIES THAT INVOLVE MOVING MOTOR VEHICLES ON PUBLIC ROADS		$334.52 per motor vehicle	$334.52 per motor vehicle	$330.68 per motor vehicle	$195 per motor vehicle
Non-Earners' Account **The Government:** Funded by general taxation	INJURIES THAT HAPPEN TO PEOPLE NOT IN THE PAID WORKFORCE					
Treatment Injury Account **All New Zealanders:** Funded by the Earners' and Non-Earners' Accounts	INJURIES CAUSED BY MEDICAL TREATMENT					

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Activity information

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

	Account	Type of cover	Actual 2013/14	Actual 2014/15
Levy funded accounts	Work Account	Number of employed and self-employed[1]	2,328,000	2,360,000
		Levy revenue ($million)	1,029	816
	Earners' Account	Number of earners[2]	2,346,000	2,380,000
		Levy revenue ($million)	1,406	1,277
	Motor Vehicle Account	Number of vehicles[2]	3,202,000	3,300,300
		Levy revenue ($million)	1,065	1,087
Government funded account	Non-Earners' Account	Number of non-earners[2]	2,218,000	2,200,200
		Government appropriation ($million)	907	886
Mixed funded account	Treatment Injury Account	Number of non-earners[2]	2,218,000	2,200,200
		Government appropriation ($million)	155	90
		Number of earners[2]	2,346,000	2,380,000
		Levy revenue ($million)	169	158

Other levy setting and collection output measures

Under the AC Act, ACC is required to be fully funded for all pre-1999 injuries by 2019. 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 2013/14	Forecast 2014/15	Actual 2014/15
Work Account[3]	116.5%	N/a	118.7%
Work Account (excluding gradual process)	138.1%	148.0%	140.8%
Earners' Account	131.9%	129.9%	131.7%
Motor Vehicle Account	99.5%	108.5%	115.7%
Non-Earners' Account	48.7%	48.2%	48.8%
Treatment Injury Account	73.3%	75.1%	77.7%
ACC	**96.1%**	**N/a**	**101.3%**
ACC (excluding gradual process)	**99.6%**	**103.4%**	**105.0%**

1 *Sourced from Statistics New Zealand Household Labour Force Survey (actuals as at 30 June each year).*
2 *These figures are based on ACC's actuaries' estimates.*
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 portfolios are to meet the future costs of claims from long-term injuries without the need for any catch-up contributions from future levy payers. To meet this purpose we tend to favour long term investments that we expect to deliver relatively certain income streams for long periods of time. Such investments match our long term cash flow requirements, and also tend to provide an offset against the risk of declines in interest rates. Interest rate declines mean that future claims will cost more and, if not offset by strong investment returns, may create a need for levy increases. We intend to manage our investments with the objective of obtaining the best possible balance of return and risk.

To this end, we:

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

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.

Activity information

$million	Actual 2013/14	Forecast 2014/15	Actual 2014/15
Average net funds under management	25,350	27,898	29,484
Investment income	1,618	1,473	3,998

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 2013/14	Target 2014/15	Actual 2014/15	Performance against target
Investment management costs as a proportion of total funds under management	0.14%	0.15%	0.12%	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 swift 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 type of claims we have received. The Scheme is based on legislation and each claim is evaluated to determine whether it meets the requirements of the AC Act. We do not limit our services as demand is determined by the number of covered injuries that occur and the type and amount of services that those who have covered injuries are eligible to receive.

Measure	Definition	2011/12	2012/13	2013/14	2014/15
Registered claims	Total number of registered claims in the period	1,681,093	1,714,489	1,791,232	1,841,261
Medical fees only claims	Total number of medical fees only claims in the period	1,486,320	1,514,866	1,574,199	1,584,839
Other entitlement claims	Total number of entitlement claims (all entitlement claims excluding weekly compensation) that receive payments in the period	94,323	93,399	96,953	105,341
Weekly compensation claims	Total number of weekly compensation claims that receive payments in the period	82,594	88,450	89,631	100,353
Long term weekly compensation claims	Number of clients receiving weekly compensation for more than one year as at 30 June	10,606	10,398	10,763	11,483
New serious injury claims[1]	Total number of new serious injury claims in the period	233	229	249	235
Fatal claims	Total number of fatal claims in the period	1,164	1,189	1,158	1,057

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

Expenditure against key cost drivers

$ million	Actual 2013/14	Forecast 2014/15	Actual 2014/15
Non-fatal weekly compensation	838	868	931
Social rehabilitation	455	494	514
Medical treatment	554	592	606
Hospital treatment (elective surgery)	282	298	311
Public health acute services	450	459	460

The higher than expected expenditure aligns with higher than expected claim volumes.

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

Other claims management output measures

The costs associated with this output class have the largest bearing on overall Scheme financial sustainability. To achieve cost stability in this area we must deliver quality services to clients. This requires the careful 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. In recent times, effort placed on improving rehabilitation and ongoing work with key health care partners to explore options to manage inflation have led to a stable cost base. However, rising claim numbers and prices affect claim costs.

These measures are intended to enable our performance to be evaluated by the types of service provided, eg 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 2013/14	Target 2014/15	Actual 2014/15	Performance against target
Social rehabilitation for serious injuries	Growth in average care hours package	3.7%	≤5%[1]	2.4%	Achieved
	Proportion of clients with care hours significantly above or below benchmarks[2]	47%	45%	47%	Not achieved – refer to Note 1
Rehabilitation	Return to work within six months (182 days)	88.8%	90.0%	88.6%	Not achieved – refer to Note 2
	Number of clients receiving weekly compensation for more than one year	10,763	11,021	11,483	Not achieved – refer to Note 3
	Abatement rate for long-term clients[3]	13%	14%	12.6%	Not achieved – refer to Note 4
Elective surgery outcomes	Proportion of surgery requests accepted	83.1%	83.0%	83.6%	Achieved
	Average time taken by ACC to make surgery decisions – accepted requests	12.7 days	<15 days	9.9 days	Achieved
	Average time taken by ACC to make surgery decisions – declined requests	36.2 days	<40 days	31.1 days	Achieved
	Change in average cost per client	1.9%	≤5.0%[1]	4.0%	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	87%	86%	86%	Achieved
	Proportion of clients who are successfully rehabilitated 12 months after requests for surgery have been declined	96%	95%	95%	Achieved
Efficiency	Average cost per claim Administration costs less investment management and injury prevention costs/active entitlement claims	$2,483	$2,572	$2,403	Achieved
Number of complaints to the Office of the Complaints Investigator		1,369	1,240	1,492	Not achieved – refer to Note 5
Agreement with Ministry of Health for public health acute services will be signed off no later than the end of the year to which this applies		N/a	Achieved	Achieved	

1 *Based on OCL assumptions.*
2 *Compared with the outstanding claims liability valuation assumptions.*
3 *Weekly compensation payments are reduced as clients return to part-time work.*

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 past 12 months.

Refer to section 1 for performance against public value measures.

Note 1 – The average number of attendant care hours is increasing

The average number of attendant care hours has been increasing since 2012. There has been significant work undertaken during 2014/15 to improve the consistency and robustness of attendant care decision making for seriously injured clients. A financial impacts tool is currently being utilised to support appropriate decision making when considering a capital purchase versus attendant care. A national panel is also providing advice where there is an expected change to attendant care of more than seven hours per week and providing expert advice regarding complex and high cost decisions that may affect attendant care.

Note 2 – Return to work within 182 days is below target

Growth in claim volumes continues to exceed expectations, maintaining pressure on our rehabilitation performance. We are taking a number of actions to help improve our short term rehabilitation performance. These include:

- opening a new short term claims centre to increase visibility and accountability for performance
- centralising approximately 1,400 stable long-term, non-complex claims to be managed by one team
- investigating whether variations in claim and client profiles, rehabilitation pathways (including access to services) and claim volume increases associated with a stronger economy are increasing rehabilitation durations.

Note 3 – Increasing number of clients receiving weekly compensation for more than 12 months

The number of clients receiving weekly compensation for more than 12 months increased to 11,483 at the end of June 2015. While the proportion of claims where clients are returned to independence within 12 months remains high (at 95.2%), the growth in claim volumes has led to an overall increase in the number of clients receiving weekly compensation for more than 12 months.

Note 4 – Abatement rate for long-term clients is under target

The abatement rate for long-term clients measures the percentage of long-term clients in part-time employment who receive a partial weekly compensation payment. In June 2015, 1,451 long-term clients were in part-time employment, 4% higher than at the start of the year. Sustained claims growth meant the overall proportion of long-term clients receiving abated weekly compensation remained constant throughout the year.

Note 5 – Customer complaints are higher than target

Following a review of our complaints management processes by the Office of the Auditor-General, we are no longer targeting a reduction in complaints as we expect our improved feedback processes to lead to an increase in complaints in the short term as customers find it easier to provide feedback. New measures of our effectiveness in responding to customer feedback are being developed.

Financial statements for the year ended 30 June 2015

Consolidated statement of comprehensive revenue and expense

For the year ended 30 June 2015

$000	Notes	Actual 2015	Actual 2014	Budget 2015
Net levy revenue		4,313,422	4,730,514	4,242,616
Other revenue	6	1,680	897	869
Total net levy and other revenue	4 & 7	**4,315,102**	**4,731,411**	**4,243,485**
Investment revenue	5 & 7	3,997,722	1,618,467	1,473,314
Less investment costs		60,943	55,917	61,758
Net investment revenue	5	**3,936,779**	**1,562,550**	**1,411,556**
Claims paid		3,219,423	2,959,026	3,093,959
Increase in outstanding claims liability	25	2,632,066	534,111	1,104,559
Movement in unexpired risk liability	24	265,095	159,472	27,061
Total claim costs		**6,116,584**	**3,652,609**	**4,225,579**
Injury prevention costs		30,049	34,010	50,443
Operating costs		494,245	462,496	510,734
Net surplus		**1,611,003**	**2,144,846**	**868,285**
Other comprehensive revenue and expense				
Revaluation gain on land and buildings		28	–	–
Other comprehensive revenue and expense		**28**	**–**	**–**
Total comprehensive revenue and expense for the year		**1,611,031**	**2,144,846**	**868,285**

The accompanying notes form part of these financial statements.

Consolidated statement of changes in reserves (equity)

For the year ended 30 June 2015

$000	Notes	Actual Total	Actual Motor Vehicle Account	Actual Non-Earners' Account	Actual Earners' Account	Actual Work Account	Actual Treatment Injury Account	Budget Total
Total Account reserves								
Balance at the beginning of the year (deficit)		(108,617)	(38,675)	(2,887,593)	1,700,946	2,062,308	(945,603)	99,445
Total comprehensive revenue and expense for the year		1,611,003	1,333,324	(311,501)	213,942	317,880	57,358	868,285
Balance at the end of the year (deficit)		**1,502,386**	**1,294,649**	**(3,199,094)**	**1,914,888**	**2,380,188**	**(888,245)**	**967,730**
Revaluation reserves								
Balance at the beginning of the year		301	–	–	–	–	–	300
Total comprehensive revenue and expense for the year	27	28	–	–	–	–	–	–
Balance at the end of the year		**329**	**–**	**–**	**–**	**–**	**–**	**300**
Total reserves								
Balance at the beginning of the year (deficit)		(108,316)	(38,675)	(2,887,593)	1,700,946	2,062,308	(945,603)	99,745
Total comprehensive revenue and expense for the year		1,611,031	1,333,324	(311,501)	213,942	317,880	57,358	868,285
Balance at the end of the year (deficit)		**1,502,715**	**1,294,649**	**(3,199,094)**	**1,914,888**	**2,380,188**	**(888,245)**	**968,030**

Consolidated statement of changes in reserves (equity)

For the year ended 30 June 2014

$000	Notes	Actual Total	Actual Motor Vehicle Account	Actual Non-Earners' Account	Actual Earners' Account	Actual Work Account	Actual Treatment Injury Account
Total Account reserves							
Balance at the beginning of the year (deficit)		(2,253,463)	(984,201)	(2,938,302)	1,344,247	1,437,656	(1,112,863)
Total comprehensive revenue and expense for the year		2,144,846	945,526	50,709	356,699	624,652	167,260
Balance at the end of the year (deficit)		**(108,617)**	**(38,675)**	**(2,887,593)**	**1,700,946**	**2,062,308**	**(945,603)**
Revaluation reserves							
Balance at the beginning of the year		301	–	–	–	–	–
Total comprehensive revenue and expense for the year	27	–	–	–	–	–	–
Balance at the end of the year		**301**	**–**	**–**	**–**	**–**	**–**
Total reserves							
Balance at the beginning of the year (deficit)		(2,253,162)	(984,201)	(2,938,302)	1,344,247	1,437,656	(1,112,863)
Total comprehensive revenue and expense for the year		2,144,846	945,526	50,709	356,699	624,652	167,260
Balance at the end of the year (deficit)		**(108,316)**	**(38,675)**	**(2,887,593)**	**1,700,946**	**2,062,308**	**(945,603)**

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 2015

$000	Notes	Actual 2015	Actual 2014	Budget 2015
Levy revenue from motor licensing		782,880	768,945	737,694
Levy revenue from petrol levy		301,188	293,093	277,200
Motorcycle safety levy		2,483	2,513	2,260
Other revenue		115	30	27
Total net levy and other revenue		**1,086,666**	**1,064,581**	**1,017,181**
Investment revenue		1,202,313	439,934	438,824
Less investment costs		17,713	16,006	17,707
Net investment revenue		**1,184,600**	**423,928**	**421,117**
Claims paid		435,784	424,658	444,984
Increase in outstanding claims liability	25	445,178	60,140	244,755
Total claim costs		**880,962**	**484,798**	**689,739**
Injury prevention costs		6,536	9,692	14,723
Operating costs		50,444	48,493	52,513
Net surplus		**1,333,324**	**945,526**	**681,323**
Other comprehensive revenue and expense		–	–	–
Total comprehensive revenue and expense for the year		**1,333,324**	**945,526**	**681,323**
Account reserve – opening balance (deficit)		(38,675)	(984,201)	(11,890)
Total comprehensive revenue and expense for the year		1,333,324	945,526	681,323
Account reserve – closing balance (deficit)		**1,294,649**	**(38,675)**	**669,433**

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 2015

$000	Notes	Actual 2015	Actual 2014	Budget 2015
Funds appropriated by Parliament		975,562	1,062,374	973,846
Less funding of Treatment Injury Account		(89,511)	(155,109)	(101,917)
Other revenue		178	8	3
Total net levy and other revenue		**886,229**	**907,273**	**871,932**
Investment revenue		427,468	178,406	154,454
Less investment costs		6,545	6,384	6,796
Net investment revenue		**420,923**	**172,022**	**147,658**
Claims paid		901,492	850,104	859,968
Increase in outstanding claims liability	25	613,731	84,194	221,845
Total claim costs		**1,515,223**	**934,298**	**1,081,813**
Injury prevention costs		5,422	5,546	9,646
Operating costs		98,008	88,742	102,988
Net (deficit) surplus		**(311,501)**	**50,709**	**(174,857)**
Other comprehensive revenue and expense		**–**	**–**	**–**
Total comprehensive revenue and expense for the year		**(311,501)**	**50,709**	**(174,857)**
Account reserve – opening balance (deficit)		(2,887,593)	(2,938,302)	(2,799,040)
Total comprehensive revenue and expense for the year		(311,501)	50,709	(174,857)
Account reserve – closing balance (deficit)		**(3,199,094)**	**(2,887,593)**	**(2,973,897)**

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 2015

$000	Notes	Actual 2015	Actual 2014	Budget 2015
Levy revenue		1,435,003	1,574,776	1,383,737
Less funding of Treatment Injury Account		(157,963)	(169,048)	(153,142)
Other revenue		703	446	427
Total net levy and other revenue		**1,277,743**	**1,406,174**	**1,231,022**
Investment revenue		982,678	435,788	379,537
Less investment costs		15,028	14,357	16,192
Net investment revenue		**967,650**	**421,431**	**363,345**
Claims paid		1,080,091	952,230	1,017,974
Increase in outstanding claims liability	25	716,436	185,200	330,184
Movement in unexpired risk liability	24	54,514	159,472	27,061
Total claim costs		**1,851,041**	**1,296,902**	**1,375,219**
Injury prevention costs		5,219	6,683	9,258
Operating costs		175,191	167,321	181,613
Net surplus		**213,942**	**356,699**	**28,277**
Other comprehensive revenue and expense		–	–	–
Total comprehensive revenue and expense for the year		**213,942**	**356,699**	**28,277**
Account reserve – opening balance		1,700,946	1,344,247	1,651,311
Total comprehensive revenue and expense for the year		213,942	356,699	28,277
Account reserve – closing balance		**1,914,888**	**1,700,946**	**1,679,588**

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 2015

$000	Notes	Actual 2015	Actual 2014	Budget 2015
Levy revenue		816,306	1,028,813	867,879
Other revenue		644	411	412
Total net levy and other revenue		**816,950**	**1,029,224**	**868,291**
Investment revenue		976,756	405,990	351,011
Less investment costs		15,367	13,842	15,520
Net investment revenue		**961,389**	**392,148**	**335,491**
Claims paid		670,543	607,230	628,398
Increase in outstanding claims liability	25	418,721	38,900	60,999
Movement in unexpired risk liability	24	210,581	–	–
Total claim costs		**1,299,845**	**646,130**	**689,397**
Injury prevention costs		12,450	11,982	16,437
Operating costs		148,164	138,608	152,713
Net surplus		**317,880**	**624,652**	**345,235**
Other comprehensive revenue and expense		**–**	**–**	**–**
Total comprehensive revenue and expense for the year		**317,880**	**624,652**	**345,235**
Account reserve – opening balance		**2,062,308**	**1,437,656**	**2,175,366**
Total comprehensive revenue and expense for the year		**317,880**	**624,652**	**345,235**
Account reserve – closing balance		**2,380,188**	**2,062,308**	**2,520,601**
Reserve for future gradual process claims	26	**626,300**	**516,200**	**642,600**
Reserve for all other claims		**1,753,888**	**1,546,108**	**1,878,001**
Account reserve		**2,380,188**	**2,062,308**	**2,520,601**

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 2015

$000	Notes	Actual 2015	Actual 2014	Budget 2015
Levy revenue funded by Non-Earners' Account		89,511	155,109	101,917
Levy revenue funded by Earners' Account		157,963	169,048	153,142
Other revenue		40	2	–
Total net levy and other revenue		**247,514**	**324,159**	**255,059**
Investment revenue		408,507	158,349	149,488
Less investment costs		6,290	5,328	5,543
Net investment revenue		**402,217**	**153,021**	**143,945**
Claims paid		131,513	124,804	142,635
Increase in outstanding claims liability	25	438,000	165,677	246,776
Total claim cost		**569,513**	**290,481**	**389,411**
Injury prevention costs		422	107	379
Operating costs		22,438	19,332	20,907
Net surplus		**57,358**	**167,260**	**(11,693)**
Other comprehensive revenue and expense		**–**	**–**	**–**
Total comprehensive revenue and expense for the year		**57,358**	**167,260**	**(11,693)**
Account reserve – opening balance (deficit)		(945,603)	(1,112,863)	(916,302)
Total comprehensive revenue and expense for the year		57,358	167,260	(11,693)
Account reserve – closing balance (deficit)		**(888,245)**	**(945,603)**	**(927,995)**

The accompanying notes form part of these financial statements.

Consolidated statement of financial position

As at 30 June 2015

$000	Notes	Actual 2015	Actual 2014	Budget 2015
Account reserves				
Motor Vehicle Account		1,294,649	(38,675)	669,433
Non-Earners' Account		(3,199,094)	(2,887,593)	(2,973,897)
Earners' Account		1,914,888	1,700,946	1,679,588
Work Account		2,380,188	2,062,308	2,520,601
Treatment Injury Account		(888,245)	(945,603)	(927,995)
Total Account reserves		**1,502,386**	**(108,617)**	**967,730**
Revaluation reserves	27	329	301	300
Total reserves (deficit)		**1,502,715**	**(108,316)**	**968,030**
Represented by:				
Assets				
Cash and cash equivalents	10	303,218	466,189	417,613
Receivables	11	1,067,405	525,322	426,856
Accrued levy revenue	12	1,715,787	2,466,026	2,328,060
Investments	13	32,085,683	27,367,911	29,374,099
Derivative financial instruments	14	250,448	141,466	–
Investment properties	16	246,300	234,870	263,503
Investment intangible asset	17	50,886	53,286	–
Property, plant and equipment	19	30,633	33,169	44,244
Intangible assets	20	103,588	111,041	170,032
Total assets		**35,853,948**	**31,399,280**	**33,024,407**
Less liabilities				
Derivative financial instruments	14	263,511	202,011	–
Payables and accrued liabilities	21	1,527,234	1,287,452	1,673,136
Provisions	22	42,134	70,596	–
Unearned levy liability	23	1,723,282	2,049,626	1,970,248
Unexpired risk liability	24	466,644	201,549	215,235
Outstanding claims liability	25	30,328,428	27,696,362	28,197,758
Total liabilities		**34,351,233**	**31,507,596**	**32,056,377**
Net assets (liabilities)		**1,502,715**	**(108,316)**	**968,030**

For and on behalf of the Board, which authorised the issue of these financial statements on 24 September 2015:

Paula Rebstock
Board Chair
Date: 24 September 2015

Trevor Janes
Deputy Chair
Date: 24 September 2015

The accompanying notes form part of these financial statements.

Consolidated statement of cash flows

For the year ended 30 June 2015

$000	Notes	Actual 2015	Actual 2014	Budget 2015
Cash flows from operating activities				
Cash was provided from:				
Levy revenue		4,213,572	4,766,354	4,244,526
Interest received		833,921	742,657	789,173
Dividends received		310,263	273,775	291,572
Other revenue		24,788	21,955	26,218
Goods and services tax (net)		47,116	–	–
		5,429,660	**5,804,741**	**5,351,489**
Cash was applied to:				
Payments to injured persons, suppliers and employees		3,905,140	3,434,430	3,666,402
Goods and services tax (net)		–	3,799	80
		3,905,140	**3,438,229**	**3,666,482**
Net cash movement from operating activities	28	**1,524,520**	**2,366,512**	**1,685,007**
Cash flows from investing activities				
Cash was provided from:				
Proceeds from sale of investments		66,343,993	45,295,636	71,000,000
Proceeds from sale of property, plant and equipment		245	429	–
		66,344,238	**45,296,065**	**71,000,000**
Cash was applied to:				
Payment for investments		67,994,328	47,554,754	72,575,854
Payment for property, plant and equipment		9,735	6,783	10,567
Payment for intangible assets		27,666	41,635	98,586
		68,031,729	**47,603,172**	**72,685,007**
Net cash movement from investing activities		**(1,687,491)**	**(2,307,107)**	**(1,685,007)**
Net (decrease) increase in cash and cash equivalents		**(162,971)**	**59,405**	**–**
Cash and cash equivalents – opening balance		**466,189**	**406,784**	**417,613**
Cash and cash equivalents – closing balance		**303,218**	**466,189**	**417,613**

The accompanying notes form part of these financial statements.

Notes to the financial statements

For the year ended 30 June 2015

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 and is domiciled and operates in New Zealand.

ACC is the Crown entity in New Zealand that manages New Zealand's accident compensation scheme. It provides comprehensive, 24-hour, no-fault personal injury cover for all New Zealand residents and visitors to New Zealand. ACC does not operate to make a financial return.

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

ACC and its subsidiary comprise the ACC group (the group). The subsidiary is incorporated in New Zealand.

(b) Basis of preparation

The financial statements have been prepared on a going concern basis, and the accounting policies have been applied consistently throughout the period.

The financial statements are prepared on the basis of historical cost unless the application of fair value measurements is required by relevant accounting standards.

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars ($000) unless otherwise stated.

The group presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in the notes.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously. Revenue and expense will not be offset in the consolidated statement of comprehensive revenue and expense unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the group.

Statement of compliance

The financial statements have been prepared in accordance with the Accident Compensation Act 2001 (referred to hereafter as 'the AC Act' and the Crown Entities Act 2004 which require compliance with generally accepted accounting practice in New Zealand (NZ GAAP).

The financial statements have been prepared in accordance with Tier 1 PBE accounting standards.

These financial statements comply with PBE accounting standards.

Effect of first time adoption of PBE standards on accounting policies and disclosures

These are the first financial statements presented in accordance with the new PBE accounting standards. There are no material adjustments arising on transition to the new PBE accounting standards. The new accounting standards require receivables and payables from exchange and non-exchange transactions to be disclosed separately in the statement of financial position. Due to immateriality, this disclosure is provided in the notes instead.

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

In May 2013, the External Reporting Board issued a new suite of PBE accounting standards for application by public sector entities for reporting periods beginning on or after 1 July 2014. ACC has applied these standards in preparing the 30 June 2015 financial statements.

In October 2014, the PBE suite of accounting standards was updated to incorporate requirements and guidance for the not-for-profit sector. These updated standards apply to PBEs with reporting periods beginning on or after 1 April 2015. ACC will apply these updated standards in preparing its 30 June 2016 financial statements. ACC expects there will be minimal or no change in applying these updated accounting standards.

(c) Consolidation of subsidiaries

Subsidiaries are those entities for which ACC has control through its direct or indirect interest. The consolidated financial statements comprise the financial statements of ACC and its subsidiary as at 30 June each year, which have been consolidated. Where there is a loss of control of a subsidiary, the financial statements include the results for the part of the reporting year during which ACC has control.

Consistent accounting policies are applied to the subsidiary financial statements which are prepared for the same reporting period as ACC.

All intercompany transactions, balances and unrealised surpluses are eliminated on consolidation.

ACC's investment in its subsidiary is carried at cost less impairment losses in ACC's financial statements. The subsidiary is detailed in Note 18.

(d) Levies

During 1998 and 1999 the basis of setting levies and residual levies moved from a pay as you go basis to a fully funded basis for all levy payers other than the Government in respect of the Non-Earners' Account.

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

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

(e) Source and application of levy revenue

The AC Act requires ACC to ensure that levy revenue and expenditure are received, applied and accounted for separately. Except as otherwise authorised under the AC Act, ACC must not use the funds from one Account to meet any costs arising under another Account.

The source and application of levy and residual levy revenue for each Account are as follows:

(i) Motor Vehicle Account

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.

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

(ii) Non-Earners' Account

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

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.

(iii) Earners' Account

The Earners' Account derives its funds from:

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

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.

(iv) Work Account

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

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.

(v) Treatment Injury Account

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).

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 or arising from treatment on or after 1 July 2005.

(f) 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 is estimated based on expected liable earnings at the applicable levy rate. 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.

(g) 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
- interest revenue is recognised as it accrues taking into account the effective yield on the investments
- the realised gain/loss on disposal of an investment asset represents the difference between the proceeds received and its carrying value

- unrealised gains/losses on fair value investment assets represent the difference between the carrying value at the year end and the carrying value at the previous year end or purchase value during the year, less the reversal of previously recognised unrealised gains/losses in respect of disposals made during the year.

(h) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in the arrangement.

(i) ACC as a lessee

Operating lease payments are recognised as an expense in the statement of comprehensive revenue and expense on a straight-line basis over the lease term. Operating lease incentives received are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and the reduction of the liability.

(ii) ACC as a lessor

Leases in which ACC retains substantially all the risks and benefits of ownership of the leased assets are classified as operating leases. Contingent rents are recognised as revenue in the period in which they are earned.

(i) Allocation of indirect revenue and expenditure

Indirect revenue and expenditure are allocated to each Account as follows:

(i) Investment revenue

Each investment portfolio is ‘owned’ in differing proportions by the various Accounts. These 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 Accounts each day, based on the Accounts’ proportionate ‘ownership’ of the portfolios from which the investment revenue is derived. Some derivative positions are allocated directly between Accounts rather than to investment portfolios. Revenue from these positions is directly allocated to the Accounts in proportion to their ownership of those derivative positions.

(ii) Investment, injury prevention and operating costs

Investment, injury prevention and operating costs are allocated based on the operating activities undertaken for each Account.

(j) Income tax

ACC is exempt from the payment of income tax under section 259(5) of the AC Act. The subsidiary company is however liable for income tax. There are no trading subsidiaries in ACC.

(k) Cash and cash equivalents

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. Cash and cash equivalents exclude items held for investment purposes and not used for short term cash needs.

(l) Receivables

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

(m) Investments

All investments, other than investment properties and investment intangible assets, are designated as financial assets at fair value through surplus or deficit.

Purchases and sales of investment assets are recognised on the trade date, the date on which the group commits to purchase or sell the asset.

Investments are recognised initially at cost. All transaction costs and management fees for ACC's investment assets are expensed through the statement of comprehensive revenue and expense. All investments are subsequently carried at fair value. Any changes in fair value are recognised in surplus or deficit in the period in which they arise.

Fair value for investment assets is determined as follows:

- listed shares and unit trusts are valued at the quoted bid price at the close of business on balance date
- non-listed equity investments (private equity and venture capital) are recognised at initial cost of investment and adjusted for performance of the business and investment markets since that date. This is consistent with the 'International Private Equity and Venture Capital Valuation Guidelines'
- New Zealand and overseas bonds are valued at bid yield
- unlisted unit trust investments are valued based on the exit price rather than the entry price
- for investments with no active market, fair values are determined using appropriate valuation techniques. Such techniques include arm's length transactions, reference to the current market value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models making as much use of available and supportable market data as possible and keeping judgemental inputs to a minimum.

(n) Derivative financial instruments

ACC uses various derivative financial instruments such as foreign currency contracts, interest rate swaps and futures to manage its exposure to movements in foreign currency exchange rates, interest rates and equity markets. Derivatives may also be used temporarily in lieu of purchasing bonds, equities or currency. The use of derivative financial instruments is covered by investment policies which control the risk associated with such instruments.

Derivative financial instruments are held for trading and classed as financial assets at fair value through surplus or deficit. Any changes in fair value are recognised in surplus or deficit in the period in which they arise.

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
- the fair value of 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 rate at balance date
- futures contracts are valued using quoted bid prices
- credit default swaps are valued based on a mid-evaluation approach not favouring either the bid or sell sides, in line with industry practice.

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.

(o) Associates

Associates are entities over which ACC has significant influence and that are neither subsidiaries or joint ventures. Investments that are held as part of ACC's investment portfolio are carried in the statement of financial position at fair value even though ACC may have significant influence over those entities. This treatment is permitted by PBE IPSAS 7 Investment in Associates, which allows these investments to be excluded from its scope where those investments are designated, upon initial recognition, as at fair value through surplus or deficit and accounted for in accordance with PBE IPSAS 29 Financial Instruments: Recognition and Measurement, with changes in fair value recognised in surplus or deficit in the period of the change.

ACC has no investments in associates through which it carries on its primary insurance based business.

(p) Joint ventures

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Interests in joint ventures that are held as part of ACC's investment portfolio are carried in the statement of financial position at fair value. This treatment is permitted by PBE IPSAS 8 Interests in Joint Ventures, which allows these investments to be excluded from its scope where those investments are designated, upon initial recognition, as at fair value through surplus or deficit and accounted for in accordance with PBE IPSAS 29 Financial Instruments: Recognition and Measurement, with changes in fair value recognised in surplus or deficit in the period of the change.

ACC has no interest in joint ventures through which it carries on its primary insurance based business.

(q) Investment properties

Investment properties are properties held to earn rental revenue or for capital appreciation, or both, that are not occupied by ACC. Investment properties are initially recognised at cost including transaction costs. Subsequent to initial recognition they are stated at their fair value, which is the market valuation, supported by a qualified external valuer.

Depreciation is not charged on investment properties. Changes in fair value are recognised in surplus or deficit in the period in which they arise and recorded within investment revenue as an unrealised gain or loss.

(r) Investment intangible asset

Concession rights arrangement

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

Amortisation is calculated on a straight line basis. The estimated useful life is the period over which ACC is able to charge the public for the use of the facilities.

As this intangible asset is held as part of ACC's investment portfolio, it is classified separately in the statement of financial position.

(s) Foreign currencies

Both the functional and presentation currency of ACC and its subsidiary is the New Zealand dollar.

Foreign currency transactions are accounted for at the exchange rate prevailing at the date of the transactions. At balance date foreign currency monetary assets and foreign currency forward contracts are translated at the rate ruling at balance date, with exchange valuations arising from the translation process recognised directly in surplus or deficit.

(t) Property, plant and equipment

Property, plant and equipment are initially recorded at cost including transaction costs. Subsequent to initial recognition land and buildings are carried at their revalued amount. The revalued amount is net of any impairment losses and, for buildings, less depreciation accumulated since the asset was last revalued. All other items classed as property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value.

Revaluations

Fair value is determined with reference to market-based evidence provided by an independent valuer. Any revaluation increase is credited to the asset revaluation reserve for that asset, except to the extent it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit. A decrease in carrying amount arising from the revaluation of land and buildings is recognised in surplus or deficit unless it directly offsets a previous surplus in the same asset in the asset revaluation reserve.

Depreciation

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. Freehold land is not depreciated.

The estimated useful lives are as follows:

Buildings	50 years
Freehold improvements	10 years
Leasehold improvements	Up to 10 years*
Furniture, fittings and equipment	4 years
Mainframe computer and network equipment	5 years
Personal computer equipment	3 years
Motor vehicles	5 years

**Leasehold improvements are depreciated over the lower of the remaining life of the lease, or 10 years.*

(u) Intangible assets

Computer software

Computer software assets, most of which are internally generated arising from capital development projects, are carried at cost less accumulated amortisation and accumulated impairment.

Research costs incurred in the investigation phase of these projects 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.

Amortisation is calculated on a straight-line basis. The amortisation period for computer software is five to seven years.

(v) Impairment of assets

ACC does not hold any cash-generating assets. Assets are considered cash-generating where their primary objective is to generate a commercial return.

Non-cash generating assets

Property, plant and equipment and intangible assets held at cost that have a finite useful life is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is 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 an approach based on either a depreciated replacement cost approach, a restoration cost approach, or a service units approach. The most appropriate approach used to measure value in use depends on the nature of the impairment and availability of information.

If the asset's carrying amount exceeds its recoverable service amount, the asset is regarded as impaired and the carrying amount is written-down to the recoverable amount. The total impairment loss is recognised in surplus or deficit.

The reversal of an impairment loss is recognised in surplus or deficit.

(w) Employee benefits

Short-term 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.

Long-term benefits

Entitlements that are payable beyond 12 months, such as long service leave and retirement benefit, 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.

Defined contribution plan

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

(x) 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.

The group recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

(y) Payables and accrued liabilities

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

(z) Unexpired risk liability

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

If the unearned levy liability is insufficient to cover expected future claims plus a risk margin, then it is deemed to be deficient. 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.

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.

(aa) Outstanding claims liability

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

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

The accrued outstanding claims liability is the central estimate of the present value of expected future payments on claims occurring on or before the balance date, 30 June 2015, 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 outstanding claims liability. 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.

(ab) Assets backing insurance liabilities

ACC has designated financial assets held in portfolios that match the expected future cash flows arising from insurance liabilities, as assets backing insurance liabilities. These assets are managed and evaluated on a fair value basis.

Assets that back insurance liabilities are initially recognised at fair value and subsequently measured at fair value through surplus or deficit.

These assets and their fair value are listed as follows:

- cash assets and bank overdrafts are carried at face value which approximates fair value
- investments (refer to Note m)
- derivative financial instruments (refer to Note n)
- investment properties (refer to Note q)
- receivables (refer to Note l)
- investment intangible assets (refer to Note r).

(ac) Budget figures

The budget figures in the financial statements are those provided in ACC's Service Agreement 2014/15. Section 154(3) of the Crown Entities Act 2004 requires these to be provided for comparison with the actual financial statements. The Service Agreement was prepared based on the claims valuation as at 31 December 2013 using economic assumptions at 31 March 2014. Refer to Note 35.

The budget figures have been prepared in accordance with NZ GAAP and are consistent with the accounting policies adopted in preparing the financial statements. The budget figures are un-audited.

(ad) Changes to accounting policies

There have been no significant changes in accounting policies arising from the transition to the new PBE accounting standards.

(ae) Financial statements of the parent

As at 30 June 2015, separate parent financial statements have not been disclosed as the ACC Board does not consider the differences to be material.

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

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

- claims reported and accepted as at the valuation date that remain unsettled as at the valuation date

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

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 outstanding claims liability estimate and the number of assumptions required in its determination it is highly likely that actual experience will differ from the stated estimate. A risk margin is added to the central estimate to increase the probability to a 75% confidence level that the estimate will not be less than actual payouts. The future claim payments are brought to present value as at the valuation date using a risk free discount rate. 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. IBNR claims have no payment history and must be estimated in their entirety. Hence the outstanding claims liability estimate for more recent injury years will be subject to more uncertainty.

The general sources of uncertainty include:

- actual future claim closure rates differ from those expected due to unanticipated changes to Scheme utilisation rates associated with prior injuries
- actual future claim costs differ from those expected due to unanticipated inflationary trends and claim durations
- the actual timing of claim payments differs from those expected
- unanticipated changes in operational processes that affect claim development patterns
- future advances in medicine and treatment may impact recovery periods, cost structures and Scheme utilisation
- 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 outstanding claims liability 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.

Discounting methodology

Estimated future claim payments are adjusted in line with expectations of future inflation. These inflated cash flows are then discounted using the Treasury prescribed risk free rates that are based on the yield curves of New Zealand government bond rates. The longest term of a current New Zealand government bond is approximately 12 years from now. Discount rates 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 5.50%. This long-term rate is based on an examination of average New Zealand government bond returns over an extended period of time.

Risk margin

The probability of sufficiency used for determining the outstanding claims liability is the same as that used for the liability adequacy test, which is 75%.

Refer to Notes 24 and 25.

Gradual process claims

This includes claims made for gradual process injuries. 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.

ACC's accounting policy is to recognise a financial liability for gradual process injury when a claim is made. 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, in accordance with section 37 of the AC Act, is at the earlier of either the date that the person first receives treatment or the date that the injury first results in incapacity.

As part of determining the above treatment is appropriate, ACC has taken external advice regarding the recognition of the liability for gradual process claims based on current legislation and Financial Reporting Standards.

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 outstanding claims liability.

However, in order to highlight the contingent liability related to persons who may have suffered exposure to conditions of harm but have not yet suffered incapacity or made a claim on ACC, an assessment of the potential payments under such future claims has been made and is disclosed by way of a note to the accounts in Note 26.

(b) Levy receivables and 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 self-employed are also invoiced directly. Earner levies of employee earners are collected within the PAYE system and are paid to ACC by Inland Revenue.

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

Refer to Notes 11 and 12.

(c) Investment properties

External and independent valuation companies, having appropriate recognised professional qualifications and recent experience in the locations and categories of properties being valued, value the group's investment property portfolio every 12 months at balance date. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Refer to Note 16.

(d) Fair value of financial assets determined using valuation techniques

Where the fair values of financial assets recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques that include inputs derived from observable market data where possible, but where observable market data is not available, judgement is required to establish fair values. The judgements include considerations of liquidity risk, credit risk and model inputs such as volatility for longer dated instruments and discount rates, prepayment rates and default rate assumptions for asset-backed securities.

Changes in assumptions about these factors could affect the reported fair value of financial instruments.

At balance date ACC recorded $8.0 million (2014: $22.9 million) of asset-backed securities where the fair value was determined by the valuation technique above. Refer to Note 15(f).

(e) Impairment of intangible assets

ACC determines whether software intangible assets are impaired on an annual basis. This requires an estimation of the asset's recoverable amount based on its value in use. This requires management's estimates of replacing its remaining future economic benefits or service potential associated with the asset.

(f) Going concern assumption

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

At 30 June 2015, ACC's Account reserves was $1,503 million (2014: deficit $108 million). The Motor Vehicle, Earners' and Work Accounts are already fully funded.

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

The underwriting result is extracted from the statement of comprehensive revenue and expense and is as follows:

$000	2015 Total	Motor Vehicle Account	Non-Earners' Account	Earners' Account	Work Account	Treatment Injury Account	2014 Total
Net levy revenue	**4,313,422**	**1,086,551**	**886,051**	**1,277,040**	**816,306**	**247,474**	**4,730,514**
Rehabilitation (including treatment) costs							
Vocational rehabilitation	84,092	7,322	442	47,941	27,165	1,222	59,143
Social rehabilitation	514,115	147,347	174,375	63,825	77,720	50,848	454,932
Medical treatment	605,822	21,727	242,645	238,967	94,143	8,340	553,601
Hospital treatment	311,142	18,761	74,516	143,204	54,563	20,098	282,281
Public health acute services	460,472	45,941	288,389	92,449	30,557	3,136	449,680
Dental treatment	26,791	1,101	13,389	8,781	3,269	251	23,147
Conveyance for treatment	102,784	15,068	55,715	22,297	8,216	1,488	87,493
	2,105,218	**257,267**	**849,471**	**617,464**	**295,633**	**85,383**	**1,910,277**
Compensation costs							
Income maintenance	930,614	134,698	16,783	420,173	328,263	30,697	837,931
Independence allowances	51,356	7,896	23,349	8,652	8,752	2,707	74,081
Lump sums	37,728	5,193	5,611	6,272	13,929	6,723	35,654
Death benefits	85,780	29,151	5,656	28,041	18,014	4,918	89,046
	1,105,478	**176,938**	**51,399**	**463,138**	**368,958**	**45,045**	**1,036,712**
Miscellaneous claim costs	8,727	1,579	622	(511)	5,952	1,085	12,037
Claims handling costs	401,399	40,943	93,084	146,390	99,788	21,194	376,172
Increase (decrease) in outstanding claims liability							
Expected change	1,279,765	269,618	249,380	397,598	86,923	276,246	1,012,612
Effect of claims experience and modelling	377,238	(126,921)	164,770	92,952	156,163	90,274	(16,774)
Effect of changes in risk margin	–	–	–	–	–	–	3,834
Effect of changes in economic assumptions	1,459,799	419,969	320,400	263,852	240,813	214,765	(922,278)
Effect of legislative and policy changes	–	–	–	–	–	–	456,717
Effect of mortality assumption change	(539,839)	(117,488)	(175,922)	(37,966)	(65,178)	(143,285)	–
Effect of other changes	55,103	–	55,103	–	–	–	–
	2,632,066	**445,178**	**613,731**	**716,436**	**418,721**	**438,000**	**534,111**
Total claims incurred	**6,252,888**	**921,905**	**1,608,307**	**1,942,917**	**1,189,052**	**590,707**	**3,869,309**
Movement in unexpired risk liability	265,095	–	-	54,514	210,581	–	159,472
Injury prevention costs	30,049	6,536	5,422	5,219	12,450	422	34,010
Other operating costs	92,846	9,501	4,924	28,801	48,376	1,244	86,324
Surplus (deficit) from underwriting activities	**(2,327,456)**	**148,609**	**(732,602)**	**(754,411)**	**(644,153)**	**(344,899)**	**581,399**

4. Net levy revenue

$000	Consolidated 2015	Consolidated 2014
Levy revenue	4,330,664	4,737,552
(Less):		
Levy debts written off	(10,612)	(42,034)
Change in provision for impairment	(6,630)	34,996
Total net levy revenue	**4,313,422**	**4,730,514**

Levy revenue is from exchange transactions.

5. Net investment revenue

$000	Consolidated 2015	Consolidated 2014
Investment revenue		
Rental revenue from investment properties	18,390	16,917
Revenue from concession rights arrangement	4,718	4,391
Financial assets at fair value through surplus or deficit (designated upon initial recognition)		
Dividend revenue	319,757	270,033
Interest revenue	783,415	666,628
Realised and unrealised gains	1,531,747	448,392
	2,634,919	**1,385,053**
Financial assets and financial liabilities at fair value through surplus or deficit (held for trading purposes)		
Interest revenue	48,449	98,745
Realised and unrealised gains	1,291,246	113,361
	1,339,695	**212,106**
Total investment revenue	**3,997,722**	**1,618,467**
Investment costs		
Investment costs	59,255	54,341
Direct expenses from investment properties generating revenue	1,688	1,576
Total investment costs	**60,943**	**55,917**
Total net investment revenue	**3,936,779**	**1,562,550**

6. Other revenue

	Consolidated	
$000	2015	2014
Other revenue	1,680	897
Total other revenue	**1,680**	**897**

7. Total revenue – gross

	Consolidated	
$000	2015	2014
Levy revenue	3,355,102	3,675,178
Funds appropriated by Parliament	975,562	1,062,374
Investment revenue	3,997,722	1,618,467
Other revenue	1,680	897
Total revenue	**8,330,066**	**6,356,916**

8. Claims incurred

	Consolidated					
	2015			2014		
$000	Current year	Prior years	Total	Current year	Prior years	Total
Undiscounted	8,170,714	(8,051,087)	119,627	8,224,638	(4,489,810)	3,734,828
Discount movement	(3,913,508)	10,046,769	6,133,261	(4,417,989)	4,552,470	134,481
Total claims incurred	**4,257,206**	**1,995,682**	**6,252,888**	**3,806,649**	**62,660**	**3,869,309**

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.

CoverPlus Extra policies

There were payments of $6.7 million (2014: $5.8 million) relating to work-related injuries to clients who had purchased weekly compensation under CoverPlus Extra policies from the Work Account during the year. There were 43,580 (2014: 43,339) CoverPlus Extra policies purchased during the year.

Non-work injury payments of $12.6 million (2014: $10.1 million) were paid from the Earners' and Motor Vehicle Accounts.

9. Analysis of expenses

(a) Expenses by function

$000	Consolidated 2015	Consolidated 2014
Investment costs	60,943	55,917
Injury prevention costs	30,049	34,010
Shaping our future costs	22,382	–
Operating costs	471,863	462,496
Total expenses[1]	**585,237**	**552,423**

(b) Included in the above are:

$000	Consolidated 2015	Consolidated 2014
Fees paid to auditors:		
– audit fees	619	610
– independent IT quality assurance services (relating to shaping our future)	848	–
– other services[2]	251	47
ACC Board members' fees	453	433
Computer expenses	37,871	36,646
Professional expenses	17,770	12,220
Rental of office premises and equipment	18,457	16,126
Travel and accommodation	6,223	5,667
Depreciation	12,119	12,159
Property, plant and equipment write-offs	–	4
Property, plant and equipment (gain) on disposal	(65)	(4)
Amortisation of intangible assets	34,619	40,967
Write-offs of intangible assets	451	4,091
Intangible assets loss on disposal	49	–
Change in provision for doubtful debts – non-levy related	–	(32)
Restructuring costs	943	124
Personnel expenditure[3]	289,340	255,335
Other expenditure	165,289	168,030
	585,237	**552,423**

Notes:

1. Total expenses were allocated to Accounts for 2015 using activity-based costing methodology.
2. Fees paid to auditors for other services include fees for assurance related services, other professional services and educational services.
3. Personnel expenditure includes salaries, superannuation, contractors' costs, ACC levies paid and movement in the provision for employee benefits, but excluding termination benefits which are included in restructuring costs. Defined contribution superannuation expense for the group was $22.2 million (2014: $16.5 million).

10. Cash and cash equivalents

	Consolidated	
$000	2015	2014
Cash (overdraft) at bank	11,643	(2,869)
Investment operational cash:		
Overnight call deposits	51,373	151,492
Deposits at call	100,010	–
New Zealand short term fixed interest securities	140,192	317,566
Total cash and cash equivalents	**303,218**	**466,189**

Investment operational cash is held for the purpose of meeting short term operational liquidity commitments. The effective interest rate on overnight call deposits at 30 June 2015 was 3.4% (2014: 3.4%).

11. Receivables

	Consolidated	
$000	2015	2014
Levy debtors	656,233	130,802
Motor vehicle levy receivable(i)	34,129	35,831
Non-Earners' appropriation	15,558	498
Total levy receivables	**705,920**	**167,131**
Client debtors(ii)	4,011	3,517
Unsettled investment transactions	310,824	318,009
Dividends receivable	31,194	21,803
Interest receivable	1,866	595
Prepayments	7,160	6,660
Sundry debtors	6,430	7,607
Total non-levy receivables	**361,485**	**358,191**
Total receivables	**1,067,405**	**525,322**
Current	1,067,080	524,988
Non-current	325	334
Total receivables	**1,067,405**	**525,322**

Notes:

The changes in the provisions for doubtful debts for levy debtors have been charged against levy revenue.

(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:

$000	Consolidated 2015	Consolidated 2014
Current	644,479	109,470
Past due 1-30 days	21,935	17,674
Past due 31-60 days	6,256	11,427
Past due > 60 days	33,250	28,560
Total	**705,920**	**167,131**

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

All non-levy receivables that are financial assets are considered to be current and not impaired. The total of current non-levy receivables is $352.9 million (2014: $347.7 million).

Receivables that are financial assets are designated as financial assets at fair value through surplus or deficit (refer to Note 1(ab)).

The change in fair value of levy receivables due to changes in credit risk is a decrease of $6.6 million (2014: increase of $35.0 million).

The cumulative change in fair value of receivables due to changes in credit risk is a decrease of $75.9 million (2014: $69.3 million).

All receivables are from exchange transactions.

12. Accrued levy revenue

$000	Consolidated 2015	Consolidated 2014
Motor Vehicle Account	56,447	102,287
Earners' Account	1,202,017	1,157,493
Work Account	457,323	1,206,246
Total accrued levy revenue	**1,715,787**	**2,466,026**
Current	1,715,787	2,466,026
Non-current	–	–
Total accrued levy revenue	**1,715,787**	**2,466,026**

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' Account and Work Account and from 1 July to 30 June for the Motor Vehicle Account.

The accrued levy revenue at 30 June 2015 therefore includes revenue for the period 1 July 2015 to 31 March 2016 for the Earners' and Work Accounts as well as uninvoiced revenue for levy periods up to 30 June 2015.

13. Investments

ACC holds investments to meet the expected future cash flows arising from the claims liability as follows:

$000	Consolidated 2015	Consolidated 2014
New Zealand deposits at call	455,395	360,254
New Zealand equities	3,278,535	2,833,624
New Zealand government securities	9,752,990	8,557,798
Other New Zealand debt securities	6,223,681	5,788,999
Overseas deposits at call	221,118	179,230
Overseas equities	5,461,783	4,452,857
Australian equities	1,578,801	1,502,076
Overseas debt securities	5,061,444	3,629,873
Other investments	51,936	63,200
Total investments	**32,085,683**	**27,367,911**
Current	3,020,622	1,074,800
Non-current	29,065,061	26,293,111
Total investments	**32,085,683**	**27,367,911**

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 $1,198.2 million (2014: $825.2 million) from these transactions is invested, and the liability to repurchase the investments is accrued in unsettled investment transactions (refer to Note 21).

	Consolidated			
	2015		2014	
$million	Carrying amount of transferred assets	Carrying amount of associated liabilities	Carrying amount of transferred assets	Carrying amount of associated liabilities
Nature of transaction				
New Zealand equities – repurchase agreements	0.1	0.1	2.0	2.2
New Zealand government securities – repurchase agreements	1,198.1	1,200.4	823.2	834.1
	1,198.2	**1,200.5**	**825.2**	**836.3**

14. Derivative financial instruments

Fair value of derivative financial instruments

The fair value of the significant types of derivative financial instruments outstanding as at 30 June 2015 are summarised below:

	Consolidated			
	2015		2014	
$000	Fair value assets	Fair value liabilities	Fair value assets	Fair value liabilities
Interest rate swaps	212,658	30,540	90,106	185,114
Credit default swaps	701	1,213	2,726	279
Cross-currency interest rate swaps	9,083	6,027	14,031	2,444
Forward foreign currency contracts	1,790	224,875	30,887	7,258
Futures contracts				
Equities	16,714	76	3,487	278
Interest rate	9,502	168	219	6,614
Options	–	612	10	24
Total derivative instruments	**250,448**	**263,511**	**141,466**	**202,011**
Current	27,902	226,106	34,607	14,175
Non-current	222,546	37,405	106,859	187,836
Total derivative instruments	**250,448**	**263,511**	**141,466**	**202,011**

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

	Consolidated	
$000	2015	2014
Interest rate swaps	6,139,933	4,954,543
Credit default swaps	60,700	90,674
Cross-currency interest rate swaps	406,556	389,778
Forward foreign currency contracts	6,404,023	4,794,877
Futures contracts – long		
Equities	160,369	179,140
Interest rate	283,951	95,460
Futures contracts – short		
Equities	(791,257)	(906,855)
Interest rate	(79,664)	(185,159)
Options	56,486	31,243

15. Financial instruments

(a) Categories of financial instruments

$000	Consolidated 2015	Consolidated 2014
Financial assets designated as at fair value through surplus or deficit		
Cash and cash equivalents (Note 10)	303,218	466,189
Receivables (Note 11)	1,058,865	514,791
Investments (Note 13)	32,085,683	27,367,911
Financial assets at fair value through surplus or deficit held for trading		
Derivative financial assets (Note 14)	250,448	141,466
Financial liabilities at fair value through surplus or deficit held for trading		
Derivative financial liabilities (Note 14)	263,511	202,011
Financial liabilities measured at amortised cost		
Payables (Note 15(e))	1,492,708	1,100,171

(b) Financial risk management objectives

Each of ACC's five Accounts divides its investable funds between an investment in ACC's operational cash portfolio and a reserves portfolio specific to that Account. The operational cash portfolio is used to meet operational liquidity requirements. The Accounts' various reserves portfolios allocate their funds between different investment markets (designated 'asset classes') in differing proportions, but all the funds allocated to a particular asset class by the various Accounts are pooled together and managed collectively, to ensure operational efficiency and ensure fairness between Accounts. Most 'asset classes' are allocated across several portfolios, often managed by different internal or external portfolio managers.

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

ACC consciously chooses to incur many of these risk exposures through its investment portfolios, either because these risks provide a natural offset to risks inherent in its outstanding claims liability or because ACC expects to enhance returns through prudent exposure to market risks.

When ACC does not wish to incur risks inherent in its portfolio, it will seek to reduce its exposure to these risks using a variety of methods, including selling investments exposed to these risks, buying investments which carry offsetting risk exposures, or through the use of derivative financial instruments. Market risk is managed for all portfolios under the investment guidelines set out by the Investment Committee by requiring portfolio managers to manage their portfolios within defined market exposure limits. Those 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 reserves 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 reserves portfolio and the operational cash portfolio. The Investment Committee has approved investment guidelines and limits for the use of derivatives.

ACC considers the interest rate exposure of its reserves portfolios in the context of the interest rate exposures inherent in the outstanding claims liability of each Account. For each Account, ACC would expect investment gains from declines in interest rates, and investment losses from rises in interest rates, but the corresponding increase or decrease in ACC's claims liabilities as a result of the movements in interest rates would be far more significant than the direct impact that interest rates had on the investment portfolio. 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. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the bank bill and swap curves at reporting date.

ACC has also used fixed rate receiving positions in interest rate swaps to partially offset the component of the interest rate exposure in its outstanding claims liability that is not offset by the interest rate sensitivity of the underlying investment portfolios. ACC cannot use its investment portfolios to fully offset this interest rate exposure, because the outstanding claims liability is highly sensitive to interest rates. These interest rate swap positions are measured as a component of each Account's reserves portfolio.

SENSITIVITY ANALYSIS

The sensitivity analysis in the table below shows how the effects on the consolidated net surplus have been determined based on the exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period.

Floating rate instruments expose the group to cash flow interest risk, whereas fixed interest rate instruments expose the group to fair value interest risk.

As at 30 June 2015, if the interest rate at that date had been 1% higher/lower with all other variables remaining constant, the net surplus would have moved as per the table below. Any change in the net surplus for the period would result in a corresponding movement in equity.

Cash flow interest risk	Change in interest rate %	2015 Impact on net surplus $000	2014 Impact on net surplus $000
New Zealand dollar interest rates	+1.0	3,733	23,645
New Zealand dollar interest rates	-1.0	(3,733)	(23,645)

Fair value interest risk	Change in interest rate %	2015 Impact on net surplus $000	2014 Impact on net surplus $000
Long-term New Zealand dollar interest rates	+1.0	(1,612,005)	(1,175,249)
Long-term New Zealand dollar interest rates	-1.0	1,872,886	1,343,882

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 25(e)(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 adversely 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.

The Investment Committee establishes neutral 'benchmark' levels of foreign exchange exposure for each Account. These benchmark levels of foreign exchange exposure accord with ACC's high level objective of finding an appropriate balance between the competing objective of minimising risk whilst maximising expected return.

Practically, the Investment Committee has set benchmarks in which all foreign exchange exposures from the Australian equity portfolio are hedged, whilst a portion of the non-Australasian portfolio is unhedged. This portion of unhedged currency exposures is set as a percentage of the total value of each Account's reserves portfolio, rather than being determined as a simple proportion of the investment in global markets. In each case, the benchmark level of foreign exchange exposure is greater than zero but lower than the Account's total investment in global bonds and equities. Accordingly, each Account partially hedges its foreign exchange exposure arising from its global equity portfolios.

The Investment Committee allows ACC's internal Investment Unit to vary the actual level of foreign exposure taken by each Account from the benchmark level of foreign exchange exposure, within fixed ranges determined by the Investment Committee. For most of the year ACC maintained a higher level of foreign currency exposure than the neutral levels inherent in ACC's benchmarks. This was achieved by undertaking a lower level of foreign exchange hedging than would have been necessary to achieve the benchmark level of foreign exchange exposure.

REPRICING ANALYSIS

All foreign exchange contracts held by ACC have remaining terms of 11 months or less. While the cross currency interest rate swaps have maturities out to seven years, floating interest rates are reset every three months.

SENSITIVITY ANALYSIS

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

	2015							
$000	AUD	USD	EUR	GBP	CHF	JPY	HKD	OTHER
Impact on net surplus								
10% increase	(39,125)	(196,622)	(44,592)	(53,244)	(17,889)	(18,000)	(14,117)	(30,300)
10% decrease	47,820	240,316	54,501	65,076	21,864	22,000	17,255	37,034

	2014							
$000	AUD	USD	EUR	GBP	CHF	JPY	HKD	OTHER
Impact on net surplus								
10% increase	(37,652)	(164,395)	(65,706)	(61,556)	(20,362)	(38,797)	(7,428)	(31,938)
10% decrease	46,019	200,927	80,307	75,235	24,887	47,419	9,079	42,300

(iii) Other price risk

ACC invests in equities and unit trusts from a long-term perspective. Nevertheless, 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 and
- 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 at reporting date, with other variables held constant. There are no impact on other components of equity.

	Movement %	2015 Impact on net surplus $000	2014 Impact on net surplus $000
Global equities	+10	546,044	445,286
	-10	(546,044)	(445,286)
New Zealand equities	+10	315,731	272,385
	-10	(315,731)	(272,385)
Private equities	+10	13,856	10,977
	-10	(13,856)	(10,977)
Australian equities	+10	156,281	150,208
	-10	(156,281)	(150,208)

(d) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to ACC.

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. Transactions involving many forms of derivative financial instruments are undertaken with authorised banks with which ACC has executed International Swaps and Derivatives Association documentation. Credit rating information is supplied by independent rating agencies. The riskier a credit (the lower the credit rating, the more likely a default), the lower the approved credit limit. Investment in unrated debt is allowed if approved by ACC's Credit Committee. Under specific criteria approved by the Investment Committee, ACC may invest in limited non-rated securities. An internal rating review generates a Standard & Poor's equivalent credit rating. ACC's exposure and the credit ratings of its counterparties are continuously monitored.

The maximum combined debt and equity exposure that ACC may have to any single counterparty within 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.

ACC has a market exposure to changes in how financial markets price credit risk in general across both internally and externally managed portfolios. If financial markets build higher 'credit spreads' into the pricing of non-government debt securities, this will negatively impact the market value of ACC's investment in those securities.

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

2015

$000	AAA	AA	A	BBB	Below BBB	Not rated	Total
Cash and cash equivalents	–	219,600	32,460	51,158	–	–	303,218
Deposits at call	–	313,048	363,465	–	–	–	676,513
Other New Zealand debt securities	1,495,477	2,836,770	1,077,516	709,744	–	104,174	6,223,681
Overseas debt securities	3,211,268	964,600	163,263	457,511	162,829	101,973	5,061,444
New Zealand government securities	–	9,752,990	–	–	–	–	9,752,990
Interest rate swaps	–	169,488	–	52,121	132	–	221,741
Forward foreign currency contracts	–	434	1,036	–	320	–	1,790
Other investments	–	–	–	–	–	15,836	15,836
Receivables	3,092	6	503	2,068	581	1,052,615	1,058,865
Accrued levy revenue	–	–	–	–	–	2,065,469	2,065,469
	4,709,837	**14,256,936**	**1,638,243**	**1,272,602**	**163,862**	**3,340,067**	**25,381,547**

ACC has an additional exposure of $94.7 million with regard to the credit default swaps. This is the risk of the underlying entity defaulting on their contractual obligations (2014: $85.1 million).

2014

$000	AAA	AA	A	BBB	Below BBB	Not rated	Total
Cash and cash equivalents	–	445,899	478	19,812	–	–	466,189
Deposits at call	5,598	280,973	237,494	–	–	15,419	539,484
Other New Zealand debt securities	1,707,544	2,771,677	687,209	359,217	–	263,352	5,788,999
Overseas debt securities	2,703,380	222,924	130,446	323,762	116,762	132,599	3,629,873
New Zealand government securities	–	8,557,792	–	–	–	6	8,557,798
Interest rate swaps	–	61,150	4,037	37,683	–	1,267	104,137
Forward foreign currency contracts	–	24,281	6,497	109	–	–	30,887
Other investments	–	–	–	–	–	–	–
Receivables	–	–	173,702	–	–	341,089	514,791
Accrued levy revenue	–	–	–	–	–	2,466,026	2,466,026
	4,416,522	**12,364,696**	**1,239,863**	**740,583**	**116,762**	**3,219,758**	**22,098,184**

(e) Liquidity risk

Liquidity risk is the risk that the group 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 2015 $000	Less than 1 year	Between 1–2 years	Between 2–5 years	Greater than 5 years
Payables	1,492,708	–	–	–
Uncalled private equity commitments	8,345	8,331	12,498	4,157

At 30 June 2014 $000	Less than 1 year	Between 1–2 years	Between 2–5 years	Greater than 5 years
Payables	1,100,171	–	–	–
Uncalled private equity commitments	5,694	3,171	5,933	21,431

The table below summarises the cash flows for the derivative financial liabilities held. 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; and all other derivatives are classified as net settlement derivatives.

At 30 June 2015 $000	Less than 1 year	Between 1–2 years	Between 2–5 years	Greater than 5 years
Net settled derivatives – inflows (outflows)	74,757	48,596	100,739	122,676
Gross-settled derivatives – cash inflows	6,194,982	7,588	15,143	941
Gross-settled derivatives – cash outflows	(6,414,055)	(5,829)	(12,896)	(773)

At 30 June 2014 $000	Less than 1 year	Between 1–2 years	Between 2–5 years	Greater than 5 years
Net settled derivatives – inflows (outflows)	49,587	52,833	127,677	121,669
Gross-settled derivatives – cash inflows	4,810,451	13,973	17,929	6,020
Gross-settled derivatives – cash outflows	(4,781,808)	(8,960)	(14,257)	(5,046)

(f) Fair values

The fair value of financial instruments as mentioned in the summary of significant accounting policies are summarised as follows:

- The fair value of investments with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market bid-prices
- The fair value of derivative instruments is calculated using quoted bid-yields. Where such yields are not available, use is made of discounted cash flow analysis using an applicable yield curve for the duration of the instruments for non-option derivatives, and option pricing models for option derivatives
- The fair value of holdings in unlisted equity (private equity and venture capital) is the initial cost of investment adjusted for the performance of the business and changes in equity market conditions, since inception date. This is consistent with the 'International Private Equity and Venture Capital Valuation Guidelines'
- The carrying value less impairment provision of receivables and payables approximate their fair values

- For investments with no active market, fair values are determined using valuation techniques. Such techniques include arm's-length transactions, reference to the current market value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models making as much use of available and supportable market data as possible and keeping judgemental inputs to a minimum.

Securitised assets

ACC has exposure to some securitised assets for which there is currently no active market. Accordingly, the fair value of these instruments is established based on valuation techniques utilising the latest market information available from trustees, fund managers, brokers and other market participants.

At 30 June 2015 ACC held $nil (2014: $10.9 million) of commercial mortgage backed bonds originated by Property Finance Securities for which there is no market price. This investment was realised during the year.

At 30 June 2015 ACC held $8.0 million (2014: $12.0 million) of residential mortgage backed bonds issued by Challenger NZ Millennium Series 2007-AP Trust for which there is no market price. This investment was reduced predominantly by the amount of principal pass through. The fair value applied to this investment at 30 June 2015 is based on a valuation methodology which calculates a price based on an independent market valuation of similar non-bank mortgage backed bonds rated AAA. Any additional illiquidity compared with other instruments for which there are market valuations is not considered to have a material effect on the fair value.

These instruments represent 0.03% (2014: 0.085%) of the total investment assets of $31,372 million (2014: $27,076 million) held at 30 June 2015.

(g) Fair value hierarchy

All financial instruments are classified at fair value through surplus or deficit, other than payables which are classified as financial liabilities at amortised cost.

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).

As at 30 June 2015 $000	Consolidated			
	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial instruments				
Interest rate swaps	–	212,658	–	212,658
Credit default swaps	–	701	–	701
Cross currency swaps	–	9,083	–	9,083
Forward foreign currency contracts	–	1,790	–	1,790
Futures	26,216	–	–	26,216
Options	–	–	–	–
	26,216	**224,232**	**–**	**250,448**
Financial assets designated at fair value through surplus or deficit				
New Zealand equities	3,065,458	–	213,077	3,278,535
New Zealand government securities	–	9,752,990	–	9,752,990
New Zealand debt securities	–	6,258,752	105,121	6,363,873
Australian equities	1,547,975	14,823	16,003	1,578,801
Overseas equities	4,988,418	472,007	1,358	5,461,783
Overseas debt securities	–	5,061,444	–	5,061,444
Other investments	–	–	51,936	51,936
	9,601,851	**21,560,016**	**387,495**	**31,549,362**
	9,628,067	**21,784,248**	**387,495**	**31,799,810**
Financial liabilities				
Derivative financial instruments				
Interest rate swaps	–	(30,540)	–	(30,540)
Credit default swaps	–	(1,213)	–	(1,213)
Cross currency swaps	–	(6,027)	–	(6,027)
Forward foreign currency contracts	–	(224,875)	–	(224,875)
Futures	(244)	–	–	(244)
Options	–	(612)	–	(612)
	(244)	**(263,267)**	**–**	**(263,511)**

As at 30 June 2014 $000	Consolidated			
	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial instruments				
Interest rate swaps	–	90,106	–	90,106
Credit default swaps	–	2,726	–	2,726
Cross currency swaps	–	14,031	–	14,031
Forward foreign currency contracts	–	30,887	–	30,887
Futures	3,706	–	–	3,706
Options	–	10	–	10
	3,706	**137,760**	**–**	**141,466**
Financial assets designated at fair value through surplus or deficit				
New Zealand equities	2,696,913	–	136,711	2,833,624
New Zealand government securities	–	8,557,798	–	8,557,798
New Zealand debt securities	25,784	5,966,235	114,546	6,106,565
Australian equities	1,469,668	16,082	16,326	1,502,076
Other investments	–	–	63,200	63,200
Overseas equities	4,428,500	–	24,357	4,452,857
Overseas debt securities	–	3,622,600	7,273	3,629,873
	8,620,865	**18,162,715**	**362,413**	**27,145,993**
	8,624,571	**18,300,475**	**362,413**	**27,287,459**
Financial liabilities				
Derivative financial instruments				
Interest rate swaps	–	(185,114)	–	(185,114)
Credit default swaps	–	(279)	–	(279)
Cross currency swaps	–	(2,444)	–	(2,444)
Forward foreign currency contracts	–	(7,258)	–	(7,258)
Futures	(6,892)	–	–	(6,892)
Options	–	(24)	–	(24)
	(6,892)	**(195,119)**	**–**	**(202,011)**

Reconciliation of Level 3 fair value movements

$000	Consolidated 2015	2014
Opening balance	**362,413**	**280,476**
Total gains (losses) recognised in surplus or deficit	11,894	43,508
Purchases	125,103	170,204
Sales	(22,017)	(161,154)
Interest	–	217
Settlements	(43,520)	(203)
Transfers into Level 3	–	31,251
Transfers out of Level 3	(46,378)	(1,886)
Closing balance	**387,495**	**362,413**
Total gains (losses) stated on Level 3 instruments still held at balance date	**14,566**	**36,715**

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 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 for the period would result in a corresponding movement in equity.

	2015		2014	
	Impact on net surplus		Impact on net surplus	
$000	Increase	Decrease	Increase	Decrease
Private equity holdings				
Changes in the calculated share price of private equity investments (10% movement)	13,856	(13,856)	10,977	(10,977)
Convertible notes				
Change in discount rate (50 basis points movement)	(5,931)	5,931	–	–
Change in credit spread (25 basis points movement)	–	–	(1,959)	1,481
Other investments				
Change in discount rate (50 basis points movement)	(4,657)	5,095	(1,750)	1,862
Structured securities – asset-backed securities				
Change in interest rates (100 basis points movement)	(1)	1	(257)	(220)

All other securities in Level 3 are considered not to have a material effect on fair value if alternative reasonable assumptions were used to obtain their fair values.

16. Investment properties

$000	Consolidated Land	Buildings	Total
Opening balance as at 1 July 2013	**103,919**	**56,471**	**160,390**
Additions	31,848	33,177	65,025
Net gains (losses) from revaluations	(5,837)	15,292	9,455
Closing balance as at 30 June 2014	**129,930**	**104,940**	**234,870**
Opening balance as at 1 July 2014	**129,930**	**104,940**	**234,870**
Additions	–	749	749
Net gains (losses) from revaluations	10,770	(89)	10,681
Closing balance as at 30 June 2015	**140,700**	**105,600**	**246,300**
Current	–	–	–
Non-current	140,700	105,600	246,300
Total investment properties	**140,700**	**105,600**	**246,300**

The investment properties are recognised at fair value, which is based on the market value. The market valuations have been determined by members of the New Zealand Institute of Valuers, who are independent valuers of Colliers International NZ 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.

17. Investment intangible asset

Investment intangible asset is a concession right deed to operate a car park facility that was acquired in 2013. The arrangement expires in 2037.

$000	Consolidated 2015	2014
Year ended 30 June		
Opening net carrying amount	53,286	55,600
Additions	–	86
Amortisation charge	(2,400)	(2,400)
Closing net carrying amount	**50,886**	**53,286**
At 30 June		
At cost	56,086	56,086
Accumulated amortisation	(5,200)	(2,800)
Net carrying amount at 30 June	**50,886**	**53,286**

18. Investment in subsidiary

The consolidated financial statements include the financial statements of ACC and the subsidiary listed in the following table:

Name	Country of incorporation	% Equity interest 2015	% Equity interest 2014	Investment $ 2015	Investment $ 2014	Balance date
Shamrock Superannuation Limited	New Zealand	100	100	100	100	30 June

Shamrock Superannuation Limited acts as the corporate trustee for the ACC Superannuation Scheme.

19. Property, plant and equipment

Consolidated

$000	Land	Buildings	Leasehold improvements	Furniture, fittings and equipment	Computer equipment	Motor vehicles	Total
At 1 July 2013							
At cost and valuation	100	889	36,156	23,010	79,376	5,275	144,806
Accumulated depreciation	–	(610)	(23,907)	(21,566)	(57,388)	(2,361)	(105,832)
Net carrying amount at 1 July 2013	**100**	**279**	**12,249**	**1,444**	**21,988**	**2,914**	**38,974**
Year ended 30 June 2014							
Opening net carrying amount	100	279	12,249	1,444	21,988	2,914	38,974
Additions	–	1	3,152	1,712	949	969	6,783
Depreciation charge	–	(30)	(3,120)	(759)	(7,468)	(782)	(12,159)
Other (includes disposals)	–	–	(229)	16	(1)	(215)	(429)
Closing net carrying amount	**100**	**250**	**12,052**	**2,413**	**15,468**	**2,886**	**33,169**
At 30 June 2014							
At cost and valuation	100	890	34,415	24,675	79,489	5,080	144,649
Accumulated depreciation	–	(640)	(22,363)	(22,262)	(64,021)	(2,194)	(111,480)
Net carrying amount at 30 June 2014	**100**	**250**	**12,052**	**2,413**	**15,468**	**2,886**	**33,169**
Year ended 30 June 2015							
Opening net carrying amount	100	250	12,052	2,413	15,468	2,886	33,169
Additions	–	–	1,451	2,729	5,073	482	9,735
Revaluation increase	–	28	–	–	–	–	28
Depreciation charge	–	(12)	(2,863)	(1,218)	(7,111)	(915)	(12,119)
Other (includes disposals)	–	(1)	10	83	(255)	(17)	(180)
Closing net carrying amount	**100**	**265**	**10,650**	**4,007**	**13,175**	**2,436**	**30,633**
At 30 June 2015							
At cost and valuation	100	932	35,866	25,894	80,695	4,908	148,395
Accumulated depreciation	–	(667)	(25,216)	(21,887)	(67,520)	(2,472)	(117,762)
Net carrying amount at 30 June 2015	**100**	**265**	**10,650**	**4,007**	**13,175**	**2,436**	**30,633**

Impairment

The carrying amounts of all property, plant and equipment are reviewed on an ongoing basis. Any impairments in value are recognised immediately.

No impairment losses were reversed during this year.

20. Intangible assets

Consolidated

$000	Internally generated computer software	Acquired computer software	Total
At 1 July 2013			
At cost	362,107	11,348	373,455
Accumulated amortisation	(246,643)	(11,348)	(257,991)
Accumulated impairment	(1,000)	–	(1,000)
Net carrying amount at 1 July 2013	**114,464**	**–**	**114,464**
Year ended 30 June 2014			
Opening net carrying amount	114,464	–	114,464
Additions	41,635	–	41,635
Impairment losses	(4,091)	–	(4,091)
Amortisation charge	(40,967)	–	(40,967)
Closing net carrying amount	**111,041**	**–**	**111,041**
At 30 June 2014			
At cost	402,264	11,348	413,612
Accumulated amortisation	(287,610)	(11,348)	(298,958)
Accumulated impairment	(3,613)	–	(3,613)
Net carrying amount at 30 June 2014	**111,041**	**–**	**111,041**
Year ended 30 June 2015			
Opening net carrying amount	111,041	–	111,041
Additions	27,666	–	27,666
Impairment losses	(451)	–	(451)
Amortisation charge	(34,619)	–	(34,619)
Other (including disposals)	(49)	–	(49)
Closing net carrying amount	**103,588**	**–**	**103,588**
At 30 June 2015			
At cost	429,889	11,348	441,237
Accumulated amortisation	(322,238)	(11,348)	(333,586)
Accumulated impairment	(4,063)	–	(4,063)
Net carrying amount at 30 June 2015	**103,588**	**–**	**103,588**

(a) Impairment and write-offs

The carrying amounts of all intangible assets are reviewed on an ongoing basis. Any impairments in value are recognised immediately. Impairment losses and write-offs of $0.5 million were recognised for the year ended 30 June 2015 (2014: $4.1 million).

(b) EOS Client Management System

ACC's major intangible asset is the EOS Client Management System, which is the primary system used by ACC to manage clients and their claims. It has a net carrying value as at 30 June 2015 of $30.5 million (2014: $32.0 million). There are between zero and seven years remaining in amortisation.

21. Payables and accrued liabilities

$000	Consolidated 2015	Consolidated 2014
Payables under exchange transactions		
Unsettled investment transactions	1,335,369	1,038,374
Claims expenditure	6,372	162,710
Worksafe New Zealand	36,017	9
Sundry creditors	14,551	3,303
Levies overpaid by Inland Revenue	13,225	11,817
Other accrued expenditure	53,311	49,836
Total payables under exchange transactions	**1,458,845**	**1,266,049**
Payables under non-exchange transactions		
Goods and services tax	65,214	18,098
PAYE and earnings related deductions	2,687	2,928
Sundry creditors	488	377
Total payables under non-exchange transactions	**68,389**	**21,403**
Total payables and accrued liabilities	**1,527,234**	**1,287,452**
Current	1,527,234	1,287,452
Non-current	–	–
Total payables and accrued liabilities	**1,527,234**	**1,287,452**

22. Provisions

$000	Consolidated 2015	Consolidated 2014
Employee benefits	40,084	37,759
Restructuring	404	63
Leasehold restoration	1,581	1,686
Interest on weekly compensation payments	–	14,942
Compensation and rehabilitation costs	–	16,000
Onerous contracts	65	146
Total provisions	**42,134**	**70,596**
Current	33,017	60,583
Non-current	9,117	10,013
Total provisions	**42,134**	**70,596**

Movements in provisions

Movements for each class of provision is set out below.

(a) Employee benefits

	Consolidated	
$000	2015	2014
Opening balance	37,759	36,037
Paid out during the year	(36,156)	(31,818)
Additional provision made during the year	39,842	36,158
Reversal of unused provision	(1,361)	(2,618)
Closing balance	**40,084**	**37,759**

Refer to Note 1(w) for the relevant accounting policy.

(b) Restructuring

	Consolidated	
$000	2015	2014
Opening balance	63	–
Paid out during the year	(602)	(61)
Provision made during the year	943	124
Closing balance	**404**	**63**

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

(c) Leasehold restoration

	Consolidated	
$000	2015	2014
Opening balance	1,686	1,835
Paid out during the year	(40)	(30)
Additional provision made during the year	–	13
Reversal of unused provision	(65)	(132)
Closing balance	**1,581**	**1,686**

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 for the costs of doing this has been made accordingly.

(d) Interest on weekly compensation

	Consolidated	
$000	2015	2014
Opening balance	14,942	15,003
Paid out during the year	(7,251)	(5,706)
Additional provision made during the year	–	5,645
Reversal of unused provision	(7,691)	–
Closing balance	**–**	**14,942**

This provision was made as a result of a decision from the Court of Appeal which affects ACC's liability to pay interest for persons whose weekly compensation was stopped during the periods of the Accident Compensation Act 1972, Accident Compensation Act 1982 and Accident Rehabilitation and Compensation Insurance Act 1992, but was later reinstated.

This liability is now included in the outstanding claims liability.

(e) Compensation and rehabilitation costs

	Consolidated	
$000	2015	2014
Opening balance	16,000	14,900
Paid out during the year	(102)	(34)
Additional provision made during the year	–	1,134
Reversal of unused provision	(15,898)	–
Closing balance	**–**	**16,000**

The provision was made as a result of a decision from the Supreme Court of New Zealand which held that an impregnation resulting from a medical misadventure, in the form of a negligently performed sterilisation operation, was a personal injury for which cover was available under the AC Act.

This liability is now included in the outstanding claims liability.

(f) Onerous contracts

	Consolidated	
$000	2015	2014
Opening balance	146	1,454
Paid out during the year	(146)	(1,133)
Provision made during the year	65	205
Reversal of unused provision	–	(380)
Closing balance	**65**	**146**

A provision was made for unavoidable costs arising from early termination of a project. There were two non-cancellable leases that expired on 21 October 2014 and 31 March 2015.

23. Unearned levy liability

$000	2015 Total	Motor Vehicle Account	Earners' Account	Work Account	2014 Total
Opening balance at 1 July	2,049,626	386,439	1,025,546	637,641	2,241,710
Deferral of levies recognised in the year	1,723,282	231,962	1,095,920	395,400	2,049,626
Earnings of levies recognised in previous years	(2,049,626)	(386,439)	(1,025,546)	(637,641)	(2,241,710)
Closing balance at 30 June	**1,723,282**	**231,962**	**1,095,920**	**395,400**	**2,049,626**
Current	1,723,004	231,684	1,095,920	395,400	2,049,410
Non-current	278	278	–	–	216
Total unearned levy liability	**1,723,282**	**231,962**	**1,095,920**	**395,400**	**2,049,626**

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' Account and Work Account and from 1 July to 30 June for the Motor Vehicle Account.

At 30 June 2015 ACC has therefore recognised levy revenue for the period 1 July 2015 to 31 March 2016 for both the Earners' and the Work Accounts.

For the Motor Vehicle Account ACC recognises vehicle registration levy revenue for vehicle registrations that expire after 30 June 2015, and petrol levy revenue that can be expected to be received after 30 June 2015 based on the number and expiry date of vehicle registrations purchased up to 30 June 2015 but which expire after 30 June 2015.

Levies recognised at 30 June 2015 but relating to periods after this date have not yet been earned by ACC. This levy revenue is deferred in the financial statements as an unearned levy liability.

24. Unexpired risk liability

$000	2015 Total	Motor Vehicle Account	Earners' Account	Work Account	2014 Total
Opening balance at 1 July	201,549	–	201,549	–	42,077
Recognition of additional unexpired risk liability in the period	466,644	–	256,063	210,581	201,549
Release of unexpired risk liability recorded in previous periods	(201,549)	–	(201,549)	–	(42,077)
Closing balance at 30 June	**466,644**	**–**	**256,063**	**210,581**	**201,549**
Calculation of deficiency					
Unearned levy liability as reported in the statement of financial position	1,723,282	231,962	1,095,920	395,400	2,049,626
Adjustment(i)	(121,770)	–	(121,770)	–	(113,950)
Adjusted unearned levy liability	**1,601,512**	**231,962**	**974,150**	**395,400**	**1,935,676**
Central estimate of present value of expected future cash flows arising from future claims	1,785,363	131,696	1,105,199	548,468	1,643,817
Risk margin	200,101	17,574	125,014	57,513	185,618
Present value of expected future cash flows for future claims	**1,985,464**	**149,270**	**1,230,213**	**605,981**	**1,829,435**
Deficiency (surplus)	**383,952**	**(82,692)**	**256,063**	**210,581**	**(106,241)**
Adjustment for surplus in Account(ii)	82,692	82,692	–	–	307,790
Total unexpired risk liability	**466,644**	**–**	**256,063**	**210,581**	**201,549**
Current	466,644	–	256,063	210,581	201,549
Non-current	–	–	–	–	–
Total unexpired risk liability	**466,644**	**–**	**256,063**	**210,581**	**201,549**

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) If the liability adequacy test performed for an Account shows that there is no deficiency in the levies, the unexpired risk liability is zero for that Account. The liability adequacy test shows that there was a deficiency in levies in the Earners' and Work Accounts but none for the Motor Vehicle Account.

A liability adequacy test was not performed for the Non-Earners' Account as there was no unearned levy liability as at 30 June 2015 for this Account.

Risk margin

The process for determining the overall risk margin, including the way in which diversification of risks has been allowed for is discussed in Note 25(a).

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

25. Outstanding claims

(a) Outstanding claims liability (discounted)

$000	30 June 2015 Total	Motor Vehicle Account	Non-Earners' Account	Earners' Account	Work Account	Treatment Injury Account	30 June 2014 Total
Rehabilitation							
Medical treatment	2,172,578	266,507	744,983	626,366	372,441	162,281	1,857,941
Rehabilitation	14,924,852	4,540,176	3,493,122	2,196,513	2,126,185	2,568,856	13,854,203
	17,097,430	**4,806,683**	**4,238,105**	**2,822,879**	**2,498,626**	**2,731,137**	**15,712,144**
Compensation							
Income maintenance	7,011,114	1,810,526	500,104	2,057,592	2,109,522	533,370	6,258,750
Impairment benefits	994,587	161,940	440,018	172,000	149,672	70,957	917,635
	8,005,701	**1,972,466**	**940,122**	**2,229,592**	**2,259,194**	**604,327**	**7,176,385**
Central estimate of present value of future claims payments	**25,103,131**	**6,779,149**	**5,178,227**	**5,052,471**	**4,757,820**	**3,335,464**	**22,888,529**
Present value of the operating costs of meeting these claims	1,744,042	451,690	305,372	360,338	469,411	157,231	1,626,164
Bulk billed costs	9,208	903	5,857	1,811	580	57	9,136
	26,856,381	**7,231,742**	**5,489,456**	**5,414,620**	**5,227,811**	**3,492,752**	**24,523,829**
Risk margin	3,472,047	997,980	757,545	628,096	606,426	482,000	3,172,533
Outstanding claims liability	**30,328,428**	**8,229,722**	**6,247,001**	**6,042,716**	**5,834,237**	**3,974,752**	**27,696,362**
As at beginning of year	**27,696,362**	**7,784,544**	**5,633,270**	**5,326,280**	**5,415,516**	**3,536,752**	**27,162,251**
Movement during the year	**2,632,066**	**445,178**	**613,731**	**716,436**	**418,721**	**438,000**	**534,111**
Weighted average term to settlement	15 yrs 7 mths	16 yrs 2 mths	18 yrs 11 mths	13 yrs 2 mths	10 yrs 4 mths	21 yrs 5 mths	15 yrs 8 mths

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.

Risk margins applied by Account are as follows:

	2015	2014
Motor Vehicle	13.8%	13.8%
Non-Earners'	13.8%	13.8%
Earners'	11.6%	11.6%
Work	11.6%	11.6%
Treatment Injury	13.8%	13.8%
Overall margin (weighted average)	**12.9%**	**12.9%**

(b) Reconciliation of movement in discounted outstanding claims liability

The following analysis reconciles the year-on-year movement of the actuarially assessed outstanding claims liability 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 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) Risk margin –the risk margin to allow for the relative uncertainty of the outstanding claims estimate. The risk margin allows for a 75% probability of sufficiency.

(iv) 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.

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

(vi) Legislative and policy changes – involving improved modelling of legislative and policy changes to sensitive claims, hearing loss and judicial rulings.

(vii) Mortality assumption change – including methodology change to mortality rate for serious injury and social rehabilitation.

(viii) Other changes – additional entitlement claims identified due to new sensitive claims contract for counselling.

(ix) 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.

(x) Claims anticipated over the year – is the expected claim costs arising from new accidents in the year to 30 June 2015. The cost is the present value of projected payments post 30 June 2015 plus the expected payments to be made in the year ended 30 June 2015.

(xi) Claims payments and handling costs – is the actual claims paid and the actual claims handling costs incurred over the year ended 30 June 2015.

$000	30 June 2015 Total	Motor Vehicle Account	Non-Earners' Account	Earners' Account	Work Account	Treatment Injury Account	30 June 2014 Total
Outstanding claims brought forward	**27,696,362**	**7,784,544**	**5,633,270**	**5,326,280**	**5,415,516**	**3,536,752**	**27,162,251**
Effect of changes in inflation assumptions	(1,765,601)	(500,957)	(420,113)	(312,330)	(254,036)	(278,165)	(829,473)
Effect of changes in discount rates	3,225,400	920,926	740,513	576,182	494,849	492,930	(92,805)
Effect of changes in risk margin	–	–	–	–	–	–	3,834
Effect of claims experience and modelling	377,238	(126,921)	164,770	92,952	156,163	90,274	(16,774)
Effect of payments experience	(275,479)	(68,540)	(72,394)	(59,874)	(49,688)	(24,983)	(298,104)
Effect of legislative and policy changes	–	–	–	–	–	–	456,717
Effect of mortality assumption change	(539,839)	(117,488)	(175,922)	(37,966)	(65,178)	(143,285)	–
Effect of other changes	55,103	–	55,103	–	–	–	–
Effect of discount unwind	991,598	281,226	201,710	182,700	197,464	128,498	706,305
Claims anticipated over the year	4,184,468	533,659	1,114,640	1,501,253	709,478	325,438	3,939,609
Incurred claims recognised in the underwriting result	**6,252,888**	**921,905**	**1,608,307**	**1,942,917**	**1,189,052**	**590,707**	**3,869,309**
Claims payments and handling costs	(3,620,822)	(476,727)	(994,576)	(1,226,481)	(770,331)	(152,707)	(3,335,198)
Outstanding claims carried forward	**30,328,428**	**8,229,722**	**6,247,001**	**6,042,716**	**5,834,237**	**3,974,752**	**27,696,362**

(c) Reconciliation of undiscounted claims to liability for outstanding claims

$000	30 June 2015 Total	Motor Vehicle Account	Non-Earners' Account	Earners' Account	Work Account	Treatment Injury Account	30 June 2014 Total
Liability for outstanding claims – undiscounted	68,560,831	17,874,954	17,157,954	11,500,963	8,195,394	13,831,566	73,169,609
Liability for claims handling costs – undiscounted	3,379,388	935,535	702,473	603,121	749,620	388,639	3,458,826
Discount to present value – outstanding claims	(43,448,492)	(11,094,902)	(11,973,870)	(6,446,681)	(3,436,994)	(10,496,045)	(50,271,944)
Discount to present value – claims handling costs	(1,635,346)	(483,845)	(397,101)	(242,783)	(280,209)	(231,408)	(1,832,662)
Liability for outstanding claims – discounted	25,112,339	6,780,052	5,184,084	5,054,282	4,758,400	3,335,521	22,897,665
Liability for claims handling costs – discounted	1,744,042	451,690	305,372	360,338	469,411	157,231	1,626,164
Total outstanding claims liability – discounted	**26,856,381**	**7,231,742**	**5,489,456**	**5,414,620**	**5,227,811**	**3,492,752**	**24,523,829**
Risk margin	3,472,047	997,980	757,545	628,096	606,426	482,000	3,172,533
Total outstanding claims liability with risk margin	**30,328,428**	**8,229,722**	**6,247,001**	**6,042,716**	**5,834,237**	**3,974,752**	**27,696,362**
Current	2,374,336	432,667	399,100	758,880	613,502	170,187	2,176,500
Non-current	27,954,092	7,797,055	5,847,901	5,283,836	5,220,735	3,804,565	25,519,862
Total outstanding claims liability with risk margin	**30,328,428**	**8,229,722**	**6,247,001**	**6,042,716**	**5,834,237**	**3,974,752**	**27,696,362**

(d) Claims development table

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

	Accident year							
$000	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**Total**
Estimate of ultimate claim costs:								
At end of accident year	7,103,138	7,034,693	7,517,025	6,876,758	6,793,665	7,264,452	7,192,097	
One year later	6,733,342	6,738,577	6,288,195	6,118,016	6,607,789	6,547,234	–	
Two years later	6,713,810	5,938,507	5,890,253	5,545,685	5,762,431	–	–	
Three years later	6,045,476	5,722,485	5,309,905	4,979,132	–	–	–	
Four years later	5,582,871	5,273,901	5,070,011	–	–	–	–	
Five years later	5,540,060	4,722,822	–	–	–	–	–	
Six years later	5,276,114	–	–	–	–	–	–	
Current estimate of cumulative claim costs	**5,276,114**	**4,722,822**	**5,070,011**	**4,979,132**	**5,762,431**	**6,547,234**	**7,192,097**	**39,549,841**
Cumulative payments	(1,773,724)	(1,471,981)	(1,381,175)	(1,356,577)	(1,377,035)	(1,377,652)	(894,900)	(9,633,044)
Outstanding claims – undiscounted	**3,502,390**	**3,250,841**	**3,688,836**	**3,622,555**	**4,385,396**	**5,169,582**	**6,297,197**	**29,916,797**
			Discount					(19,934,498)
			Claims handling costs					1,966,465
			2008 and prior claims					18,365,393
			Short tail outstanding claims					14,271
			Outstanding claims – per statement of financial position					**30,328,428**

(e) Key assumptions

Liabilities exist in respect of:

Claims

Claims notified and accepted in the current and previous years, but which will not be fully met until future years; and claims incurred but not notified to, or accepted by, ACC at balance date.

Gradual process claims

Under the AC Act, the injury date for gradual process claims is when the injured party first seeks treatment related to the injury. Given the lag in time for such injuries to manifest and difficulties identifying an actual date of injury, the actual exposure period is not the injury date. For these claims the outstanding claims liability carries uncertainty associated with clients who have sought treatment but have not yet reported the claim to ACC. However, the outstanding claims liability does not cover future payments on claims to injured parties on gradual process claims that have not yet sought treatment as the liability to ACC does not accrue until the claim is made, being the date of treatment.

Actuarial estimate

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), Mr Michael Playford and Mr Darryl Frank, Fellows of the Institute of Actuaries of Australia. Mr Paul Rhodes and Mr Michael Playford are also Fellows of the New Zealand Society of Actuaries.

The actuarial estimate has been made based on actual experience to 30 June 2015. The calculation of the outstanding claims liability 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 25(a), outstanding claims liability (discounted), shows the actuarial estimate of the present value of the outstanding claims liability 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:

	2015		2014	
	Year 1 % pa	Beyond year 1 % pa	Year 1 % pa	Beyond year 1 % pa
1. Discount rate	2.93%	2.81% to 5.50%	3.70%	4.04% to 5.5%
2. Inflation rates:				
weekly compensation	2.6%	2.6% to 3.5%	3.1%	3.1% to 3.5%
impairment benefits	1.6%	1.6% to 2.5%	1.9%	1.9% to 2.5%
social rehabilitation benefits[(a)]	1.8%	1.8% to 2.7%	2.3%	2.3% to 2.7%
hospital rehabilitation benefits[(b)]	1.8%	1.8% to 2.7%	2.3%	2.3% to 2.7%
short-term medical costs[(c)]	1.8%	1.8% to 2.7%	2.3%	2.3% to 2.7%
other medical costs[(c)]	1.8%	1.8% to 2.7%	2.3%	2.3% to 2.7%

Superimposed inflation

In addition to the above there are superimposed inflation assumptions used in estimating the outstanding claims liability, which are summarised in the following. Superimposed inflation is the inflationary component in excess of annual movement in the Labour Cost Index.

(a) Social rehabilitation (which represents around 68% of rehabilitation liability) has an allowance for superimposed inflation which differs by type of payment, eg care versus capital. This long-term superimposed inflation assumption has financial significance; the impact of any change in this assumption is disclosed in the sensitivity analysis. The social rehabilitation superimposed inflation is composed of the following components:

1. 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 the following superimposed inflationary effect:

2015 financial year ending	2016	2017	2018	2019–2020	2021–2024	2025–2029	2030+
Annual superimposed inflation	2.8%	5.7%	5.7%	5.6%	3.0% to 5.6%	2.9% to 3.0%	2.3% to 2.9%

2014 financial year ending	2015	2016	2017–2018	2019–2020	2021–2024	2025–2029	2030+
Annual superimposed inflation	1.8%	5.6%	5.6% to 5.7%	5.6%	3.0% to 3.1%	3.0%	2.3% to 2.9%

2. 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. An allowance has been

made for superimposed inflation of 5.5% pa for four years starting from 2016 followed by 1.0% pa thereafter (2014: 7.7% pa for three years starting from 2015 followed by 1.0% pa thereafter).

(b) Hospital rehabilitation, which is predominantly elective surgery costs, includes an allowance for superimposed inflation of 5.0% pa for the next 10 years, followed by 4.0%pa thereafter (2014: 5.0% pa for the next 10 years, followed by 4.0% pa thereafter).

(c) Medical cost inflation includes an explicit allowance for superimposed inflation.

	2015			2014		
	2016	2017–2020	2021+	2015	2016–2019	2020+
Short term medical						
General practitioners	3.00%	4.00%	3.00%	4.00%	4.00%	3.00%
Radiology	5.00%	5.75%	5.00%	5.75%	5.75%	5.00%
Physiotherapists	2.00%	2.00%	2.00%	2.30%	2.30%	2.00%
Other medical	**2.50%**	**3.25%**	**2.50%**	**3.25%**	**3.25%**	**2.50%**

Risk free 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 New Zealand government bond is approximately 12 years from now. Discount rates beyond 12 years are smoothed over a minimum of ten years with a maximum increment of 0.05% per annum to eventually attain a long-term risk-free discount rate of 5.50%. This long-term rate is based on an examination of average New Zealand government bond returns 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.

Claims handling expenses

The following table shows the claims handling expenses as a percentage of the claims component of the outstanding liability by Account.

Claims handling costs by Account:

	2015	2014
Motor Vehicle	6.7%	6.7%
Non-Earners'	5.9%	5.4%
Earners'	7.1%	7.9%
Work	9.9%	10.8%
Treatment Injury	4.7%	4.8%
Overall margin (weighted average)	**7.0%**	**7.2%**

(i) Process used to determine assumptions

DISCOUNT RATE

The projected cash flows were discounted using a series of forward discount rates at balance date derived from the yield curve of the New Zealand government bond and an assumption that rates will rise to 5.50% in the long-term as discussed above. The equivalent single effective discount rate taking into account ACC's projected future cash flow patterns is 4.34%.

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 using a long-term gap assumption between inflation and interest rates. Inflation rates beyond 21 years are set by deducting the long-term gap from the long-term risk free discount rate assumption.

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.

SUPERIMPOSED INFLATION

Superimposed inflation is the increase in the cost of claims that is above general inflation.

Assumptions for superimposed inflation were set with reference to past observed superimposed inflation and allowance for expectations of the future.

REHABILITATION RATE

The rehabilitation rate is the rate at which clients recover sufficiently to no longer require support from ACC.

Assumptions for the rehabilitation rate were set with reference to past observed experience with an allowance for expectations of the future.

(ii) Sensitivity to changes in key assumptions

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

	Movement	2015 Impact on net surplus $million	2014 Impact on net surplus $million
Discount rate	+1.0%	3,930	3,585
	-1.0%	(5,212)	(4,759)
Inflation rate	+1.0%	(5,370)	(4,917)
	-1.0%	4,106	3,754
Long term gap between discount rate and inflation rates	+0.5%	173	576
	-0.5%	(462)	(911)
Superimposed inflation (excluding social rehabilitation for serious injury claims)	+1.0%	(587)	(1,053)
	-1.0%	446	792
Discounted mean term	+1 year	902	826
	-1 year	(930)	(852)
Superimposed inflation for social rehabilitation for serious injury claims after four years	+1.0%	(2,517)	(2,433)
	-1.0%	1,860	1,792
Long-term continuance rates for non-fatal weekly compensation	+1.0%	(768)	(702)
	-1.0%	641	586

(f) Undiscounted outstanding claims liability

The reported outstanding claims liability of $30,328 million (2014: $27,696 million) represents the net present value of estimated cash flows associated with this obligation. The following table represents the timing of future undiscounted cash flows for claims, including claims handling costs as at 30 June 2015. These estimated cash flows include the effects of assumed future inflation.

	Includes risk margin		Excludes risk margin	
$million	2015	2014	2015	2014
Less than one year	2,405	2,212	2,137	1,966
Between one to two years	1,777	1,669	1,578	1,482
Between two to five years	4,717	4,498	4,184	3,990
Between five to ten years	7,234	7,049	6,411	6,247
Between ten to 15 years	6,591	6,619	5,836	5,861
Between 15 to 20 years	6,350	6,599	5,619	5,839
Between 20 to 25 years	6,296	6,746	5,567	5,965
Between 25 to 30 years	6,246	6,825	5,519	6,031
Between 30 to 35 years	6,177	6,810	5,456	6,014
Between 35 to 40 years	6,003	6,660	5,300	5,878
Between 40 to 45 years	5,710	6,357	5,038	5,608
Between 45 to 50 years	5,260	5,897	4,639	5,199
Greater than 50 years	16,640	18,790	14,656	16,548
Undiscounted outstanding claims liability	**81,406**	**86,731**	**71,940**	**76,628**

(g) 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 15), liquidity risk (refer to Note 15), compliance risk and operational risk. ACC's approach to managing risk is set out in the Governance and managing our 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 accident compensation scheme operation and 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 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. This is based on a decision of the ACC Board made in 2011 and reviewed in 2012 to post fund any such event. 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 does not have and is not required to have a credit rating.

26. Reserve for future gradual process claims

The Work Account reserve includes levies and associated investment revenue that are intended to pay for all gradual process claims (being claims for personal injury caused by work-related gradual process, disease or infection) where the exposure occurred before 1 July 1999. However, as required by the AC Act and in accordance with accounting standards, the outstanding claims liability at 30 June 2015 only includes gradual process claims made by that date. Therefore within the Work Account, a portion of the reserve has been separately disclosed relating to future gradual process claims to show the levy revenue and associated investment revenue available to pay for gradual process claims where the exposure has occurred before 1 July 1999 but a claim has not yet been made.

	Consolidated	
$000	2015	2014
Reserve available for future gradual process claims where exposure occurred before 1 July 1999 – opening balance	**516,200**	**393,300**
Adjustment to estimated levies	16,700	–
Adjustment to prior years' claims incurred*	1,000	(5,200)
Levy revenue attributable to future gradual process claims where exposure occurred before 1 July 1999	109,200	133,300
Investment revenue attributable to the assets of the reserve for future gradual process claims where exposure occurred before 1 July 1999	27,300	31,300
Payments for gradual process claims made during the year	(11,200)	(6,400)
Liability for gradual process claims made during the year	(32,900)	(30,100)
Reserve available for future gradual process claims where exposure occurred before 1 July 1999 – closing balance	**626,300**	**516,200**

** Adjustment to reflect actual payments and updated assumptions for outstanding claims liability in relation to gradual process claims reported in the prior financial year.*

The Work Account is intended to pay for all gradual process claims where the exposure has already occurred. As noted above the outstanding claims liability only includes gradual process claims which have been made as at 30 June 2015 and therefore excludes liability for future gradual process claims where the exposure has occurred but claims have not yet been made. An actuarial estimate has been made of the additional obligation for future gradual process claims where exposure has already occurred before 1 July 1999 and between 1 July 1999 and 30 June 2015 but for which a claim had not yet been made as at 30 June 2015. This estimate is shown below and 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 actuarial estimate of the additional obligation.

	Consolidated	
$000	2015	2014
Present value of obligation for future gradual process claims not yet made where exposure occurred before 1 July 1999	(587,900)	(572,800)
Present value of obligation for future gradual process claims not yet made where exposure occurred between 1 July 1999 and balance sheet date	(496,900)	(433,100)
Present value of obligation for all future gradual process claims not yet made	**(1,084,800)**	**(1,005,900)**

Previously under the AC Act the amount of levies to be received between 1 July 2009 and 31 March 2019 to cover gradual process claims where exposure occurred before 1 July 1999 was $1,280 million. As at 30 June 2014 the present value of this future revenue from 1 July 2014 to 31 March 2019 was $720 million. Since then, the Accident Compensation (Financial Responsibility and Transparency) Amendment Bill has been passed into legislation which permits the collection of some or all of the residual levies to cease from 1 April 2016. The Government has made a decision, which was publicly announced, to cease collection of the Work Account residual levies from 1 April 2016.

	Consolidated	
$000	2015	2014
Reserve available for future gradual process claims where exposure occurred before 1 July 1999 – closing balance	626,300	516,200
Present value of levy revenue from financial year end to 31 March 2019 gazetted to be available to cover future gradual process claims where exposure occurred before 1 July 1999	–	720,000
Present value of obligation for future gradual process claims not yet made where exposure occurred before 1 July 1999	(587,900)	(572,800)
Difference in present value of obligation for future gradual process claims where exposure occurred before 1 July 1999 less reserves available and present value of future revenue gazetted to cover future gradual process claims where the exposure occurred before 1 July 1999	**38,400**	**663,400**

27. Asset revaluation reserves

	Consolidated	
$000	2015	2014
Land revaluation reserve		
Balance at the beginning of the year	30	30
Revaluation (decrease)	–	–
Transfer to Account reserves	–	–
Balance at the end of the year	**30**	**30**
Building revaluation reserve		
Balance at the beginning of the year	271	271
Revaluation increase	28	–
Balance at the end of the year	**299**	**271**
Total asset revaluation reserves	**329**	**301**

28. Cash flows

Reconciliation of net cash inflow from operating activities with the reported net surplus.

	Consolidated		
$000	**Actual 2015**	**Actual 2014**	**Budget 2015**
Net surplus	**1,611,003**	**2,144,846**	**868,285**
Add (less) items classified as investing activities:			
(Gains) on sale of property, plant and equipment	(65)	(4)	(217)
Losses on sale of intangible assets	49	–	–
Realised (gains) on sale of investments	(1,212,348)	(700,570)	(367,220)
Add (less) non-cash items:			
Depreciation	12,119	12,159	11,837
Amortisation of intangible assets	34,619	40,967	11,621
Intangible assets impairment/write-offs	451	4,091	–
Property, plant and equipment write-offs	–	4	–
Fair value (gains) losses on investments	(1,047,607)	(240,966)	–
Net adjustments to investments from foreign exchange (unrealised)	(563,038)	379,783	–
Movement in provision for employee benefits	2,325	1,722	–
Movement in provision for restructuring costs	341	63	–
Movement in provision for leasehold restoration	(105)	(149)	–
Movement in provision for interest on weekly compensation	(14,942)	(61)	–
Movement in provision for compensation and rehabilitation costs	(16,000)	1,100	–
Movement in provision for onerous contracts	(81)	(1,308)	–
Change in provision for impairment of levy debtors	6,630	(34,996)	–
Movement in unexpired risk liability	265,095	159,472	27,061
Increase (decrease) in outstanding claims liability	2,632,066	534,111	1,104,559
Add (less) movements in working capital items:			
In receivables and accrued levy revenue	197,669	243,787	(16,339)
In payables and accrued liabilities	(57,317)	14,545	2,327
In unearned levy liability	(326,344)	(192,084)	43,093
Net cash inflow from operating activities	**1,524,520**	**2,366,512**	**1,685,007**

29. Capital commitments and operating leases

Capital commitments

	Consolidated	
$000	**2015**	**2014**
Investment-related	141,757	37,144
Other	24	853
Total capital commitments	**141,781**	**37,997**

ACC has committed to provide a $123.1 million term debt facility to the Wellington Gateway Partnership SPV. As at 30 June 2015, ACC had an undrawn commitment to the company of $108.4 million.

The private equity portfolio includes investments in several venture capital/private equity funds. Investors do not invest upfront. These 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 $141.6 million (2014: $134.3 million) in these funds. As at 30 June 2015, ACC had undrawn commitments to these funds totalling $33.3 million (2014: $36.2 million). The private equity portfolio is split between New Zealand, Australian and overseas equities.

At 30 June 2014, ACC had a commitment to a lessee to reimburse them for costs of $0.9 million incurred in extending a building.

Operating leases as lessee

The future aggregate minimum lease payments to be paid under non-cancellable operating leases are as follows:

	Consolidated	
$000	2015	2014
Non-cancellable operating leases		
Within one year	18,033	16,799
After one year but not more than five years	60,931	55,746
More than five years	51,989	55,846
Total non-cancellable operating leases	**130,953**	**128,391**

ACC leases premises for its branch network and its corporate offices. The leases have varying terms and renewal options. The amounts disclosed above as future commitments are based on lease payments up to the next renewal date of the lease on current rental rates.

30. Contingencies

Contingent liabilities

The estimated contingent liabilities are as follows:

	Consolidated	
$000	2015	2014
Legal proceedings	662	561
Total contingent liabilities	**662**	**561**

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. The ACC Board believes the resolution of outstanding appeals will not have any material effect on the financial statements of ACC.

Contingent assets

There were no contingent assets as at 30 June 2015 and 2014.

31. Related party transactions

All related party transactions have been entered into on an arm's length basis.

ACC is a wholly owned entity of the Crown. All members of the group are considered to be related parties of ACC which includes the subsidiary listed in Note 18.

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. Further, 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.

Key management personnel

The compensation for key management personnel is set out below:

	Consolidated	
$000	2015	2014
Board members		
Remuneration ($000)	453	433
Full-time equivalent members	8.0	7.5
Executive team		
Remuneration ($000)	4,533	4,167
Defined contribution plans ($000)	316	275
Termination benefits ($000)	133	–
Full-time equivalent members	11.9	12.1
Total key management personnel remuneration ($000)	**5,435**	**4,875**
Total full-time equivalent personnel	**19.9**	**19.6**

Information regarding individual members of the Board is provided in the 'Governance and managing our risks' section of the annual report. Information regarding the remuneration of members of the Executive within specified bands is included in the 'Remuneration of employees' section.

Key management personnel did not receive any remuneration or compensation other than in their capacity as key management personnel (2014: $nil).

ACC did not provide any compensation at non-arm's length terms to close family members of key management personnel during the year (2014: $nil). ACC did not provide any loans to key management personnel or their close family members.

32. Account solvency and capital management

The ACC Scheme is managed through five separate Accounts being the Motor Vehicle Account, the Non-Earners' Account, the Earners' Account, the Work Account and the Treatment Injury Account. 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 of costs incurred between separate Accounts is not permitted. ACC therefore manages and separately reports on the solvency of each Account.

Solvency is measured as a percentage being the total value of net assets held in an Account divided by the outstanding claims liability 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 Account, the Earners' Account, the Work Account 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 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:

%	2015	2014
Work Account	140.8%	138.1%
Work Account (including gradual process claims incurred but not yet made)	*118.7%*	*116.5%*
Motor Vehicle Account	115.7%	99.5%
Earners' Account	131.7%	131.9%
Non-Earners' Account	48.8%	48.7%
Non-Earners' Account – pre-2001 injuries	*0.5%*	*(0.5)%*
Non-Earners' Account – post-2001 injuries	*99.4%*	*106.6%*
Treatment Injury Account	77.7%	73.3%
Treatment Injury Account – Earners' Account portion	*115.4%*	*107.9%*
Treatment Injury Account – Non-Earners' Account portion, pre-2001 injuries	*(0.3)%*	*1.0%*
Treatment Injury Account – Non-Earners' Account portion, post-2001 injuries	*99.5%*	*98.4%*

33. Reinsurance

ACC has no catastrophe reinsurance as the cost to place the cover is assessed as not in line with the risk.

Catastrophe reinsurance will be reconsidered if and when this can be achieved at a reasonable cost.

34. Events after balance sheet date

The Accident Compensation (Financial Responsibility and Transparency) Amendment Bill has been passed into legislation in late September 2015. This permits the collection of some or all of the residual levies to cease from 1 April 2016. The Government has made a decision, which was publicly announced, to discontinue with the Work Account residual levies from 1 April 2016, earlier than the 2018/19 levy year that was previously set by legislation. As residual levies are collected in arrears of the levy year to which they relate, this has an impact for the financial year ended 30 June 2015. The financial statements have been adjusted accordingly to recognise the impact of this.

There were no other significant events after balance date that require separate disclosure.

35. Explanation of significant variances against budget

As stated in the summary of significant accounting policies, the budget figures are those in the ACC's Service Agreement 2014/15. The Service Agreement 2014/15 was prepared based on the claims valuation as at 31 December 2013 using discount rates at 31 March 2014.

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

Net levy revenue was higher than budget reflecting improved general economic conditions supporting higher total employment and wages in the economy, as well as increased petrol consumption and numbers of registered vehicles.

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 ten out of the next 20 years, and similarly to achieve lower returns than budget for ten out of the next 20 years.

Investment income was substantially higher than budget due to movements in investment markets. This is the 20th consecutive year that the Investment team has outperformed against investment benchmarks.

Claims paid

Claims paid costs were higher than budget primarily because of higher than anticipated numbers of newly registered claims, in particular the number of new entitlement claims which increased 12.4% over the previous year. Entitlement claims tend to be more serious and therefore expensive than other claims as they require compensation and/or support for returning to independence. Analysis commissioned by ACC indicates that entitlement claim numbers are highly linked to the following four factors

- GDP per capita
- Work type
- Unemployment rates
- Demographics (including age profile).

The higher than anticipated number of entitlement claims is therefore linked to improved general economic conditions which resulted in higher GDP per capita, reduced unemployment levels and increased employment in higher risk industry sectors such as construction.

Increase in outstanding claims liability

The budgeted change in outstanding claims liability was based on the December 2013 actuarial valuation of claims liability and economic factors (such as actual interest rates) at 31 March 2014. The actual change in outstanding claims liability was based on the June 2015 actuarial valuation of claims liability using economic factors at 30 June 2015.

The actual increase in the outstanding claims liability was significantly higher than budget due to the combination of multiple economic and actuarial factors, the most significant of which was the reduction in the single effective discount rate due to interest rates falling over the period to June 2015.

Movement in unexpired risk liability

The unexpired risk liability (URL) is the shortfall, if any, by Account between the levy revenue that we will earn for a future period where the rate of levy revenue 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 2014 and the budgeted calculation of the URL at 30 June 2015.

The actual increase in URL was higher than the budgeted increase in URL mainly because of interest rate movements and increased future claim costs due to an increase in anticipated future claim volumes. In addition, there was a deficiency in levies in the Work Account following the Government's decision to discontinue with the Work Account residual levies from 1 April 2016.

b) Statement of financial position

Receivables

The receivables balance is higher than budgeted. The largest component of receivables is levy revenue due from employers. The Work Account levy year runs from 1 April to 31 March, and invoices are issued to employers as soon as possible in the levy year once the information needed to issue the invoices is available. ACC was able to issue more invoices for levies to employers by 30 June 2015 than had been anticipated when the budget was compiled and as a result the value of levy revenue owed to ACC as at 30 June 2015 was higher than budgeted.

The other major component of 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 revenue 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 compiled market opportunities suggested that there would be fewer investment sales with a correspondingly low short term receivables balance; however as at 30 June 2015 market conditions resulted in higher investment sales than anticipated when the budget was compiled 15 months earlier.

Investments

The net investment asset balance is higher than budget reflecting the higher than budgeted investment revenue earned over the financial year.

Payables and accrued liabilities

The payables and accrued liabilities balance is marginally lower than budgeted. The major component of 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 2015 and therefore a marginally lower short term payables balance than anticipated when the budget was compiled.

Outstanding claims liability

The actual outstanding claims liability (OCL), based on the June 2015 actuarial valuation of claims liability using economic factors at 30 June 2015, is higher than the budgeted OCL based on the December 2013 actuarial valuation of claims liability and economic factors at 31 March 2014.

The budgeted OCL was estimated in two stages – firstly the expected change in liability from 31 March 2014 (when the budget was finalised) to 30 June 2014, and then the expected change from 1 July 2014 to 30 June 2015.

Interest rates declined between March 2014 and June 2014 which increased the OCL above expectations. Interest rates continued to decline from July 2014 to June 2015 which further increased the OCL above budget.

(c) Statement of cash flows

Net cash inflow from operating activities was marginally lower than budget due to higher than anticipated claim volumes resulting in increased operational payments on client related goods and services. All other cash flows were close to budget.

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INDEPENDENT AUDITOR'S REPORT

TO THE READERS OF
ACCIDENT COMPENSATION CORPORATION GROUP'S
FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION
FOR THE YEAR ENDED 30 JUNE 2015

The Auditor-General is the auditor of Accident Compensation Corporation and its subsidiary. The Auditor-General has appointed me, Simon O'Connor, using the staff and resources of Ernst & Young, to carry out the audit of the financial statements and performance information of the group consisting of Accident Compensation Corporation and its subsidiary (collectively referred to as 'the Group'), on her behalf.

Opinion on the financial statements and the performance information

We have audited:

- the financial statements of the Group on pages 58 to 121, that comprise the statement of financial position as at 30 June 2015, the statement of comprehensive revenue and expense, statement of changes in reserves and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the performance information of the Group on pages 9 to 26 and 45 to 56.

In our opinion:

- the financial statements of the Group:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2015; and
    - its financial performance and cash flows for the year then ended; and
  - comply with generally accepted accounting practice in New Zealand and have been prepared in accordance with Tier 1 PBE accounting standards.
- the performance information:
  - presents fairly, in all material respects, the Group's performance for the year ended 30 June 2015, including for each class of reportable outputs:
    - its standards of performance achieved as compared with forecasts included in the Service Agreement for the financial year; and
    - its actual revenue and output expenses as compared with the forecasts included in the Service Agreement for the financial year.
  - complies with generally accepted accounting practice in New Zealand.

Our audit was completed on 24 September 2015. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board and our responsibilities, and explain our independence.

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Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements and the performance information are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements and the performance information. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the performance information. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and the performance information, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the Group's financial statements and performance information 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.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board;
- the appropriateness of the reported performance information within the Corporation's framework for reporting performance;
- the adequacy of the disclosures in the financial statements and the statement of performance; and
- the overall presentation of the financial statements and the statement of performance.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and the performance information. Also, we did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Board

The Board is responsible for preparing financial statements and performance information that:

- comply with generally accepted accounting practice in New Zealand;
- present fairly the Group's financial position, financial performance and cash flows; and
- present fairly the Group's performance.

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The Board's responsibilities arise from the Crown Entities Act 2004, the Public Finance Act 1989 and the Accident Compensation Act 2001.

The Board is responsible for such internal control as it determines is necessary to enable the preparation of financial statements and performance information that are free from material misstatement, whether due to fraud or error. The Board is also responsible for the publication of the financial statements and the performance information, whether in printed or electronic form.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and the performance information and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001.

Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

Other than the audit, provision of assurance related services, technical accounting assistance, cost recovery relating to facility hire and educational services we have no relationship with or interests in the Corporation or its subsidiary.

Partners and employees of Ernst & Young may deal with the Corporation on normal terms within the ordinary course of trading activities of the business of the Corporation. Ernst & Young also sub-leases office space from the Corporation on normal commercial terms.

Simon O'Connor
Ernst & Young
On behalf of the Auditor-General
Wellington, New Zealand

Remuneration of employees

The number of employees whose remuneration was within specified bands is as follows:

	Consolidated			Consolidated	
	2015	2014		2015	2014
$100,000 – $110,000	176	126	$340,000 – $350,000	1	–
$110,000 – $120,000	91	81	$350,000 – $360,000	–	1
$120,000 – $130,000	74	60	$360,000 – $370,000	1	–
$130,000 – $140,000	54	39	$370,000 – $380,000	2	–
$140,000 – $150,000	33	22	$380,000 – $390,000	2	1
$150,000 – $160,000	22	23	$390,000 – $400,000	4	1
$160,000 – $170,000	31	21	$400,000 – $410,000	1	1
$170,000 – $180,000	10	11	$410,000 – $420,000	2	1
$180,000 – $190,000	21	13	$420,000 – $430,000	2	1
$190,000 – $200,000	8	10	$440,000 – $450,000	–	2
$200,000 – $210,000	13	11	$470,000 – $480,000	2	–
$210,000 – $220,000	11	5	$480,000 – $490,000	1	–
$220,000 – $230,000	4	4	$500,000 – $510,000	1	–
$230,000 – $240,000	2	–	$510,000 – $520,000	–	1
$240,000 – $250,000	–	1	$520,000 – $530,000	1	–
$250,000 – $260,000	6	8	$530,000 – $540,000	1	1
$260,000 – $270,000	1	1	$560,000 – $570,000	1	–
$270,000 – $280,000	4	3	$570,000 – $580,000	–	1
$280,000 – $290,000	1	2	$600,000 – $610,000	1	2
$290,000 – $300,000	2	1	$620,000 – $630,000	1	1
$300,000 – $310,000	1	2	$680,000 – $690,000	1	–
$310,000 – $320,000	1	1	$700,000 – $710,000	–	1
$320,000 – $330,000	1	–	$760,000 – $770,000	1	–
$330,000 – $340,000	–	3	$770,000 – $780,000	1	–
			$810,000 – $820,000	–	1
				594	**464**
Average remuneration of above employees				**$150,977**	**$151,535**

27 staff received redundancy payments or settlement payments in 2015 totalling $752,636 (2014: three staff $61,274).

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