Annual Report 2016

Accident Compensation Corporation



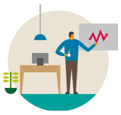
Contents

How your ACC Scheme works

Government

$955m

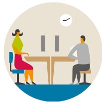
The Non-Earners' Account is for people not in the workforce, such as children or retirees



Employers

$696m

The Work Account is for injuries at work



Employees

$1,261m

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

Motor Vehicle owners and drivers

$732m

The Motor Vehicle Account is for all road-related injuries

Government and employees

$283m

The Treatment Injury Account is for injuries caused by medical treatment

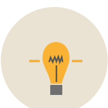
Investment Earnings

$3,273m

Income from our investments

Where the money comes from

How the money is allocated



Injury prevention

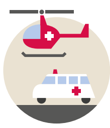
$50m

Helping the community understand how to stay safe and healthy

Financial compensation and vocational rehabilitation

$1,215m

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



Treatment and emergency travel

$1,595m

Includes visits to a GP, x-rays, surgery and associated travel

Care and support

$678m

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

Our performance this year

Our 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.

What we achieved this year

Reduced the cost and volatility of levies for New Zealanders

- reduced levies for workers, businesses and motorists
- successfully implemented the new funding policy, providing a fairer, more consistent and less volatile approach to levy management
- maintained the solvency of all levied accounts.

Exceeded investment benchmarks for the 21st consecutive year

- achieved an investment return of 10.22%, 0.55% above benchmark
- grew our investment fund by $3.3 billion.

Continued to build the trust and confidence of New Zealanders to the highest level since 2008

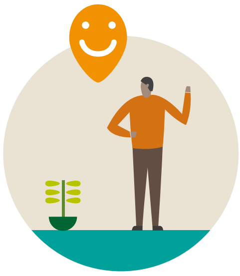
- delivered cover decisions and key services more quickly for our clients
- listened to our customers through an award-winning engagement process, ShapeYourACC
- improved access for counselling and services for sensitive claims, reducing the stigma associated with asking for help.

Partnered with a wide range of New Zealand organisations to deliver broader, more effective injury prevention programmes to more New Zealanders by supporting:

- a joint action plan for the most at-risk industries in New Zealand, developed with WorkSafe New Zealand
- families and communities through partnerships with the New Zealand Police, Plunket and St John
- older people through a $30 million falls and fracture programme with the Ministry of Health, Health Quality & Safety Commission and district health boards
- initiatives to reduce treatment injury, working with the Ministry of Health.

Transitioned our Transformation programme into delivery

- completed our integrated plan
- started delivery of improvement initiatives with redesigned invoices with our business customers, providing clearer, more transparent levy information for businesses.



63%

Our trust and confidence score, our highest result since 2008

$804m

Reduction in levies from changes to levy rates

10.22%

The return on our investment fund this year, 0.55% above industry benchmark

$34.8b

Assets and investments to support the Scheme

$1.60

Return on every dollar invested in injury prevention

8.3 days

The average time to payment for weekly compensation payments – a 10% reduction

118%

Solvency for levied accounts

92.8%

The percentage of clients who have returned to work within nine months – 0.4% lower than last year

$3.4b

Net deficit for the year, primarily driven by external factors such as interest rates

From the Acting Minister for ACC

The Government's new funding policy for ACC came into force in September 2015, one of a number of improvements implemented as part of the Accident Compensation (Financial Responsibility and Transparency) Amendment Act. The new legislation means we have a more principled, transparent framework for ACC funding decisions. The new policy ensures the scheme is adequately funded to withstand economic volatilities, while ensuring levies are kept as low as possible, and stable over time. ACC's levied accounts are now fully-funded. This is a significant milestone as it means ACC holds sufficient funds to meet the lifetime costs of existing claims. ACC levies will now be set every two years, rather than annually.

The Government was able to confirm $450 million of ACC levy reductions for motor vehicle, work and earners' levy payers for the 2016/17 year, and we've been able to deliver around $2 billion of levy cuts over the past five years, including a 33% reduction to the average motor vehicle levy. The legislation introduced in September 2015 also allowed for the removal of residual levies, which collected historical claims costs. This has resulted in fairer work levies from 1 April 2016, based on industries with the greatest injury costs paying their true share of these costs.

Public trust and confidence in ACC is essential to the long term success of the Scheme. The Government welcomed the results of a Research New Zealand survey which shows this reached a new high during the year. The survey shows that 63% of New Zealanders surveyed in the 12 months to June 2016 have full trust and confidence in ACC, up from 56% in the previous 12 months. The result for the last quarter is 64%, which is the highest result since the survey began in 2004. This result confirms that ACC is heading in the right direction.

ACC has begun a five-year programme aimed at transforming its people, processes and technology to deliver a more modern, integrated, and customer-focused service. The first stage of this programme focuses on improving services for businesses, from simplifying levy invoices to introducing online payments. In the years ahead, real-time information on workplace injury rates and trends will be provided, giving businesses a clearer picture of what's driving levies and supporting them to develop more effective injury prevention. These improvements have been well received by the business community. Successive stages of the Transformation programme will focus on improving services for injured people and health providers. Importantly, the programme is about enabling ACC to refocus its attention on those with the greatest need, by freeing up employees to spend more time with people with complex injuries.

ACC increased its spending on, and is working more collaboratively to improve, injury prevention. The Board implemented a strategy which has clear priorities to drive reductions in the incidence and severity of injuries, and ACC increased its injury prevention spend from $30 million last year to $50 million this year. ACC is collaborating with other agencies, like the Ministry of Health, to share information and forge partnerships at a government level. ACC is also partnering with other organisations outside the government sector that have the ability, the institutional knowledge, and the wider relationships to design and deliver injury prevention programmes.

ACC approves around 96% of the nearly two million claims it receives annually. However, for those whose claims are declined and who want to challenge ACC's decisions, it's important that there's a fair and timely process for doing this. Late last year, the Government asked the Ministry of Business, Innovation and Employment to commission an independent review of potential issues affecting dispute resolution for ACC clients. This review was begun in parallel with targeted consultation on a proposed ACC Appeals Tribunal. These reviews ensure the Government will be in a better position to assess the best way to ensure our system provides access to justice for ACC clients.

The ACC scheme has come a long way in recent years, and there's a lot of work under way to ensure it continues to improve its services to New Zealanders. I'm confident that as this work delivers results, trust and confidence in ACC will continue to increase.

We can be very proud of the no-fault accident insurance coverage the Scheme provides to all New Zealanders and visitors, and the Government is committed to ensuring:

- the Scheme is able to provide support for injured people 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.

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

Finally, I would like to acknowledge the work of the Honourable Nikki Kaye who, as Minister for ACC, led a number of changes to make ACC more effective, fairer and sustainable for future generations.

Nathan Guy

Hon Nathan Guy
Acting Minister for ACC

From the Board

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, Dame Paula Rebstock (Chair), Trevor Janes (Deputy Chair)*

This year we made significant progress in meeting our requirements under the 2014 performance improvement framework review. This is evident in how we are building stronger partnerships with organisations that can deliver injury prevention programmes to people where injuries occur. ACC's Injury Prevention Partners' Conference in October 2015 celebrated this partnership approach.

ACC supports our customers who have been injured, by helping them get back to work and everyday life as quickly as possible. While rehabilitation performance continues to be challenging there are positive signs of improvement. When we compare ourselves with the Australian workers' compensation schemes we continue to perform better than average in rehabilitating people so that they can return to, and remain at, work. Returning injured people to work and independence more quickly, and reducing claim numbers through effective injury prevention initiatives, remain priorities for the Board.

The introduction of the Health and Safety at Work Act 2015 and implementation of ACC's injury prevention strategy has strengthened our focus on avoiding injuries at work, in the community and on our roads.

Our Shaping Our Future strategy is focused on refreshing our systems, organisation design, and the way customers interact with us and experience our services. It also supports our people and the way they work so that we can deliver a consistently great customer experience. Our customers are also recognising these changes, reflected in our improving public trust and confidence results.

We continue to take a lead role in the state sector in protecting our customers' personal information. While we have made significant reductions in the number of privacy breaches over the past five years – moving from a rolling average of 68 breaches per month at June 2012 to 20 by the end of June 2016 – we have more work to do to hit our target. We are working closely with the Government Chief Privacy Officer to improve our maturity across the privacy principles and we will report using the new government privacy reporting framework next year.

Despite a challenging year, due to high claims volumes, significant changes in interest rates and movements in global financial markets, we remain in a strong financial position. This has supported $804 million in reductions in levy rates to New Zealanders in the Earners', Motor Vehicle and Work Accounts. While we recorded a financial deficit this year, the levied accounts remain fully funded and New Zealanders can have confidence in the financial sustainability of the Scheme. The Government's new funding policy allows ACC to now look over a 10-year horizon, smoothing any short-term volatility that arises.

Our investments team again delivered very good returns, beating benchmarks for the 21st year in a row – a remarkable achievement.

We would like to thank Scott Pickering, the Executive team and all employees for remaining focused on our vision of creating a unique partnership with every New Zealander, improving their quality of life by minimising the incidence and impact of injury.

Paula Rebstock

Dame Paula Rebstock DNZM
ACC Chair

Trevor Janes

Trevor Janes
Deputy Chair

From the Chief Executive

One of the most important things to us is ensuring that we have the trust and confidence of our customers – New Zealanders.

We want Kiwis to easily understand the role of ACC, have confidence about decisions that are made, and have easy access to our services, if and when they need them. This year we have achieved the highest result in our public trust and confidence score since 2008.

Trust and confidence comes from doing the right things, listening to our customers and making meaningful improvements in how we operate. This year we started the delivery phase of our Shaping Our Future Transformation programme, designed to continually improve the outcomes and experiences of our injured people, health and other service providers, business customers and levy-payers.

We are already seeing the impact of the first improvements. We have shortened the time between an injury and people receiving weekly compensation payments. People suffering sexual assaults are able to commence counselling sessions more quickly following the redesign of our sensitive claims service. We now have a post-call customer service assessment, allowing us to hear exactly what our customers think of our service and make improvements quickly. Levy invoices have been simplified so that businesses can understand what they need to pay. Improvements like these help increase the public's trust and confidence in the service we provide.

Of course, we have a lot more to do. A full programme of improvements is planned for the next five years to our systems and processes, and supporting our employees to build a more transparent and customer-centred organisation. Some of these changes are more significant than others, but they are designed to make a difference for all New Zealanders.

It's also important that we support injured people to return to independence as soon as possible after injury. While 93% of people returned to work within nine months, our short-term rehabilitation performance is below target for the third year in a row and this continues to be an area of focus for us. We are pleased to see initiatives that we have put in place are starting to have an effect, with performance stabilising and starting to improve. This will remain a priority for us. So too will be our investment in injury prevention to ensure we build effective and ongoing partnerships with organisations and community groups to reduce the number and severity of injuries.

We're in a strong financial position despite recording a deficit for the year, due to a decline in market interest rates, although the solvency in our levied accounts remains at 118%. Levy revenue and claims costs were above expectations, largely due to a strong economic environment, but changes in interest rates and movements in financial markets over the past 12 months had significant impacts on our outstanding claims liability.

Our employees have experienced significant change this year as we position ourselves to provide better service to our customers, and I'd like to thank all of them for their hard work. Their commitment and passion to ACC is shown every day in the work they do.

Scott Pickering
Chief Executive

Our role and strategic direction

We're for New Zealand

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

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

Our strategic direction reflects the Government's 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.

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

Our 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. We will deliver on our vision by delivering on our outcomes and strategic intentions.

The values we have adopted as we set about achieving our vision are: putting *people before process*, being *good partners*, promoting *Safe Kiwis*, being *responsible stewards* and being *fair and open* in all our dealings.

We communicate our intentions and performance in three ways:

Our outcomes

Our outcomes articulate what we are delivering in relation to our core role: supporting a healthy and prosperous New Zealand. Our outcomes are set in the Statement of Intent, and are reviewed every three years:

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

Our strategic intentions

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

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

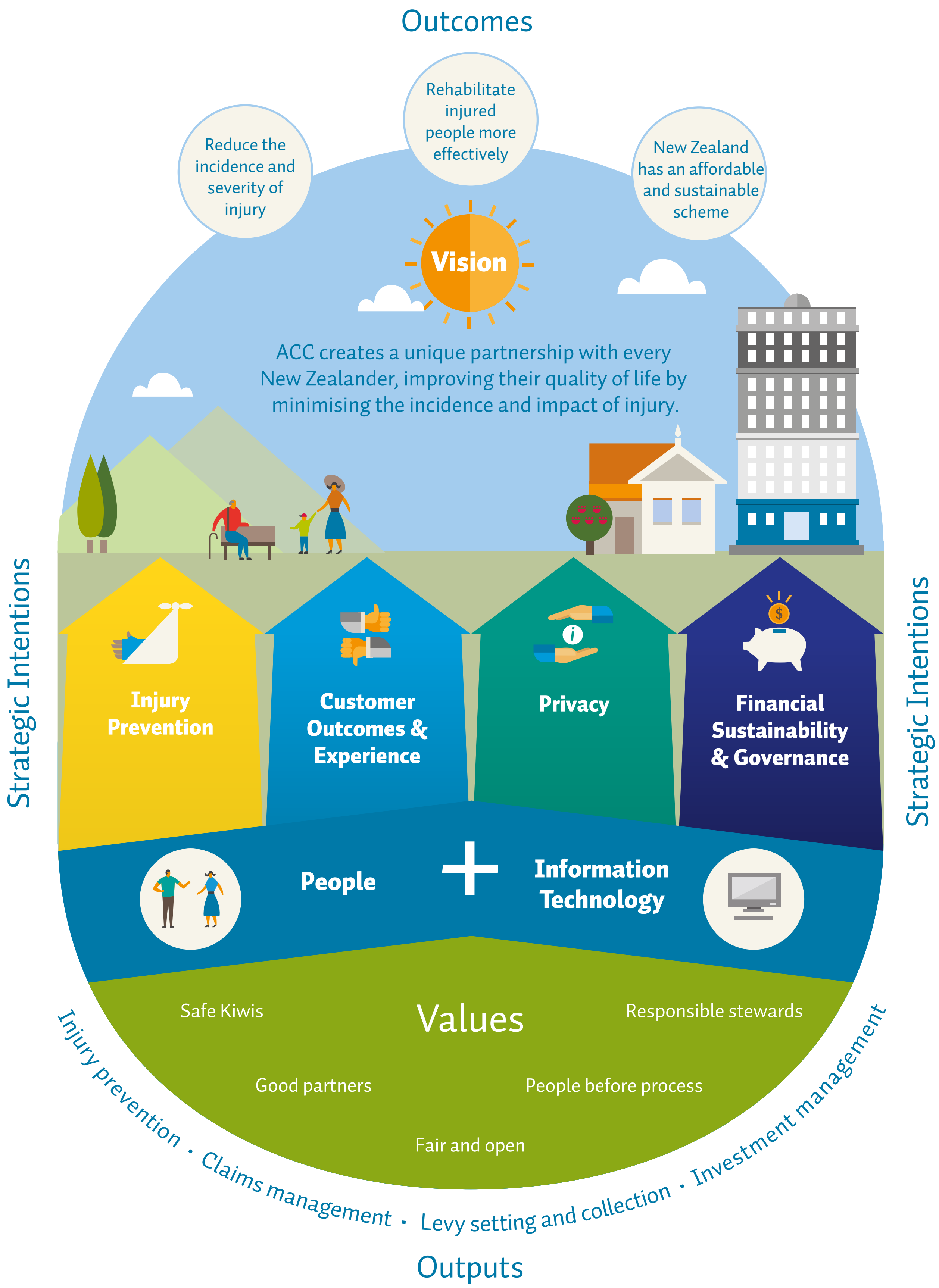
Our outputs

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

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

Our annual performance against the 2015/16 Service Agreement is reported in the statement of performance.

Outputs and outcomes



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.

During 2015/16 we focused on increasing the depth and breadth of our injury prevention partnerships, expanding the reach of our injury prevention activities.

Our return on investment (ROI) for injury prevention programmes continues to exceed our targets, indicating that we're making a meaningful impact in reducing injury prevalence and severity.

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 decreased from 80% to 79% this year, but it remains above the Australian benchmark.

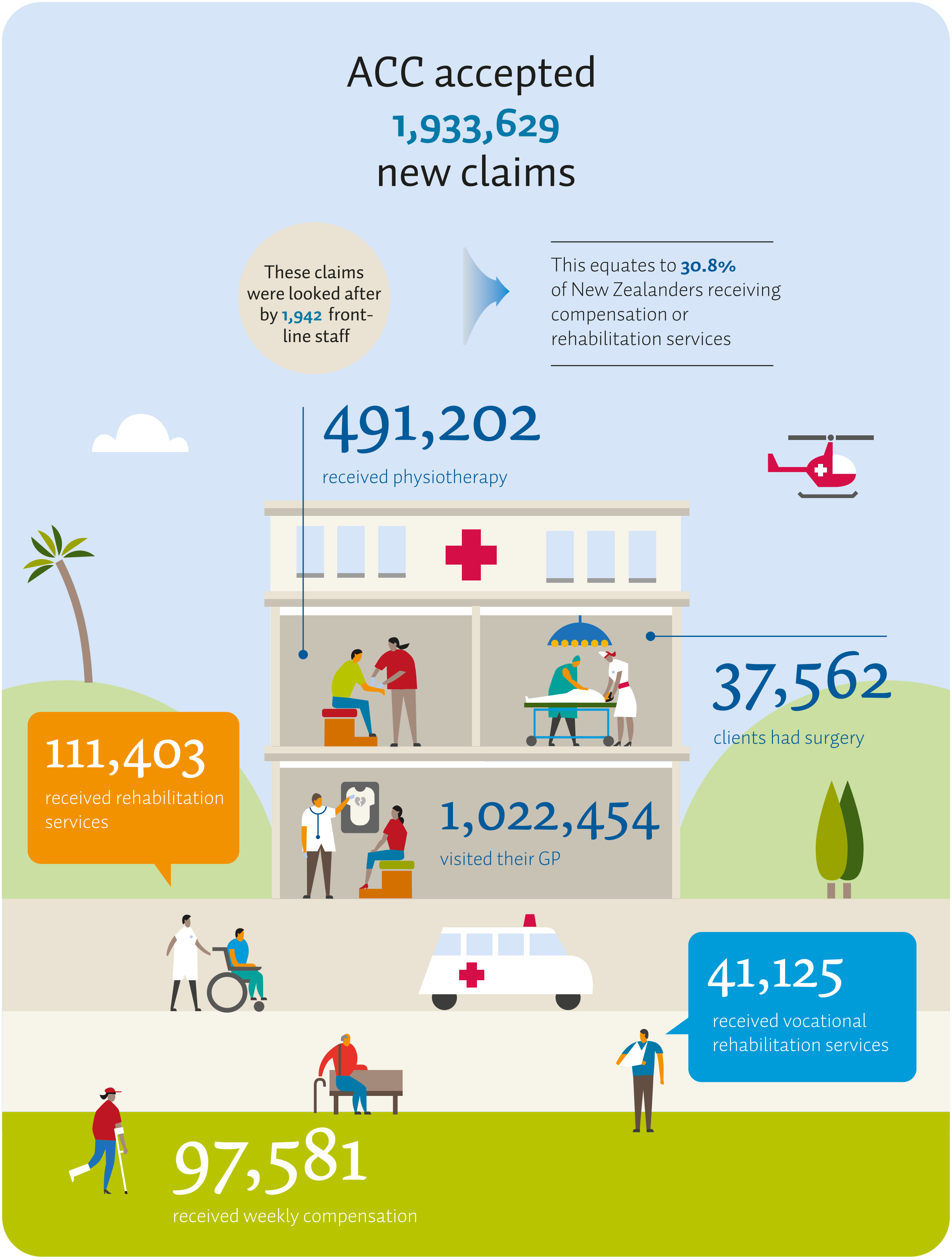
New Zealand has an affordable and sustainable Scheme

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

By raising enough levy 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. Our current ratio of 0.8 reflects lower levy collections, required to reduce solvency in our levied accounts to meet our target funding band of between 100% and 110%. We expect to meet this target over the medium term.

By the numbers



Transformation programme

Our Transformation programme is gaining momentum

This year, we completed the planning phase of the Transformation programme. We've taken time to really think about what will make a difference to our customers, and have engaged with providers, clients and business customers.

We've worked hard translating the insights gained from our customers into a future blueprint for the organisation. We've continued to work with our customers to test and refine our thinking on specific components of their experience.

Our plan

We've completed our integrated plan, which will make the Shaping Our Future strategy a reality. Our plan stays true to our message of customer-centricity, with activities linked to changes in outcomes for providers, clients or business customers.

Our new plan was approved by the Board in November 2015. This has enabled us to begin engaging with vendors to help us deliver our plan.

Transformation partner

We've selected a Transformation partner who will support us throughout the delivery phase of the programme. The Transformation partner will work collaboratively with us, providing the skills and expertise to deliver the Transformation programme.

Initiatives are under way

We've started to deliver a number of initiatives to address the most immediate customer concerns. Early initiatives include:

- redesigning our invoices with our business customers
- making changes to our weekly compensation process, ensuring that we're able to deliver faster and more consistently for our customers
- embedding processes for customer feedback via a post-contact survey, providing opportunities to collect feedback in real time.

Over the next 12 months, we'll be delivering a number of large-scale changes, which will make a tangible difference to our customers.

Our Transformation journey

	 Our providers	 Our clients	 Our business customers	 Our staff
			• Improved levy invoices.	
2016/17	• Improved relationships with us • Able to receive information digitally • Increased uptake of digital registration.	• Better service as a result of improved processes and systems.	• Increased access to online self-service tools.	• Improved digital systems, data and the ability to respond to customer feedback.
2017/18	• Increased access to online self-service tools • Improved information about ACC and training available.	• Increased access to online self-service tools • Immediate cover decisions.	• More levy payment options • Integration with accounting software.	• Further improvements to digital systems to support our customers.
2018/20	• Access to online self-service tools • Able to view, share information and adjust clients' rehabilitation pathways • Better access and understanding of our rules. • Trusted to make the best decisions for clients.	• Self-service access for all our clients • Able to review and share rehabilitation pathway • Targeted support based on their situation • Greater visibility of how their entitlements are calculated.	• Able to review, and be involved in, employee return to work plans • Improved understanding of levy contributors.	• Access to robust evidence and data • Empowered to make the right decisions for customers • Improved information sharing and relationships with providers.

Both sides of the story

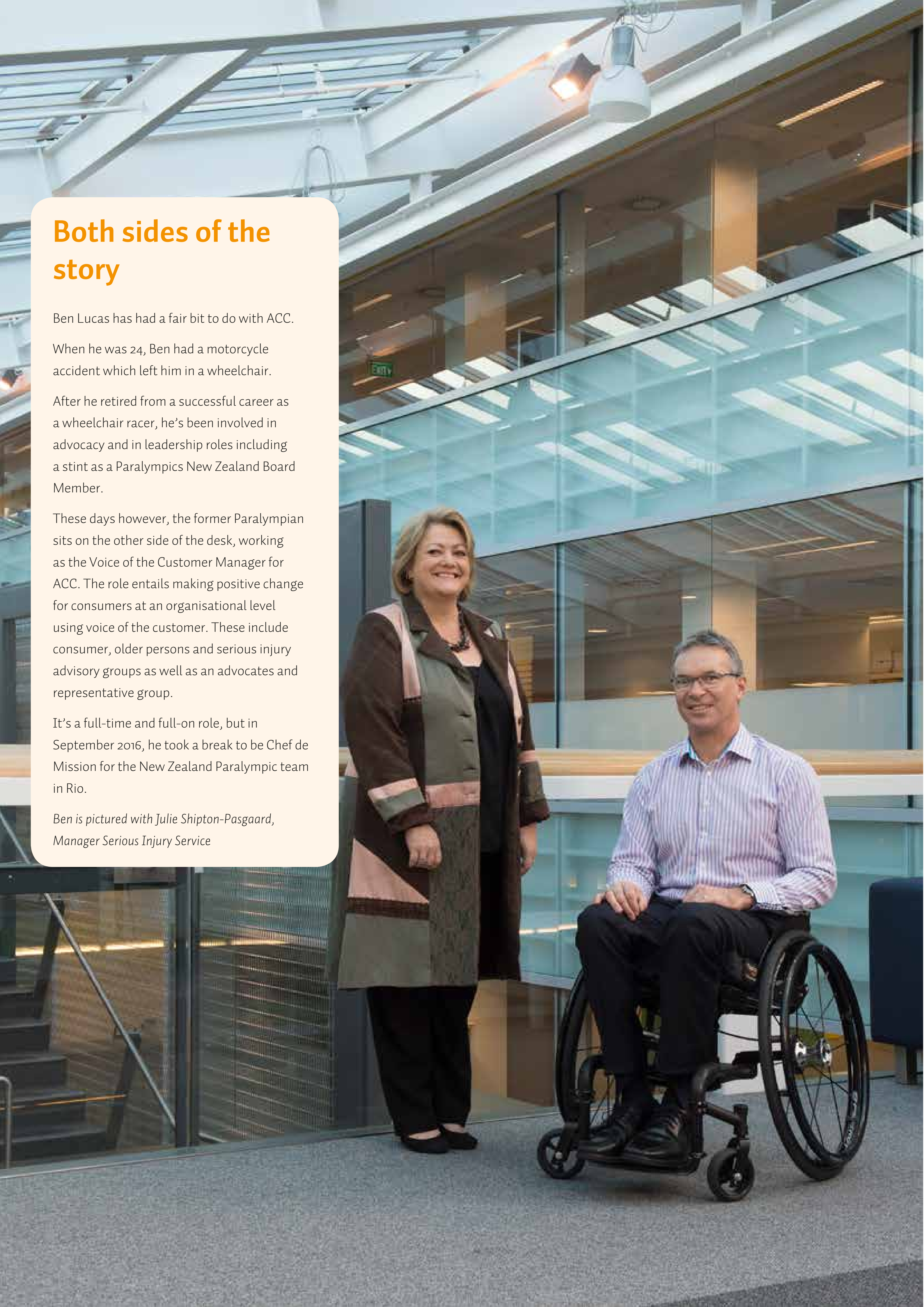
Ben Lucas has had a fair bit to do with ACC.

When he was 24, Ben had a motorcycle accident which left him in a wheelchair.

After he retired from a successful career as a wheelchair racer, he's been involved in advocacy and in leadership roles including a stint as a Paralympics New Zealand Board Member.

These days however, the former Paralympian sits on the other side of the desk, working as the Voice of the Customer Manager for ACC. The role entails making positive change for consumers at an organisational level using voice of the customer. These include consumer, older persons and serious injury advisory groups as well as an advocates and representative group.

It's a full-time and full-on role, but in September 2016, he took a break to be Chef de Mission for the New Zealand Paralympic team in Rio.



Ben is pictured with Julie Shipton-Pasgaard, Manager Serious Injury Service

Increase the success of our injury prevention activities

Cost effectiveness

Were we fair and affordable?

Performance scorecard	2014/15	2015/16 Target	2015/16 Actual	2015/16 Target met?
The portfolio of injury prevention investments approved will have an assessed positive return on investment	$1.34:$1	$1.20:$1	$1.60:$1	✓

We continue to achieve a positive return on investment, working with our partners to reduce claims costs by $1.60 for every dollar invested in injury prevention.

Why this is important to us

Our injury prevention investment is focused on delivering programmes where we are able to make a measurable and meaningful reduction in the incidence and severity of injuries.

Our performance this year

Focusing our activity in the areas which have the most impact on reducing injury severity and incidence

This year, our investment activity has been based on delivering against our injury prevention strategy. Underpinning the strategy is an ambition to drive a substantial reduction in injury severity and incidence, generate a positive return on investment, and increase trust and confidence in ACC through being active in the communities we serve.

We have focused our activity on seven areas of importance to the Scheme, based on the severity of the injury, cost impact, building trust and confidence, and Government priorities. These seven areas are: falls, work, road, treatment injury, sexual and family violence, sport, and community. Together these injuries contribute to about 85% of new costs to the Scheme, and therefore materially impact the outstanding claims liability.

WorkSafe and ACC joint action plan

ACC and WorkSafe New Zealand have agreed to our first joint action plan: Reducing harm in New Zealand workplaces. The plan adopts an evidence-based approach, and uses the unique skills, influence, incentives and tools of WorkSafe and ACC, combining these with the knowledge held by industry.

The plan is a major step towards a smarter, more coordinated approach to keeping New Zealanders safe and healthy. By working together, we will achieve the reach, efficiency, consistency and clarity required to deliver our shared goal of reducing workplace fatalities and serious injuries by 25% by 2020.

Over the next three years, ACC and WorkSafe will develop interventions to target areas of risk such as:

- the sectors and businesses with the highest injury and harm rates
- cross-cutting risks that are common for all industries
- system factors critical to improving health and safety performance and work-related health.

Using our partners' expertise and reach to deliver and design injury prevention activities

Our partners are essential to the success of our injury prevention activities. We partner with some of New Zealand's most iconic organisations to design and deliver programmes which maximise our impact.

Working with partners to reduce injuries to children

We've partnered with key organisations like St John, Plunket and Safekids Aotearoa to deliver comprehensive safety and injury prevention education to children and families throughout New Zealand. These partnerships will see us delivering to more people than ever before. St John in Schools will equip 480,000 children with the skills to identify hazards, respond to emergencies and prevent injuries. Plunket will help us reach 92% of all newborns and their families, and deliver parenting education to up to 300,000 parents per year.

Taking existing partnerships further

RugbySmart is ACC's most successful injury prevention programme in sport, delivering injury and claim reductions and a positive return on investment every year since being established in 2001. We're working with New Zealand Rugby to extend the reach and impact of the programme. Over the next four years, we will be delivering new modules and initiatives to target a larger audience, focusing on player welfare and injury prevention.

Growing new partnerships for long-term change

We signed a 10-year injury prevention partnering agreement with New Zealand Police to promote strong families and resilient communities, reduce crime and victimisation, and reduce the incidence and severity of personal injury.

In partnership with the Ministry of Health, Health Quality & Safety Commission, and district health boards (DHBs) we are implementing a joint programme, investing in improving falls and fracture services in New Zealand. The service is designed to stop falls from occurring in older New Zealanders and, when they do occur, making sure that services are delivered in a way that supports an effective return to independence.

We've seen some positive results from our investment in injury prevention programmes

In the forestry sector, we are seeing a reduction in injury claims, which we can attribute to working with our partners and investing in injury prevention activity in the sector. An example of this is the Forestry Industry Safety Council.

On the road, our motorcycle training programme Ride Forever is showing positive results. For example, motorcycle riders who have completed the training programme have fewer entitlement claims compared to riders who have not undergone the training.

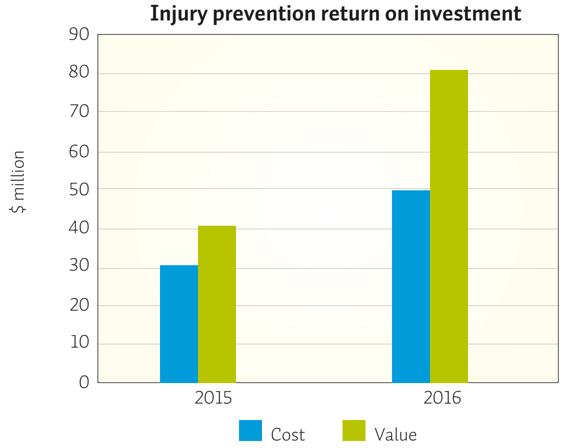
Treatment injury

We are working with the Ministry of Health to engage with DHBs and private hospitals on initiatives to reduce treatment injury.

Assessing our injury prevention activities to ensure that they contribute to an overall reduction in the outstanding claims liability

This year, we've been able to increase both the level of investment and return on injury prevention investment. Our return on investment increased from $1.34 to $1.60, and we increased our total investment by 68%, from $30 million to $50 million.

Injury prevention return on investment



We've delivered 46 injury prevention programmes with our partners this year. These programmes use a broad set of skills and community representation, reflecting a wider view of injury prevention.

Vehicle risk rating

In July 2015, we introduced vehicle risk rating (VRR) to ensure levies for vehicle registrations are based on the safety rating of vehicles. These levies are paid by approximately 2.8 million light passenger vehicle owners across New Zealand.

From 1 July 2016, New Zealanders will save $218 million annually on vehicle levies, averaging $64 per vehicle owner.

Workplace incentive programmes

Changes in the Accident Compensation Amendment Act 2015 mean that we will report on the effectiveness of workplace incentive programmes when incentive programmes are established.

In it for the long term

Eight years ago, Scott Groves injured his back while mowing the lawn – and then there were medical complications.

Initially, he had limited mobility, so the home visits from the ACC team were important as, in Scott's words, "we attacked one small thing at a time together". Slowly, through gentle exercise, and with the help of a range of specialists including occupational therapists and physiotherapists , the road to recovery started.

His Case Manager, Melanie Trevelyan, says she had support from her manager to "do the right thing" to improve Scott's quality of life.

Scott started his Training for Independence multi-disciplinary programme two years ago and is now back in paid employment at Feilding Computers.

"In the eight years I've been dealing with ACC, I've seen a dramatic change in the attitude towards clients – it's now focused on the person as much as the rehab", says Scott.

Improve our customers' outcomes and experiences

Customer

Did we meet expectations?

Performance scorecard	2014/15	2015/16 Target	2015/16 Actual	2015/16 Target met?
Customer satisfaction – clients	76%	78%	76%	✗
Customer satisfaction – levy payers	69%	69%	69%	✓
Public trust and confidence	60%	60%	63%	✓
Cover decision timeliness	1.2 days	1.2 days	1.1 days	✓
Average time to commence weekly compensation payments	9.2 days	<9.5 days	8.3 days	✓
Formal reviews as a percentage of entitlement claims	2.7%	2.7%	2.5%	✓
Percentage of ACC reviews upheld	84.0%	≥85.0%	84.2%	✗
Average time to resolution for claims with reviews	92 days	<92 days	88 days	✓

Impact

Did we deliver?

Performance scorecard	2014/15	2015/16 Target	2015/16 Actual	2015/16 Target met?
Return to work within 10 weeks (70 days)	67.3%	69.0%	67.6%	✗
Return to work within nine months (273 days)	93.2%	93.3%	92.8%	✗
Durable return to work rate	80%	1% higher than Ausralia	79%[1]	✓
Return to independence for those not in the workforce	86.0%	86.0%	86.7%	✓
Number of long-term claims returned to independence in the previous 12 months	2,467	2,538	2,796	✓

[1] Australian schemes are only assessed every two years, the last assessment being in 2015/16.

We're continuing to improve customer experience and outcomes, in the face of higher than expected claims volumes.

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 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.

Our performance this year

This year, we've continued to improve how customers perceive us, through both our trust and confidence and customer satisfaction measures. Our trust and confidence score has met our target, and is the highest score we've achieved over the last five years.

While client satisfaction has narrowly missed our performance target, our performance over the last three years highlights a significant improvement from 68% in June 2013 to 76% in June 2016.

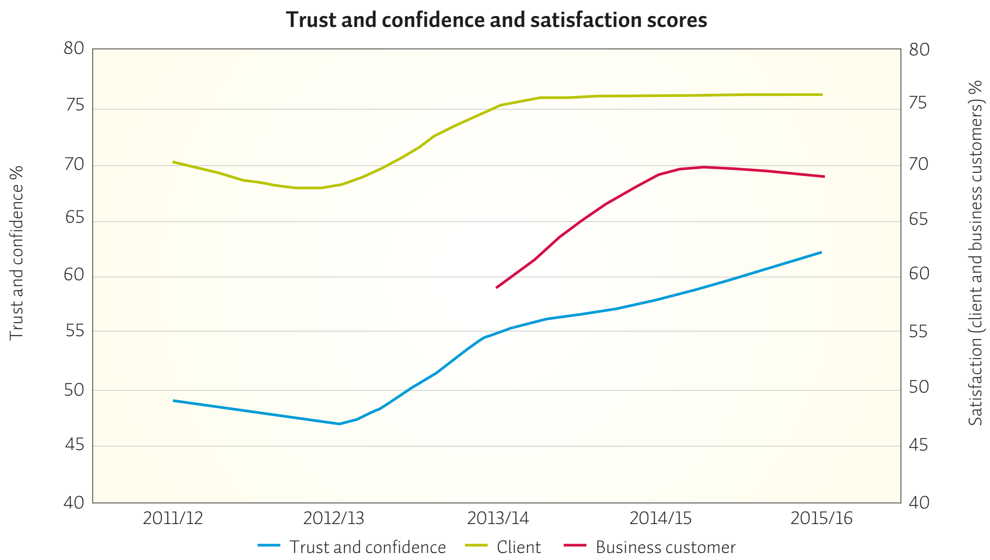
We continue to perform better than our Australian peers in ensuring that people are able to return to work and remain at work, with our durable return to work rate scoring 79%, 2% above comparable Australian workers compensation schemes.

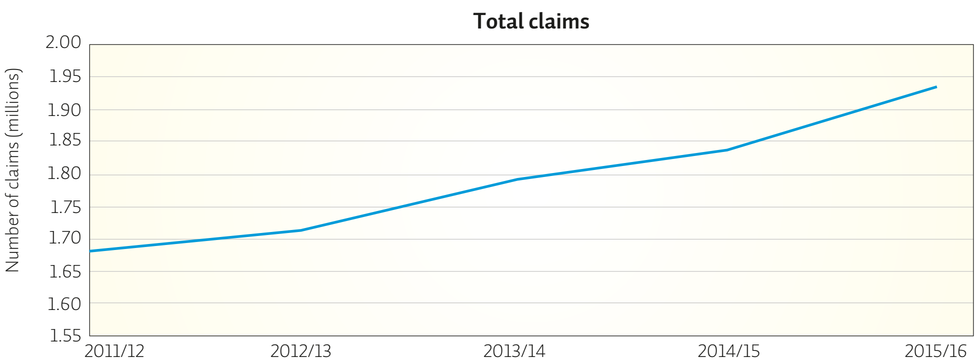
Our 10 week and 9 month return to work rates have improved since last year, but we have missed our ambitious targets. This performance improvement is significant, given the increase in claims volumes. We have improved our results for supporting non-earners' return to independence, with 86.7% returning to independence within 12 months.

Our analysis shows that claims growth is closely correlated with economic performance (that is, positive gross domestic product (GDP) growth is associated with increases in claims), immigration, and total kilometres travelled by road, all of which have been above forecast.

We take customer feedback seriously and improve services as a result

We've adopted a customer-centric approach to improving how we operate. This year, we've engaged with New Zealanders on a range of topics, and have used their feedback to adjust how we deliver services.





ShapeYourACC

This year, we changed the way we consult our customers by developing an interactive customer engagement tool, ShapeYourACC. This provides a new way for Kiwis to view our levy proposals, read each other's feedback, and share their thoughts and ideas about ACC.

Our new channel resulted in a 148% increase in submissions on our proposals, and had over 498,000 views online. Additionally, ShapeYourACC was recognised as the best example of public relations by a government agency at the 2016 Public Relations of New Zealand Awards.

Invoice simplification

Our levy invoices have been longwinded and difficult to understand. To address this, we've sought to redesign our invoices by working with our customers who receive them. This has resulted in a new invoice design which is half the length of previous invoices, and much simpler to understand.

Customers receive the services they need, when they need them

This year, we've been able to significantly improve our service timeliness performance in the face of increased claims volumes.

One of the most significant changes has been the improvement in the time taken to commence weekly compensation payments. This year, we've been able to commence payments 1.2 days faster than our target – helping ease the financial uncertainty faced by our clients who need time off work to recover.

Additionally, we've delivered 2.9 days above target on our timeliness around elective surgery decisions and by 0.1 days for cover decisions. This reflects our efforts to drive operational improvements that have a positive impact on our customers.

The number of formal reviews as a percentage of entitlements has continued to meet our target, indicating that our entitlement decision management processes are improving.

Improving service access to victims of sexual violence

Last year, we implemented a number of changes to our sensitive claims management process, focusing on reducing the barriers to accessing care. As a result, we've seen a significant increase in the use of the sensitive claims service. This indicates that we have effectively reduced barriers, allowing victims of sexual assault to access the services they need.

We empower our providers to deliver the right care, at the right time, by building effective trust and partnerships

We asked the health sector and associated professional bodies for feedback on our approach to working with providers. 43% of respondents strongly agreed and a further 54% agreed that that their relationship with ACC was positive. This represents an increase of 21% from the last survey. This result is reflective of improvements in the 'clinician-to-clinician' approach we have adopted.

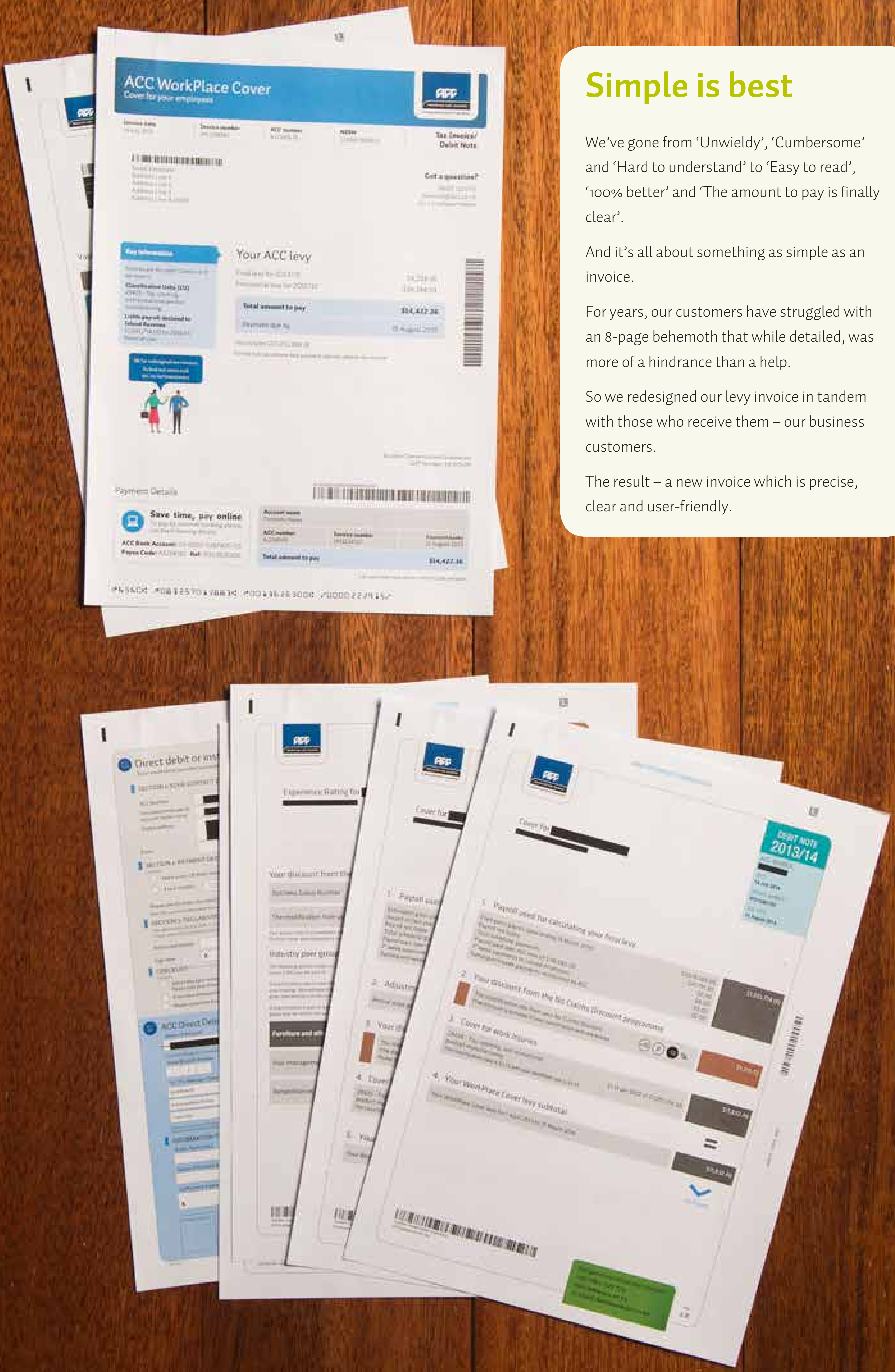
Co-designing pain management with providers

We interviewed 1,200 ACC clients along with a number of providers, suppliers and employees to understand the issues in our current approach to pain management services. They told us that services are fragmented, confusing and not necessarily outcome-focussed.

To address these challenges, we redesigned and piloted a new integrated pain management service with providers. This pilot was able to deliver a significant improvement to client outcomes and experience.

New Zealanders understand what we do and how we can help them

This year, we looked into the products that we provide for business customers, to deliver increased equity and value for levy payers, and support recent changes to health and safety legislation. An economic incentive strategy has been developed to drive change to improve workplace health and safety behaviours. Improved behaviours will reduce the incidence and severity of injuries in New Zealand workplaces, and reduce the costs and liability for the Scheme.



Simple is best

We've gone from 'Unwieldy', 'Cumbersome' and 'Hard to understand' to 'Easy to read', '100% better' and 'The amount to pay is finally clear'.

And it's all about something as simple as an invoice.

For years, our customers have struggled with an 8-page behemoth that while detailed, was more of a hindrance than a help.

So we redesigned our levy invoice in tandem with those who receive them – our business customers.

The result – a new invoice which is precise, clear and user-friendly.

Improve the way we protect our customers' personal information

Privacy

Did we meet expectations?

Performance scorecard	2014/15	2015/16 Target	2015/16 Actual	2015/16 Target met
The rolling three-month average of privacy breaches	13	12	20	✗

This year, we've seen an increase in the rolling three-month average of privacy breaches to 20.

Why this is important to us

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

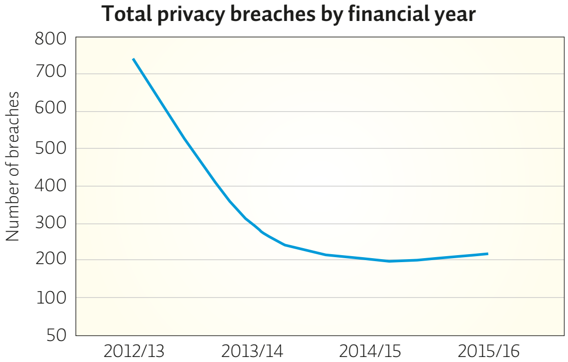
Our performance this year

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

Our current performance is measured using a three-month rolling average of privacy breaches. Over the last five years, we've made a significant reduction in our total number of privacy breaches; however, this year, we've missed our three-monthly average target by eight.

This year, we developed a privacy maturity plan outlining our privacy activity for the next four years.

Total privacy breaches by financial year



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

We've taken a lead role in privacy management in the public sector, which is reflected by our score in the Government Chief Privacy Officer (GCPO) designed privacy maturity assessment. We need to continue to improve our maturity across the privacy principles and reduce the occurrence and impact of privacy incidents.

We're working closely with the GCPO to implement changes to reporting. The new privacy reporting framework applies detailed scoring to assess the severity and impact of breaches on our customers and ACC. Following GCPO guidance and consistent with other government organisations, we will be reporting all privacy breaches with an overall impact score of three or more from 2017.

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

Maintain the financial sustainability and governance of the Scheme

Cost effectiveness

Were we fair and affordable?

Performance scorecard	2014/15	2015/16 Target	2015/16 Actual	Target met?
Percentage of total expenditure paid directly to clients or for services to client	82%	86%	86%	✓
Total levies and appropriations as a percentage of gross domestic product	1.8%	1.8%	1.6%	✓
Change in average treatment cost per injury	3.4%	5.8%	1.7%	✓

Cost effectiveness

Were we fair and affordable?

Performance scorecard	2014/15	2015/16 Target	2015/16 Actual	Target met?
Ratio of this year's total levies to the total claims incurred for this year's accidents over time	1.0	0.9-1.1	0.8	✗
Investment performance after costs relative to benchmark	0.49%	0.30%	0.55%	✓
Return from insurance operations	$320m	$129m	-$581m	✗

Why this is important to us

One of the Government's priorities is that our 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 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.

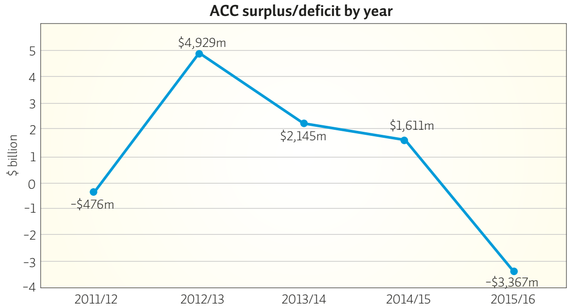
Long-term Scheme sustainability

Fully funding the Scheme means that we have to collect enough revenue each year to cover the lifetime costs of claims incurred. 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. Our role is to deliver outcomes through the provision of quality services to customers, and manage our controllable costs in order to minimise the burden of levies on New Zealanders.

Our performance this year

The 2015/16 financial year has resulted in a deficit of $3.4 billion. This is a significant change from last year, and our budgeted expectations. It is important to note that this does not compromise the strong financial position of the Scheme.

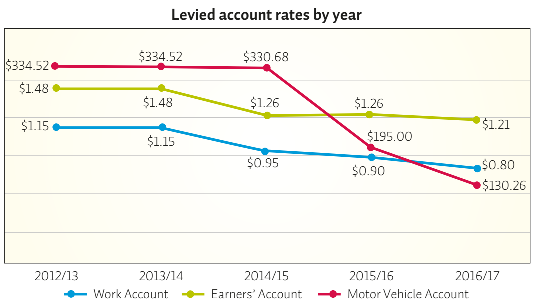
ACC surplus/deficit by year



Enabling a stable and transparent levy path

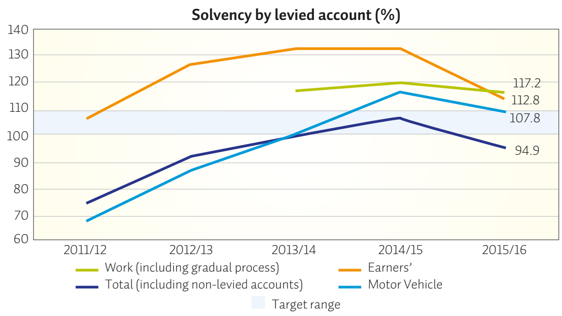
Against this backdrop we have seen gross levy reductions of $804 million. Levy reductions in the Earners' and Motor Vehicle Accounts contributed $459 million of this, and the removal of the residual levy contributed $345 million. Reductions came from all levied Accounts, but the most significant contributor was the Motor Vehicle Account where the average levy dropped from $330 to $195 per vehicle, with further reductions planned for 2016/17.

Discontinuing the residual levy reduced Work Account levies, benefiting many businesses.



As a result, we've managed to reduce total levies as a percentage of GDP to 1.5%, while our Earners', Work and Motor Vehicle accounts remain fully funded.

Underpinning these reductions is the solvency of each of the three levied accounts, all of which are above the targeted levels defined by the recently introduced funding policy. This policy set a target funding band of between 100% and 110% for each of the three accounts. At year-end, the solvency by account was 117% for the Work Account (including gradual process claims), 113% for the Earners' Account and 108% for the Motor Vehicle Account.



While this year's deficit will reduce the likelihood of levy reductions in the future, the new funding policy has a 10-year period to recover from an adverse result. This means volatility of levy rates is kept to a minimum.

We optimise our performance, and resources are aligned with our strategic priorities

Drivers of financial performance

The largest contributor to the result was the significant decline in interest rates. The single effective discount rate we use to value the outstanding claims liability (OCL) fell by 1.2% during the year. The OCL is the future cost of all our current claims. This is estimated to be $76.7 billion over 80 years, discounted into a present value of $36.7 billion by using a long-term interest rate. As this rate falls, the OCL increases. Underlying global economic events saw interest rates fall over the year, and significantly in late June as a result of the Brexit vote. This reduction increased the OCL and the deficit by $6.4 billion.

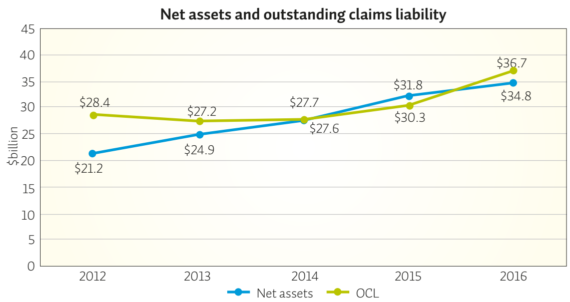
The impact on the OCL was offset to some extent by the reduction in inflation expectations during the year. This has the effect of reducing future costs and therefore the OCL by $1.5 billion this year.

We maintain our investment performance above benchmarks

Our investment result was another highlight this year, with returns of 10.22% against the benchmark of 9.67%. This is a great result given the volatile economic climate of 2015/16.

This achievement is above what we expect to achieve over time, and has increased our investment income to $3.3 billion.

This year marks the 21st consecutive year that we have outperformed relative to our benchmarks. This consistency has helped our investment fund to achieve compound returns of more than 10% per annum for the past 24 years, which is higher than the returns that could have been achieved by passively investing in any major investment market over that 24-year period. Through the returns that ACC has achieved, every $100 that ACC had invested 24 years ago has effectively grown to be worth $1,031 today.



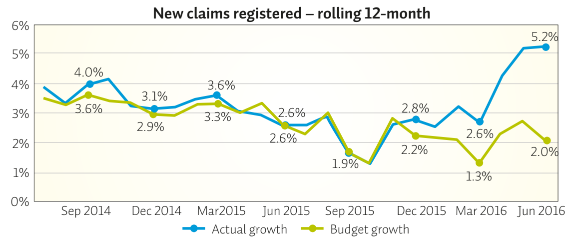
It is worth noting that our large allocation to fixed interest assets benefits from declining interest rates. This is by design, to match our asset and liability position, and is reflected in the returns from the New Zealand fixed interest portfolio of 11.32% this year while the running yield of these products is under 3.3%.

Historical investment returns of over 10% have effectively reduced the burden on levy payers. However, a shift in the economic climate towards sustained low interest rates (including New Zealand government bond yields falling to 2.35% by the end of the year) means that there is a risk of investment returns not meeting the long-term growth in our claims liabilities.

The long-term projected return from the investment portfolio is expected to be 4.5-5.0% based on the current economic settings. However, if bond yields stay at this level, it is likely these projected returns could fall. The OCL is also expected to grow at 3.5% due to factors such as inflation and increasing population.

Claims growth

The year was also characterised by higher than expected claim volumes. This year we received more than 1.9 million claims, up 5.2% for the year. This growth was highest in the Motor Vehicle (11.2%) and Earners Accounts (6.2%). While some of this growth is influenced by underlying economic activity, this year's growth is at the upper end of our forecasts.



While claims growth followed expected patterns for the first two quarters, the last two quarters came in above expectations.

The number of claims in the Motor Vehicle Account is not large; however, these claims tend to be our most expensive with longer durations. This impacts both our current year and future costs. In 2015/16, there were over 80 new serious injuries in the Motor Vehicle Account. This growth is influenced by an increased number of car registrations this year and lower oil prices, which leads to more kilometres driven per person.

Claim volumes in the Earners' Account are linked to population growth and gross domestic product. Higher migration and underlying strength in the economy contributes to growth in claims for the Earners' Account. We have seen lower levels of growth in the Work Account claims which grew by 2.2% for the year.

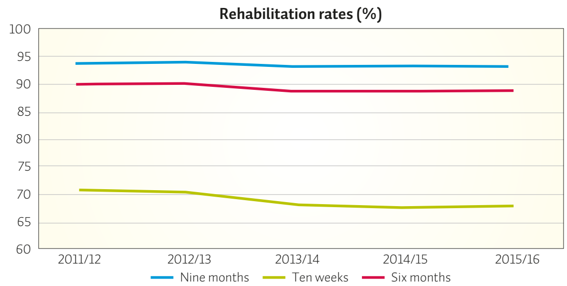
This growth has impacted our treatment, rehabilitation and weekly compensation expenditure for the year and in the OCL, as the more claims we have, the greater the future liability. Overall our claims costs grew by 8.8%. Volumes of claims, the average cost per claim, the severity of the claim, and the time that we take to rehabilitate the injured person back to work impact these costs. As well as the volume drivers, we have increased access to services in some areas such as sensitive claims, rehabilitation services and capital equipment.

It is important to note that while costs are higher than expectations due to improved economic conditions, we have also collected additional levies to offset this. With more people employed, higher personal consumption and more prosperity, the levy base is higher. This impact led to an additional $316 million of levies collected this year.

Rehabilitation

Due to the additional volume of claims this year, our rehabilitation rates for 10 weeks, six and nine months declined. Once again this has an impact on the current year costs, but longer duration rehabilitation has a larger impact on the OCL. While our rehabilitation rates fell, we still have higher rates when we benchmark against similar organisations in Australia.

Maintaining good rehabilitation rates to support our clients back to independence is important. We have put a significant amount of work into this during the year, both to provide the best quality outcomes for the client, and to manage the long-term sustainability of the Scheme. In the last quarter of 2015/16 we saw improvement in rehabilitation performance as a result of these actions.



Injury prevention

We have invested a considerable amount of time and financial resource in injury prevention this year. This is both through our own interventions and in conjunction with partners. Our investment in this area has increased by more than 68% to $50 million. These initiatives are expected to generate a return on investment of $1.60 for every $1.00 invested.

Changes to funding policy

Every year, ACC calculates the levy rates required for future levy years to ensure the Scheme has an adequate level of assets to fund the claims in the coming years and outstanding claims liability. When setting levies, we first look at the cost of claims expectation for the coming year, then we consider the long-term solvency of each account.

This year, the Government agreed (in the Accident Compensation (Financial Responsibility and Transparency) Amendment Act 2015) to make a number of changes to how we administer levies to better manage long-term volatility. These changes include:

- adopting a 10-year horizon for smoothing surplus and/or deficit, enabling better management of Scheme volatility
- adjusting Scheme solvency targets to between 100% and 110% across levied accounts
- changing the frequency of levy setting and consultation on levies from an annual review to a biennial review.

The new policy will ensure the Scheme is adequately funded to withstand economic volatilities, while ensuring levies are kept as low as possible and stable over time.

Our financial performance

	$M	
30 June 2015 surplus	**1,611**	
Income		
Levy rates	(804)	Lower levy revenue due to reductions in the Work, Earners' and Motor Vehicle levy rates compared to the previous year, and the impact of Cabinet's decision to cease collection of the residual levy.
Gross domestic product growth	316	Higher levy revenue because of more people in employment, increases in salaries and wages, and more registered motor vehicles.
Appropriation	99	Increase in recorded income from the Government appropriation to cover the costs of injuries to people not in paid employment, and who were not injured in motor vehicle accidents.
Investment income	(724)	The ACC investment team achieved an annual return of 10.22% after costs, outperforming benchmarks by 0.55%, a higher level of outperformance than was achieved in 2014/15. However total investment income, although significantly higher than budget, was lower than the returns achieved in 2014/15.
Cash cost of claims		
Treatment costs	(88)	Increase in expenditure on providing medical and other treatment services to injured people due to increased claim numbers and higher provider costs.
Rehabilitation costs	(79)	Increase in expenditure on providing vocational and social rehabilitation services to injured people due to increased claim numbers and higher provider costs.
Compensation costs	(110)	Increase in expenditure on providing compensation for loss of salary and related support to injured people due to increased claim numbers and higher wage levels compared to 2014/15.
Injury prevention costs	(20)	Increased investment in injury prevention initiatives to reduce the number and severity of new injuries.
Investment, claims handling, levy collection and other operating costs	(23)	Increased investment in ACC's Transformation programme, increased expenditure to manage the higher number of injured people, and increased financial investment costs reflecting a $2.9 billion increase in the value of financial investments during the year.
Outstanding claims liability (OCL)		
Economic factors affecting the OCL	(3,573)	During 2015/16, New Zealand interest rates decreased more than in 2014/15. As a result, the OCL increased by $3.6 billion.
Other factors affecting the OCL	(129)	The increase in the OCL for reasons other than economic factors reflects a range of impacts such as the increase in the number of injured people during the year.
Unexpired risk liability (URL)		
Annual change in the URL	162	The calculation of the URL reflects a number of factors including projected future levy income, injury rates and claims costs as well as external economic factors such as interest rates.
Other miscellaneous items	(5)	
June 2016 Deficit	**(3,367)**	

Detailed analysis of performance versus budget can be found in the statement of performance.

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

Our future costs

$76.7 billion

The lifetime cash cost to support people who are already injured.

While most people require our support for very short periods, others with more serious injuries need help for longer. For example, an infant with a birth injury may require support for the rest of their life.

The amount we need to hold today can vary significantly from year to year because interest rate changes affect the amount of income we can expect to earn from our investments.

Outstanding Claims Liability (OCL)

$36.7 billion

The amount we need today that, with the investment income we'll earn on it, will provide for the total lifetime costs.

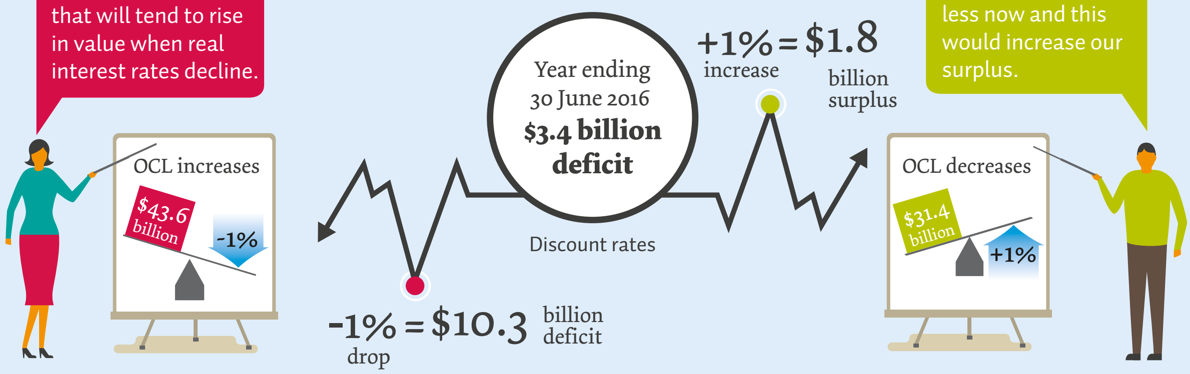
We measure our overall solvency by comparing ACC's assets with the value of the OCL. This is called the funding ratio.

Here's our actual result, and how interest rate changes to our OCL could have affected it.

If interest rates go down we expect to earn less, so we need more now, which can lead to a deficit.

We partially offset this risk by holding investment assets that will tend to rise in value when real interest rates decline.

If interest rates go up we expect to earn more, so we need less now and this would increase our surplus.



Organisational culture, capability and capacity

People

Performance scorecard	2014/15	2015/16 Target	2015/16 Actual	Target met?
Employee turnover	12.10%	≤15%	12.10%	✓
High achiever turnover	8.10%	≤10%	7.50%	✓
Ratio of engaged employees to actively disengaged employees	6.00:1	7.25:1	6.00:1	✗

Information technology

Performance scorecard	2014/15	2015/16 Target	2015/16 Actual	Target met?
Overall operational system availability	99.97%	99.50%	99.60%	✓

Why this is important to us

We remain committed to building and investing in a diverse and inclusive workforce. If our people are engaged and feel empowered to make decisions, we will deliver a consistently great customer experience. Providing our employees, contractors and providers with a safe workplace as well as supporting their wellbeing continues to be a key priority.

Our performance this year

Our people are proud to work here and tell others how great ACC is

Overall employee satisfaction calculated by the annual Gallup survey was 3.93 (up from 3.90 last year) and the highest in the last five years. This highlights that our employees are optimistic about their future at ACC.

Meanwhile our ratio of engaged to actively disengaged employees remained steady at 6:1, the same as in 2015 and 2013. That means for every six employees who are engaged there is only one who is disengaged.

We have measured our organisational culture, which showed that ACC has made positive gains from the 2012 measure towards its preferred culture where the customer is at the heart of everything we do.

We have continued to deliver our Tika customer experience through organisation-wide leader-led conversations about what is important.

Organisational culture, capability and capacity highlights

We have a diverse and high-performing workforce, empowered to deliver a consistently great customer experience

We are committed to creating a workplace where our employees and customers are respected, valued and able to contribute. To achieve this commitment, we have developed a diversity and inclusion approach and action plan which outlines activity in four areas; leadership, customer and community, our workforce, and cultural awareness.

This year we continued to offer graduate and post-graduate qualifications in both health science and business administration through our partnership with Auckland University of Technology. We have had 60 employees graduate from these courses and a further 85 are currently progressing through the qualifications.

We have organised ourselves to deliver better for our customers

During the year we completed a number of organisational changes across ACC aligned to, and in support of, transformation. These were focused on improving internal and external customer service, the ways of working and our effectiveness as an organisation.

We have trusted and capable leaders at all levels

Our senior leaders play an important role in our Transformation programme. To ensure we have the right leaders in place, we have been building and identifying the right capability to support our future environment including our recruitment practices, the talent management framework, and leadership development programmes.

We are an exemplar in health, safety and wellbeing

In the second year of our health and safety strategy we have made progress toward making our environments, and those we have influence over, injury-free. We maintained tertiary-level status in the ACC Accredited Employer Programme and have participated in the Safety Star Rating pilot.

We continue to develop our culture, systems and approaches to health and safety to ensure we are an exemplar in New Zealand. This year, we've made a number of changes to ensure we are compliant with new health and safety legislation. This has been supported by employee engagement activities and additional training.

Our ACCtivate programme is improving employee health and wellbeing, and provides opportunities for employees to get active and improve their work, mental, physical and social wellbeing.

We maintain stability across the business systems environment

Systems availability is our key measure in managing the performance of our technology assets. This year we achieved our target, with 99.6% overall operational system availability.

From 2017, all public sector agencies will be required to report on asset performance. ACC will report in line with Treasury guidance.

Full-time equivalent

3,300

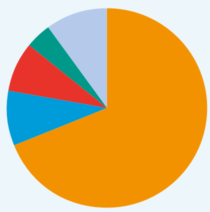
3,300 permanent and temporary staff
1,942 direct frontline staff
516 indirect frontline staff

Headcount

3,412

3,412 permanent and temporary staff

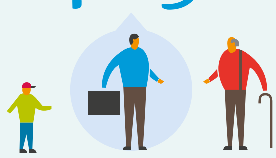
Ethnic profile*



Ethnic diversity remains stable

Age profile

40.9



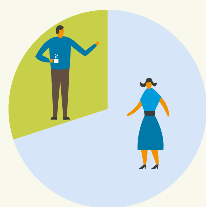
Average age 40.9 years

Disability profile*

1.2%

Our proportion of employees with disabilities is 1.2% (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, including workshops on leading through change. • Manager and new senior leader induction and on-boarding programmes. • Developed talent management toolkit aligned to the State Services Commission (SSC) framework with a career board approach. • Enterprise leadership development programme implemented.
Recruitment, induction and selection	• Robust recruitment and selection processes in place including regional assessment centres and candidate pipeline to ensure consistency. • Use of broad assessment and selection tools to encourage diversity of age, ethnicity, gender and disability. • Continued joint initiative with Be.Accessible and the Ministry of Social Development with the goal of supporting employment for people with disabilities. • Agreed diversity and inclusion approach and one-year action plan.
Employee development, promotion and exit	• Performance development and remuneration framework in place. • Graduate and postgraduate qualifications offered in health science for case management. • Comprehensive range of training programmes available to employees. • Customer service programme (Tika) rolled out for all employees.
Flexibility and work design	• Organisation-wide flexible working programme. • Parent rooms in key locations.
Remuneration, recognition and conditions	• Reward and recognition in place to recognise high performers. • Transparent and equitable job evaluation practices. • Actively seeking and encouraging employee participation as part of collective bargaining with the Public Service Association (PSA) and Association of Salaried Medical Specialists and through proposed initiatives affecting the performance framework.
Harassment and bullying prevention	• Contributed to the development of SSC guidelines on sexual harassment and ensured our guidelines align. • Employee code of conduct and relevant policies available at all times.
Safe and healthy environment	• Our commitment to providing employees with a safe workplace and supporting their wellbeing is delivered through a range of support services, including: – dedicated workplace wellness programme including providing onsite health checks, hearing tests and flu vaccinations – Employee Assistance Programme (EAP) – professional supervision support programme – ergonomic workstation assessments – sit / stand desks – health and safety principles for branch design / front office layout – building configuration assessments at all sites. – health and safety / WorkSafe policy and training for all employees – developed further interactive health and safety 'Reality room' workshops – participation, including PSA engagement, as part of health and safety management review.

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

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

The Board's governance role is largely governed by the provisions of the Crown Entities Act 2004 (CE Act), the AC Act, the State Sector Act 1988, the Public Finance Act 1989, and the Health and Safety at Work Act 2015, 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 employees and for the communities it serves
- setting strategic direction and developing policy on the operation and implementation of the legislation
- maintaining the financial viability and security of ACC and its investments
- appointing the Chief Executive of ACC
- monitoring the performance of ACC and its Chief Executive.
- exercising due diligence to ensure ACC complies with its obligations and primary duties.

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

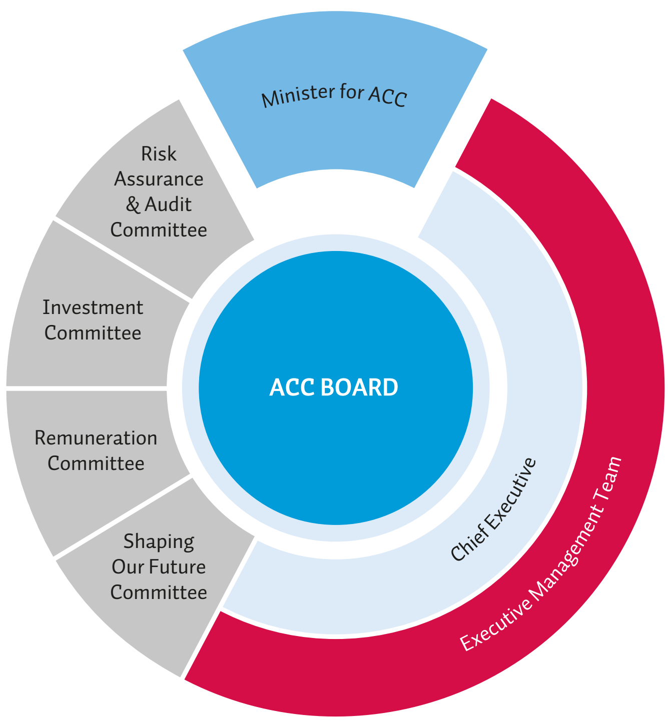
The Board delegates to the Chief Executive the day-to-day management and leadership of ACC. In particular, this includes matters relating to ACC's responsibilities as an employer.

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

Remuneration

Board and external committee members are remunerated 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 members' 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.

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



Board and sub-committee attendance and fees[1]

Board members	ACC Board	Risk Assurance and Audit Committee	Investment Committee	Remuneration Committee	Shaping Our Future Committee	Remuneration
Dame Paula Rebstock[2]	11/13	–	7/8	5/5	–	$98,000
Mr Trevor Janes[3]	13/13	–	8/8	5/5	–	$61,250
Ms Anita Mazzoleni[4]	13/13	4/4	–	–	8/8	$44,917
Mr James Miller[5]	13/13	–	8/8	–	8/8	$49,000
Prof Des Gorman	13/13	3/4	–	5/5	–	$49,000
Ms Kristy McDonald QC	11/13	3/4	–	4/5	–	$49,000
Ms Gillian Spooner	13/13	–	8/8	–	8/8	$49,000
Prof Gregor Coster	13/13	3/4	–	–	–	$49,000
Mr Patrick Duignan[6]	–	–	8/8	–	–	$30,000
Mr Stephen Greenwood[7]	–	–	6/8	–	–	$30,000
Mr Murray Jack[8]	–	–	–	–	2/2	$2,500

1. *Attendance at committee meetings is recorded for committee members only. If Board members are not members of a committee but attended a meeting as an observer, their attendance has not been noted here.*
2. *Chair of the ACC Board and Board Remuneration Committee.*
3. *Chair of the ACC Board Investment Committee and Deputy Chair of ACC Board. Acting Chair for Board meetings 28 January 2016 and 31 March 2016.*
4. *Chair of ACC Board Risk Assurance and Audit Committee.*
5. *Chair of the Board Shaping Our Future Committee.*
6. *External Member of the Board Investment Committee.*
7. *External Member of the Board Investment Committee. Mr Greenwood's term ended on 30 June 2016.*
8. *External Member of the Board Shaping our Future Committee. Mr Jack's term commenced on 20 May 2016.*

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 Crown Entities Act 2004 requires the Board to disclose any interest to which a permission relates in its annual report, together with a statement of who gave the permission and any conditions or amendments to, or revocation of, the permission. The following table sets out the details of the interest and permission 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 Gorman to continue to hold roles as both ACC Board member and Chair of the ACC Toxicology Panel.
Professor Gregor Coster	Chair of the WorkSafe New Zealand Board	1 December 2013	Professor Coster's conflict is managed according to the Letter of Expectations between ACC and WorkSafe.
Mr James Miller	Chair of NZX	21 May 2015	Mr Miller's conflict is managed according to the Letter of Expectations between ACC and NZX.

ACC corporate responsibility

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

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

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

Whole-of-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 information communication technology (ICT), property and procurement. A further direction was issued in 2016 for the New Zealand Business Number.

Whole-of-government area	Date applies from
ICT	19 June 2014
Property	1 July 2014
Procurement	1 February 2015
New Zealand Business Number	31 December 2017

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

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

Risk management is embedded in our culture and systems

Managing risk is a key part of doing business. Our risk management policy supports the achievement of our objectives, operational effectiveness and efficiency, protection of people and assets, informed decision-making, and compliance with applicable laws and regulations.

We apply a 'three lines of defence' model where identifying and managing risks and ensuring risk management is fully integrated in the normal course of business activities.

The three lines can be described as:

- first line – identifies and manages risks within the business groups, ensuring that risk management is fully integrated into the normal course of business
- second line – manages enterprise-level risks, extending to specialist functions such as health and safety, privacy, business continuity and data security
- third line – provides independent assurance to the Board and senior management on the effectiveness of risk management, controls and governance processes.

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

Risk management framework

Our risk management framework is developing, and aims to balance the need for a whole-of business perspective of risk with a need for specialised focus on investment and transformation. This approach will ensure that we've got the right level of focus on our most important risks.

Top risks

Our Board and executive regularly review the most significant operational risks faced by the organisation. The most signficant risks to ACC are outlined in the table below.

Risk	Management response
Change management We may not have the ability to deliver and absorb sustainable transformational change	• Board has approved our target operating model and the Transformation business case • A preferred Transformation partner is in place to increase our change capability • Initiatives to increase organisation change maturity are under way.
Operational performance We may not maintain business operations while delivering transformational change	• Business plans are aligned to the strategic intentions and reported on regularly • Performance is monitored monthly against organisational measures.
Our people Risk that we make changes to process and technology that are not aligned to the culture required for transformation	• We are developing a culture strategy • We will align all proposed changes with our desired culture through our Design Reference Group.

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 the actuaries had 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 historical cost of injuries that occurred in the past.

Overview of the past year

Global equity markets were generally soft during the past year. However, the New Zealand sharemarket performed much better than most other equity markets. Within the global equity market, there was significant divergence in how different types of equity performed, with shares in economically resilient companies markedly outperforming shares in companies that are more exposed to the economic cycle.

The New Zealand dollar rose against most major currencies (apart from the Japanese yen), which reduced the New Zealand dollar returns from holding unhedged investments in offshore markets. The combined effect of weak equity markets and a strong New Zealand dollar meant that global equity markets produced a negative return of 8% when measured in New Zealand dollars.

New Zealand long-term government bond yields fell by about 1.25% over the course of the year. Bond yields also declined in most other developed countries. Yields on corporate bonds did not fall by as much as yields on government bonds, which meant that returns from longer-term corporate bonds generally underperformed returns from government bonds of similar duration.

Investment returns for 2015/16

ACC's reserves portfolios delivered a weighted average return of 10.35%, outperforming our market-based benchmarks by 0.68%. The 'net' outperformance of our benchmarks was 0.57% after adjusting for investment costs and taxes.[1] This was a pleasing outperformance of our benchmarks, particularly in the context of some headwinds that made it harder to outperform in 2015/2016.

However, the 10.35% return was not sufficient to fully offset the impact that lower bond yields had on the value of ACC's claims liability.

This outperformance was the combined result of several contributing factors.

- ACC's actual allocations between investment markets performed better over the year than the 'neutral' allocation mix established by our asset allocation benchmarks. In particular, ACC's daily adjustment of its global equity exposure produced significantly better returns than the neutral position implied by our strategic asset allocation benchmarks.
- ACC's management of foreign exchange exposures also made a stronger contribution to returns than would have been the case if we had followed the neutral hedging policy implied by our asset allocation benchmarks.
- All 10 of ACC's global equity portfolios outperformed their benchmarks (despite the portfolios incurring offshore withholding taxes, and being measured against benchmarks that were boosted by strong performances

1 *Specifically, the reported return of 10.35% is expressed after deducting some direct costs such as broker commissions and property expenses, but is calculated prior to the deduction of 0.135% of other investment-related costs (such as investment staff remuneration and fees paid to external managers). Conversely, ACC's reported investment return is affected by the deduction of 0.025% of offshore withholding taxes paid by ACC, whereas our benchmarks are calculated on the basis of gross indices which make no deduction for withholding taxes. Hence, to measure our relative performance on a net-of-cost basis that is fully adjusted for taxes, we must subtract off the 0.135%, and add back the 0.025%.*

from stocks that ACC excludes for ethical reasons), such that our overall investment in global equities outperformed the global equity market by 2.5%.

- During 2015/16, ACC made a long-term decision to reduce the weighting that banks would have in the benchmark used for the largest Australian equity portfolio. This decision enhanced returns, as banks subsequently underperformed the rest of the Australian equity market.
- ACC's small capitalisation Australian equity portfolios outperformed their benchmarks. In particular, a small portfolio managed externally by Paradise Investment Management outperformed its benchmark by 18%.
- ACC's direct property investments significantly outperformed public market benchmarks, with the total return of 20.5% having been boosted by independent end-of-year valuations.
- Returns from ACC's inflation-linked bond portfolio were better than the market benchmark, due principally to ACC holding a longer average duration than the broader inflation-linked bond market, and therefore getting a greater benefit as yields declined over the year.
- ACC also enjoyed better-than-market returns in New Zealand cash, equities, listed property, listed infrastructure, and Australian large capitalisation industrial equities.

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

- Our New Zealand bond portfolio (which accounts for about a third of ACC's total investment portfolio) underperformed its benchmark by 0.54%. This underperformance was principally due to corporate bonds underperforming government bonds and interest rate swaps, reflecting a general market shift in favour of higher credit quality. For practical reasons, the benchmark for this portfolio is calculated based on returns from government bonds and from interest rate swaps backed by bank bills.
- ACC's externally managed global bond portfolio also underperformed its benchmark, as it was tilted in favour of bonds of lower than average credit rating, and therefore underperformed its benchmark as bonds with higher credit ratings performed better than bonds with lower credit ratings.
- Offsetting the gains in other aspects of asset allocation, ACC missed out on fully benefiting from the decline in nominal bond yields, by favouring inflation-linked bonds over conventional bonds, and by reducing its exposure to interest rates as bond yields declined.
- An externally managed portfolio of Australian resource equities underperformed its benchmarks.

We think about returns on a risk-adjusted basis, as we believe that we should require a higher return if we are taking greater than normal risk, but should also be willing to accept a lower return if we are taking lower than normal risk. In our assessment, ACC's reserves portfolios took no more risk than the benchmark position during 2015/16, and the reserves portfolios therefore achieved significant outperformance on a risk-adjusted basis.

For most of the year, ACC's portfolios were less exposed than the benchmark to weakness in equity markets. However, the portfolios also generally provided slightly less protection than the benchmark against falls in long-term interest rates.

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 2.5%. This is reflected in a lower discount rate, which has had an upward influence on the valuation of our claims liability.

	Annual portfolio returns				
	2015/16 financial year			Average last 3 years	
	$M	Portfolio	Benchmark	Portfolio	Benchmark
Cash portfolio	**486**	**3.2%**	**2.9%**	**3.4%**	**3.1%**
Reserves portfolios by asset class:					
Reserves cash	2,125	3.1%	2.8%	3.4%	3.1%
New Zealand index linked bonds	7,123	9.8%	9.0%	6.5%	6.2%
New Zealand bonds	11,704	11.3%	11.9%	8.9%	8.3%
New Zealand equity	2,960	21.0%	20.9%	17.5%	16.1%
New Zealand private equity*	159	18.8%		14.7%	
New Zealand and Australian property and infrastructure	1,355	18.9%	18.6%	16.0%	16.5%
Australian equity	1,296	0.4%	-3.2%	10.7%	9.8%
Global bonds	1,510	-0.2%	0.1%	6.3%	7.2%
Global equity	5,938	-5.6%	-8.0%	10.8%	9.8%
Interest rate derivative overlay[1]	252	0.7%	0.7%	0.4%	0.4%
Equity future overlay[1*]	142	0.6%		0.2%	
Foreign currency contracts overlay[1,2]	116	1.3%	1.1%		
Total reserves	**34,681**	**10.4%**	**9.7%**	**10.4%**	**9.9%**
By funding account:					
Earners'	8,708	10.0%	8.9%	10.1%	9.5%
Motor Vehicle	10,643	10.2%	10.4%	10.3%	10.2%
Work	8,564	10.5%	9.2%	10.1%	9.6%
Non-Earners'	3,249	11.3%	10.0%	11.2%	10.3%
Treatment Injury	3,517	10.6%	10.1%	11.0%	10.5%
Total reserves	**34,681**	**10.4%**	**9.7%**	**10.4%**	**9.9%**

Note: Values in the table may not match the totals because of rounding.

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

* *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 International Accounting Standards (IAS) 39 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 $42.4 million (including fees paid to external fund managers and the remuneration of our investment staff), which would have detracted 0.135% from investment returns in 2015/2016. ACC's investment returns are shown net of tax, whereas the benchmarks make no allowance for tax. However, as ACC is not liable for tax in New Zealand, offshore withholding taxes paid by ACC reduced the calculated return by just 0.025%.

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 return 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) to the value of our claims liabilities (which we must value at risk-free discount rates, under New Zealand accounting standards), for the levied Accounts that have 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.[2] 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 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:

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

- 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% 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 55% of the inflation indexed bonds that have been issued by the New Zealand Government, and 4% of the regular (not inflation-indexed) New Zealand, Government bonds.

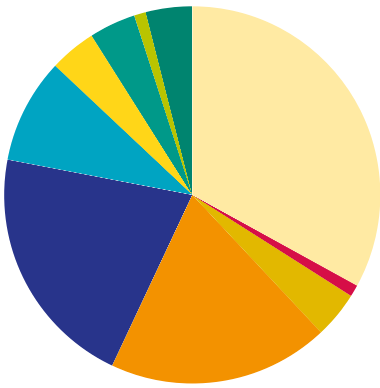
Each of ACC's accounts splits its investment funds between an investment in ACC's short-term 'cash portfolio', used to meet near-term expenditure requirements, and its own longer-term 'reserves portfolio', set aside to meet the future costs of existing claims.

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 ACC accounts have investment portfolios that are several times as large as their annual levy income, we must limit these accounts' exposure to equity markets to avoid investment results causing excessive variability in levy rates. Over the past seven years we have reduced ACC's overall weighting in equity markets by more than would have otherwise been the case, because the aggregate reserves portfolio has more than tripled in size over that period.

The Board's Investment Committee regularly reviews long-term benchmark investment allocations for each account's reserves portfolio, based on the advice of the Investment Unit. These benchmark allocations take account of both our long-term expectations for the returns from the various investment markets and the need to limit the accounts' various risk exposures. Setting benchmark asset allocation involves striking an appropriate balance between the objective of enhancing returns and the objective of reducing risk. ACC aims to maintain a high level of consistency in how it evaluates this trade-off from one year to the next, as an inconsistent approach over time would probably lead to worse long-term investment results. However, it is important that every few years we review how we evaluate this trade-off, to make sure that our approach remains appropriate for ACC's stakeholders.

Composition of aggregate reserves



* *Global Equity and Australian Equity slice includes 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 2016.*

We did undertake such a review during 2015/16, and concluded that it would be appropriate to move towards a modestly greater tolerance for financial risk. This is due to the fact that changes in ACC's policies for adjusting levies to compensate for any funding shortfall mean that adverse financial outcomes would now have less impact on levy rates. Our revised policy is to move back towards our target solvency ratios over a longer period of time (10 years), which means that funding shortfalls should generally have a smaller impact on levy rates.

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

How ACC's investments are managed

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

Our internal Investment Unit directly manages almost all of ACC's investments in New Zealand investment markets, the majority of ACC's investments in Australia, and about one-fifth of ACC's investment in global equities. The manager of each portfolio aims to identify and take advantage of situations where some 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 significant proportion of ACC's private equity investments) are outsourced to external fund management companies, as this provides more diversity to ACC's portfolio, and allows our internal funds management team to focus on those areas where they have the greatest 'edge'. However, we balance this diversification 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.

Overlay strategies

Our Investment Unit 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.
- We regularly buy or sell global equity futures to re-adjust ACC's overall exposure to equity markets on a daily basis, as this is transactionally cheaper than buying or selling equities. However, when we make a long-term decision to allocate funds in or out of equity markets, we ultimately implement this through the purchase or sale of physical equities.
- 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.

Long-term investment performance

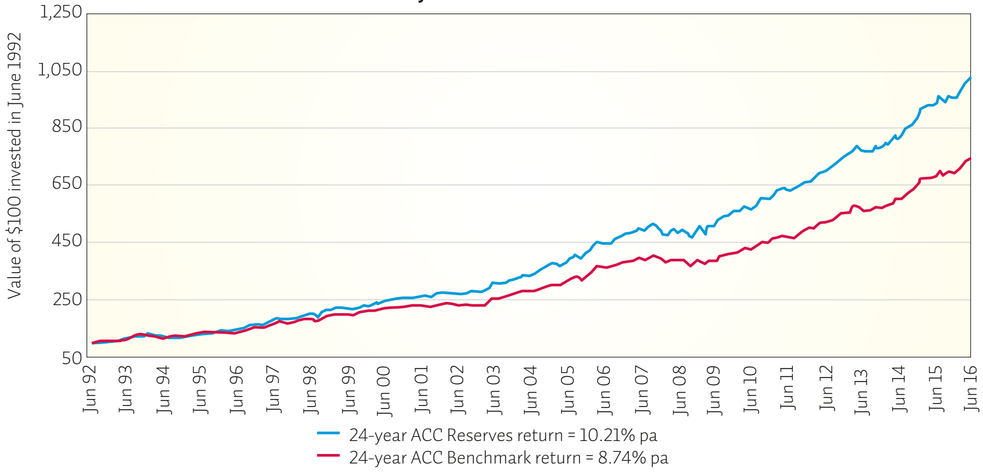
ACC has now been measuring the performance of its investment portfolios on a market-value basis for 24 years.

- The New Zealand bond portfolio has outperformed its benchmark in 22 of the past 24 years.
- The combined New Zealand equity portfolio has outperformed its benchmarks in 21 of the past 24 years.
- ACC's overall reserves portfolio has outperformed its composite benchmarks for 23 of the past 24 years, including 21 consecutive years of outperformance from June 1995 to June 2016 (but note that in one of these 21 years, ACC only performed in line with benchmark after allowing for investment costs).

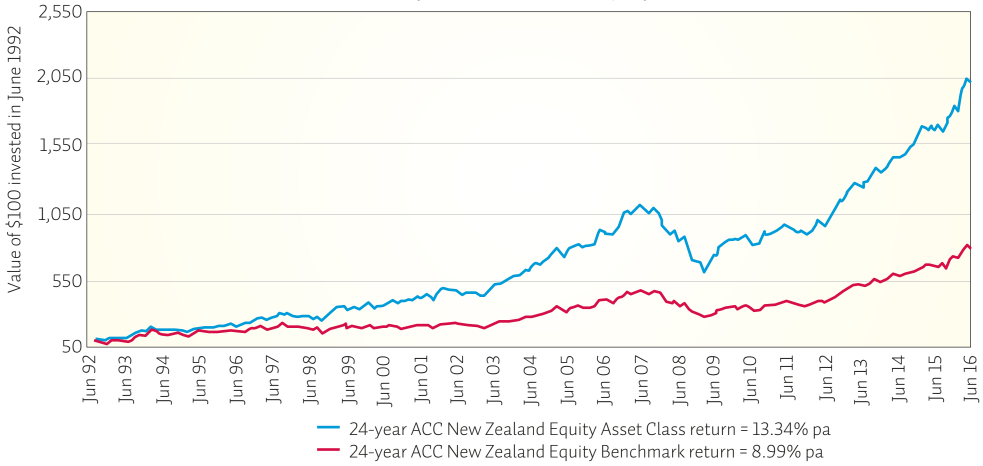
We are not aware of any other large diversified fund anywhere in the world that can match the consistency of ACC's reserves portfolio's outperformance during this turbulent period for investment markets.

This consistency has helped ACC's reserves portfolio to achieve compound returns of more than 10% per annum for the past 24 years, which is higher than the returns that ACC could have achieved by passively investing in any investment market (or any fixed combination of those markets) over that 24-year period. Through the returns that ACC has achieved, every $100 that ACC had invested 24 years ago has effectively grown to be worth $1,031 today. However, we do not expect returns to be so strong in the future.

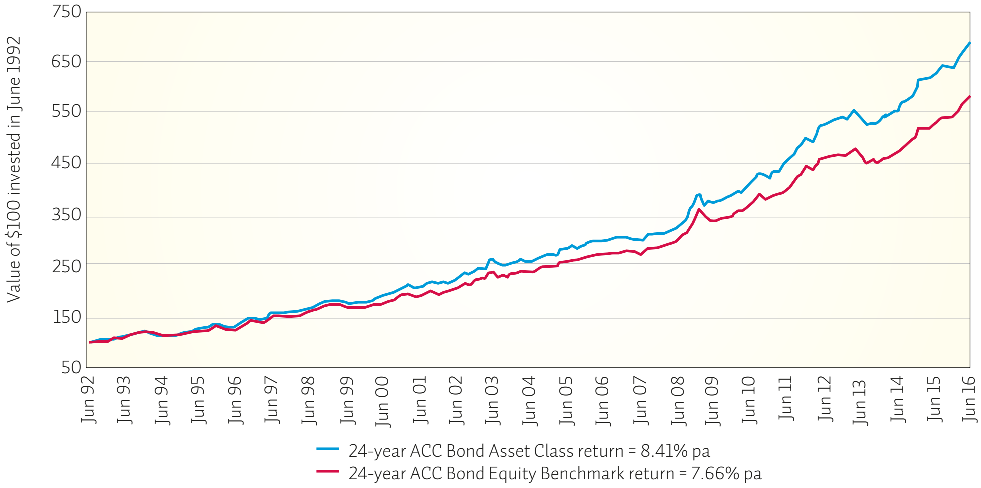
ACC 24-year Reserves Portfolio returns



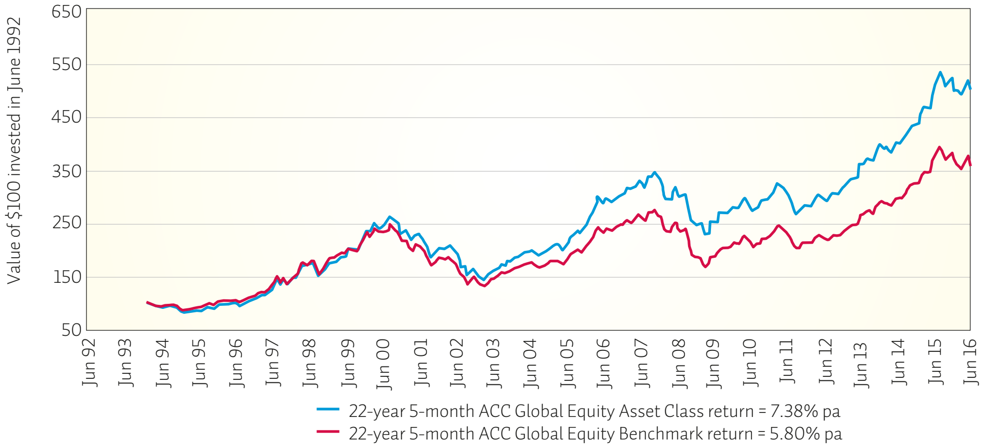
ACC 24-year New Zealand Equity returns



ACC 24-year New Zealand Bond returns

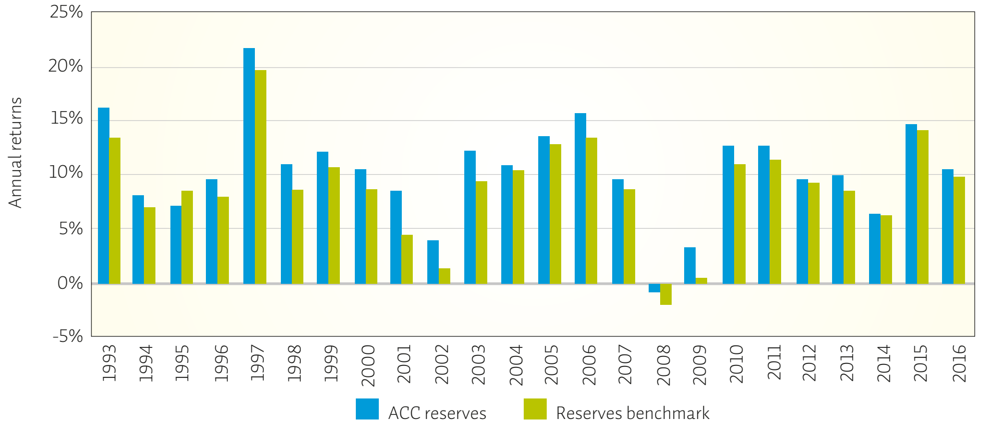


ACC 22-year 5-month Global Equity returns



Note: Global Equity returns are shown on a partially hedged basis up to 30 June 2001, and unhedged after this date. The period of 21 years and 5 months reflects the full period over which ACC has invested in global equities.

ACC financial year returns against benchmark



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 employee turnover), and ACC's funds management team has generally managed to focus on making investments where they believed they understood something that other market participants did not, whilst avoiding large risk exposures to investments where ACC's understanding was no greater than that of other investors.

Growth in ACC's investment portfolios

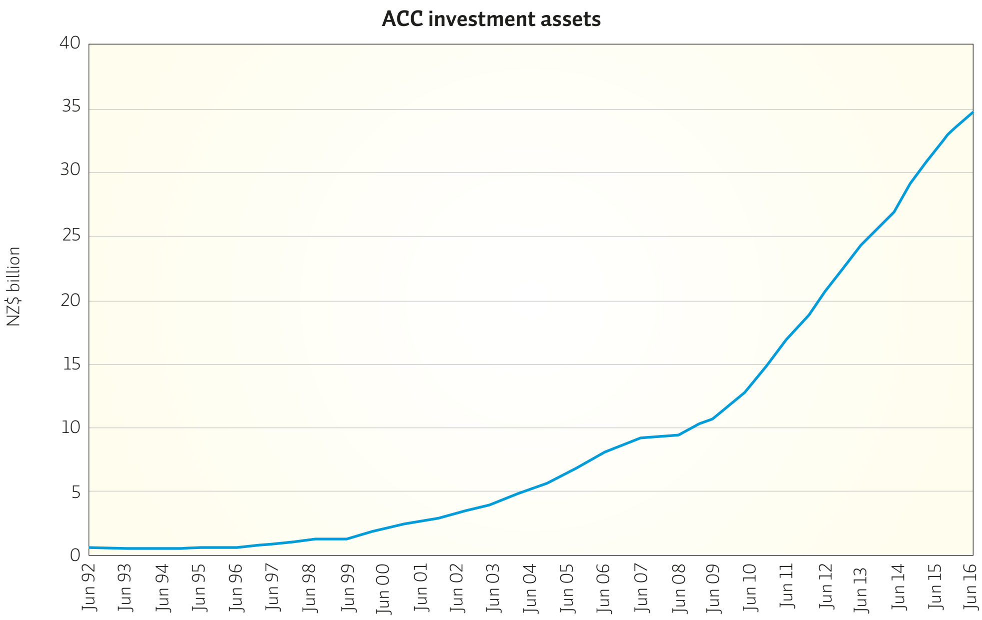
ACC's reserves portfolios increased in value by 10.4%, from $31.4 billion last year to $34.7 billion at the end of June 2016. Almost all of this growth came from investment returns. ACC only added $15 million of additional funds to the reserves portfolios over the year, representing an increment of less than 0.05% to ACC's reserves portfolios.

Most of ACC's accounts are fully funded which has resulted in levy rates being dropped to about the rate of Scheme expenditure, such that we would hope to fund future growth in ACC's investment portfolios entirely out of investment income.

The Investment Committee risk framework sets out the overall risk framework in which the investments team operates. It is designed to outline the approach the team takes on risk management, ultimately resulting in the Investment Committee setting the risk appetite for investments on a regular basis.

The Investment Committee risk framework consists of three components that outline the approach to:

- environmental risk – monitoring the environment within which the investments team operates, eg the political environment
- operational risk policy – identifying, managing and reporting operating risks, eg fraud risk
- investment guidelines – investing the funding accounts, eg credit risk.



Investment benchmarks

Like most other fund managers, we compare the make-up and performance of ACC's investment portfolios against 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 which 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 position 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 24 years.

It could be argued that changes in ACC's composite benchmarks over time make it more difficult to measure performance than would be the case if ACC had always compared itself to the same unchanging 'reference portfolio', an approach 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 that had been 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 24-year returns from ACC's reserves portfolio benchmarks have been stronger than the returns that would have been achieved by passively investing in New Zealand cash, New Zealand bonds, unhedged global bonds or global equities over the 24-year period.[3]

Probability of negative returns

A typical risk analysis based on the past performance of investment markets and the current composition of ACC's portfolio would suggest that each year there is roughly a one-in-five chance that we could record negative returns. In reality, we have had just one financial year of negative returns in the past 24 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 0.8% 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

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

domestic equity markets of approximately 9% 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. Excluding one investment in a diversified investment fund, ACC holds just four equity investments that individually represent more than 0.5% of the reserves portfolio (i.e. $173.4 million). The only individual credit exposures representing more than 1% of the Reserves portfolio (i.e. $347 million) are to the New Zealand Government, the Local Government Funding Authority, four banking groups with strong credit ratings and a New Zealand banking licence, the Auckland Council, and two AAA-rated funding vehicles controlled by fiscally secure European governments.

Our 50 largest equity investments[4]

Our 50 largest equity investments	Investment value ($NZ million, market value)
Auckland International Airport	203.1
Fletcher Building	191.8
Contact Energy	188.7
Spark New Zealand	183.1
Infratil	173.3
Fisher & Paykel Healthcare Corporation	170.2
Kiwi Property Group	150.3
Z Energy	145.9
Meridian Energy	140.9
Ryman Healthcare	117.7
Chorus	111.5
Goodman Property Trust	102.8
Precinct Properties New Zealand	96.9
SKYCITY Entertainment Group	88.2
Mainfreight	83.1
Nestlé	79.9
Alphabet	74.5
Wellington Gateway Partnership	73.0
Stride Property	69.1
SKY Network Television	67.6
Telstra Corporation	66.4
Trade Me Group	60.5
Mighty River Power	59.8
Transurban Group	59.8
Procter & Gamble	56.3

Our 50 largest equity investments	Investment value ($NZ million, market value)
Argosy Property	56.2
Microsoft Corporation	55.7
UnitedHealth Group	51.4
CSL	49.4
SAP	48.2
Nuplex Industries	46.7
a2 Milk Company	46.2
Air New Zealand	45.4
Xero	45.4
Metlifecare	44.2
Wesfarmers	43.3
EBOS Group	42.6
Vector	40.7
S&P Global	40.2
Sydney Airport	39.1
CME Group	35.0
Port of Tauranga	34.9
Diageo	33.0
Roche Holding	33.0
Schlumberger	32.8
Genesis Energy	32.0
Comcast Corporation	31.9
AGL Energy	31.4
Michael Hill New Zealand	31.1
Nike	30.7

4 *Note that this table shows ACC's investments in pooled investment vehicles as distinct equity investments, and does not attempt to aggregate any known indirect investment exposures incurred through pooled investment vehicles with the direct investments in the various companies shown in the table. ACC has $610 million invested in five pooled investment vehicles that invest in listed equity markets. The bulk of this investment ($515 million) is invested in an unlisted global equity fund managed by Orbis. At the time that we are writing this report (29 July 2016), this Orbis fund has reported to ACC on its 28 largest investments for June 2016, and none of these 28 investments are included in the list of ACC's 50 largest direct equity investments. However, it is likely that the Orbis fund holds smaller investments in some companies included in ACC's top 50 list. The other four pooled investment vehicles invest in either emerging markets or smaller Australian companies, and are unlikely to hold shares in any of the companies included in ACC's top 50 list.*

Ethical investment

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

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

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

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

As ACC has a fiduciary responsibility to achieve the best possible mix of long-term return and risk on its investment funds, ACC cannot sacrifice investment performance in order to pursue ethical viewpoints that might be held by a minority of ACC's stakeholders. So while ACC recognises that significant numbers of New Zealanders may believe that various other activities are unethical (for example, involvement in gambling, junk food, alcoholic beverages, factory farming, or coal mining), ACC would be unlikely to impose a blanket exclusion on investing in these activities unless New Zealand's Parliament passed laws to ban these activities in New Zealand. When New Zealand's democratically elected Parliament does ban an activity, ACC would likely presume that Parliament's decision reflects the majority view of the New Zealand public. In addition to avoiding investments in companies that engage in activities that are contrary to New Zealand law, we will never make any form of investment that is in itself illegal under New Zealand law.

ACC has recently tightened its ethical investment policy to limit the circumstances in which ACC may end up with indirect investment exposures to entities in which we would not directly invest. In the future, we will not make new investments in unlisted investment funds unless they apply ethical screens that would exclude most of the companies on ACC's own ethical exclusion list.

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

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

The PRI allows organisations to understand the investment implications of environmental, social and governance factors, and to support its international network of investor signatories in incorporating these factors into their investment and ownership decisions. The PRI acts in the long-term interest of signatories, the financial markets and the economies in which they operate, and ultimately the environment and society as a whole.

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 2016.

Signed on behalf of the Board:

Dame Paula Rebstock DNZM
Board Chair

Trevor Janes
Deputy Chair

Statement of performance for the year ended 30 June 2016

The statement of performance reports against the measures contained in ACC's 2015/16 Service Agreement. We have provided explanations for performance measures that were not achieved.

Public value scorecard

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

The public value framework recognises that our activity should:

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

We use four categories of 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 2015/16 Service Agreement (excluding those already reported in our public value scorecard).

SECTION 1:

Public value scorecard

Category	Measuring our contribution to New Zealand	Actual 2014/15	Target 2015/16	Actual 2015/16	Status	
 **Reach** **How many New Zealanders did we help?**	Percentage of population who received compensation or rehabilitation services	30.5%	30.0%	30.8%	✗	Refer to Note 1

Category	Measuring our contribution to New Zealand	Actual 2014/15	Target 2015/16	Actual 2015/16	Status	
 **Customer** **Did we meet expectations?**	Cover decision timeliness	1.2 days	1.2 days	1.1 days	✓	
	Average time to commence weekly compensation payments	9.2 days	<9.5 days	8.3 days	✓	
	Formal reviews as a percentage of entitlement claims	2.7%	2.7%	2.5%	✓	
	Percentage of reviews upheld	84.0%	≥85%	84.2%	✗	Refer to Note 2
	Average time to resolution for claims with reviews	92 days	<92 days	88 days	✓	
	Public trust and confidence	60%	60%	63%	✓	
	Customer satisfaction – clients	76%	78%	76%	✗	Refer to Note 3
	Customer satisfaction – levy payers	68%	69%	69%	✓	
	The rolling three-month average of privacy breaches	13	12	20	✗	Refer to Note 4

Category	Measuring our contribution to New Zealand	Actual 2014/15	Target 2015/16	Actual 2015/16	Status	
 **Impact** Did we deliver?	Return to work within 10 weeks	67.3%	69.0%	67.6%	✗	Refer to Note 5
	Return to work within 9 months (273 days)	93.2%	93.3%	92.8%	✗	Refer to Note 5
	Durable return to work rate	80.0%	1% higher than Australia	79.0%[1]	✓	
	Return to independence for those not in the workforce	86.0%	86.0%	86.7%	✓	
	Number of long-term clients returned to independence in the past 12 months	2,467	2,538	2,796	✓	

1. *Our result of 79% was 2% higher than the Australian average of 77%*

Category	Measuring our contribution to New Zealand	Actual 2014/15	Target 2015/16	Actual 2015/16	Status	
 **Cost-effectiveness** Were we fair and affordable?	Percentage of total expenditure paid directly to clients or for services to clients	82%	86%	86%	✓	
	Total levies and appropriations as a percentage of gross domestic product	1.8%	1.8%	1.6%	✓	
	Change in average treatment cost per injury	3.4%	5.8%	1.7%	✓	
	Ratio of this year's total levies to the total claims incurred for this year's accidents over time	1.0	0.9 – 1.1	0.8	✗	Refer to Note 6
	Investment performance (after costs) above benchmark	0.49%	0.30%	0.55%	✓	
	Return from insurance operations	$320m	$129m	–$581m	✗	Refer to Note 7
	The portfolio of injury prevention investments will have an assessed positive return on investment	$1.34:1	$1.20:1	$1.60:1	✓	Refer to Note 8

Note 1 – Percentage of population who received compensation or rehabilitation services has grown

This measure is contextual, and indicates the reach of our services. New claims registered have grown 5.2% this year, a higher rate than expected. The number of unique clients registering claims this year grew slightly less than the claims growth.

Note 2 – Percentage of reviews upheld has improved, but did not meet target

The percentage of reviews upheld in ACC's favour of 84.2% is an improvement on last year's result of 84%, but short of the 85% target.

In November 2015, we rolled out a new dispute resolution service aimed at resolving disputes prior to a formal review hearing. To date, feedback has been positive although uptake has been lower than expected. We anticipate this service will further increase the number of withdrawn review applications in 2016/17.

Note 3 – Customer satisfaction – clients has improved, but did not meet target

Our quarterly client satisfaction results have increased over the year. The fourth quarter result was 78%, giving a full year result of 76%, just under the full-year target of 78%. This year, all client frontline employees attended one of six two-day nationwide meetings. The theme was 'Year of the customer' and everything focussed on achieving great outcomes for our clients.

Note 4 – The rolling three-month average of privacy breaches is below target

Changes in systems and processes to reduce privacy breaches have been maximised. Performance over the last year has been heavily reliant on employees following established processes to continue to reduce privacy breaches.

Work is under way across the business to identify further initiatives to stop breaches, and we are using a 'privacy by design' approach to embed privacy improvements into the design of our systems.

Note 5 – Return to work within ten weeks and nine months are below target

Claims volume growth has continued, and maintained pressure on us during the year. Performance for both durations deteriorated in the first half of the year, however the 10-week return rate has increased in the second half of the year, and is now at its highest level since October 2014. The nine-month return to work rate has been steady for the past six months.

A number of initiatives were implemented throughout the year to increase rehabilitation performance, including further enhancements and training to support our claims triaging and monitoring tools, and improvements to training and induction for frontline employees to more efficiently manage increasing caseloads.

Note 6 – Ratio of this year's total levies to the total claims incurred for this year's accidents over time

This year's results were driven by lower levy and investment income. High growth in claims this year means claims costs and the OCL for these claims has increased. As all our levied accounts are above the targeted levels defined in our funding policy, we expect levy income to be lower than claims costs and liabilities.

Note 7 – Returns from insurance operations

Returns from insurance operations were $710 million less than budget. This was affected by a number of factors. The decision to discontinue residual levies from 1 April 2016 had a $337 million adverse impact on the Work Account. Claims costs were $75 million above budget, driven by higher claim volumes. Improved service access, as well as increases in the expected cost and duration of claims resulted in a $666 million increase in our OCL.

Note 8 – Portfolio of injury prevention investments will have an assessed positive return on investment

Return on Investment (ROI) is reported in the Statement of Intent, Service Agreement and Annual Report. ROI measurement begins early in the development of injury prevention programmes, and assesses the programmes costs against its expected future benefits based on past experience. The programme's performance is then monitored against actual experience as it proceeds. This approach allows reductions in both injury incidence and injury severity to be included in the measure.

SECTION 2:

Performance against output delivery

The breakdown of our revenue earned and costs incurred compared with expected revenue and costs reported in the 2015/16 Service Agreement is as follows:

	Administration		Claims paid		Revenue	
$ million	**Actual**	**Budget**	**Actual**	**Budget**	**Actual**	**Budget**
Output class 1 – injury prevention	50	51				
Output class 2 – levy setting and collection	39	41			3,926	4,146
Output class 3 – investment management	63	65			3,273	1,628
Output class 4 – claims management	415	412	3,502	3,427		
Total	**567**	**569**	**3,502**	**3,427**	**7,199**	**5,774**
Other operating costs	61	63				
Total ACC	**628**	**632**	**3,502**	**3,427**	**7,199**	**5,774**

The public value measure relevant to this output class is:

- return from insurance operations.

Refer to section 1 for performance against public value measures.

OUTPUT 1:

Injury prevention

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

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

- Return on investment for the portfolio of approved injury prevention investments

Refer to section 1 for performance against public value measures.

OUTPUT 2:

Levy setting and collection

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

In order for us to deliver services we must collect revenue. Through our levy-setting process we calculate our future revenue needs for each account. We recommend levies that are sufficient to cover the cost of claims incurred in that year.

How we are funded

The account and who funds it	What's covered	2013/14	2014/15	2015/16	2016/17
Work Account Employers: Based on wages paid to staff Self-employed: Based on income earned	WORK-RELATED INJURIES 	$1.15 per $100liable earnings	$0.95 per $100liable earnings	$0.90 per $100liable earnings	$0.80 per $100liable earnings
Earners' Account Employees: Based on income earned Self-employed: Based on income earned	NON-WORK INJURIES TO PEOPLE IN EMPLOYMENT 	$1.48 per $100liable earnings	$1.26 per $100liable earnings	$1.26 per $100liable earnings	$1.21 per $100liable earnings
Motor Vehicle Account Vehicle owners: Funded through petrol use and the motor vehicle licensing fees	INJURIES THAT INVOLVE MOVING MOTOR VEHICLES ON PUBLIC ROADS 	$334.52 per motor vehicle	$330.68 per motor vehicle	$195.00 per motor vehicle	$130.26 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 The Government and employees: Funded by the Earners' and Non-Earners' Accounts	INJURIES CAUSED BY MEDICAL TREATMENT 				

The public value measures relevant to this output class are:

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

Refer to section 1 for performance against public value measures.

Activity information

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

	Account	Type of cover	Actual 2014/15	Actual 2015/16
Levy funded accounts	Work Account	Number of employed and self-employed[1]	2,360,000	2,370,000
		Levy revenue ($million)	816	695
	Earners' Account	Number of earners[2]	2,380,000	2,400,000
		Levy revenue ($million)	1,277	1,261
	Motor Vehicle Account	Number of vehicles[2]	3,300,300	3,380,000
		Levy revenue ($million)	1,087	732
Government funded account	Non-Earners' Account	Number of non-earners[2]	2,200,200	2,260,000
		Government appropriation ($million)	886	955
Mixed funded account	Treatment Injury Account	Number of non-earners[2]	2,200,200	2,260,000
		Government appropriation ($million)	90	120
		Number of earners[2]	2,380,000	2,400,000
		Levy revenue ($million)	157	163

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 2014/15	Forecast 2015/16	Actual 2015/16
Work Account[3]	118.7%	119.9%	117.2%
Work Account (excluding gradual process)	140.8%	144.5%	140.0%
Earners' Account	131.7%	117.6%	112.8%
Motor Vehicle Account	115.7%	106.8%	107.8%
Non-Earners' Account	48.8%	43.3%	41.9%
Treatment Injury Account	77.7%	70.2%	68.3%
ACC	**105.0%**	**97.5%**	**94.9%**

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:

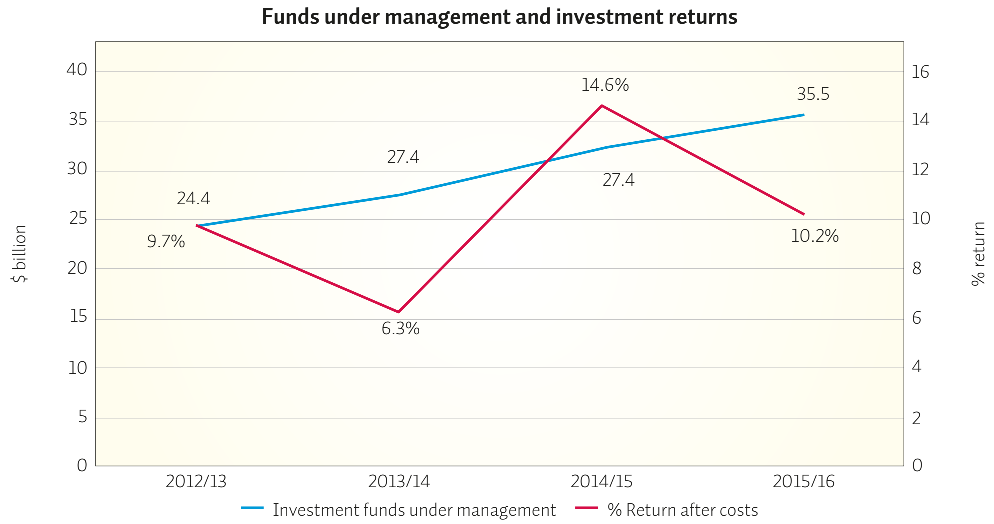
Investment management

The purpose of our investment portfolio is to meet the future costs of claims from long-term injuries without the need for any catch-up contributions from future levy payers. To meet this purpose, we tend to favour long-term investments that we expect to deliver relatively certain income streams for long periods of time. Such investments match our long-term cash flow requirements, and also tend to provide an offset against the risk of declines in interest rates. Interest rate declines mean that future 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.

Activity information



The public value measure relevant to this output class is:

- Investment performance after costs relative to benchmark

Refer to section 1 for performance against public value measures.

Other investment management output measures

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

Measure	Actual 2014/15	Target 2015/16	Actual 2015/16	Performance against target
Investment management costs as a proportion of total funds under management	0.12%	0.15%	0.13%	Achieved

OUTPUT 4:

Claims management

We help injured people covered by the Scheme 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 those who have covered injuries are eligible to receive.

Measure	Definition	2011/12	2012/13	2013/14	2014/15	2015/16
Registered claims	Total number of registered claims in the period	1,681,230	1,714,615	1,791,577	1,838,118	1,933,629
Medical fees only claims	Total number of medical 'fees only' claims in the period	1,486,093	1,514,454	1,572,792	1,594,771	1,605,674
Other entitlement claims	Total number of entitlement claims (all entitlement claims excluding weekly compensation) that received payments in the period	94,323	93,401	96,952	105,375	110,624
Weekly compensation claims	Total number of weekly compensation claims that received payments in the period	82,593	88,442	89,616	100,727	106,452
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	12,290
New serious injury claims[4]	Total number of new serious injury claims in the period	234	233	263	280	218
Fatal claims	Total number of fatal claims in the period	1,160	1,191	1,166	1,239	1,061

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

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

Expenditure against key cost drivers

$ million	Actual 2014/15	Forecast 2015/16	Actual 2015/16
Non-fatal weekly compensation	931	1,017	1,045
Social rehabilitation	514	553	590
Medical treatment	606	659	669
Hospital treatment (elective surgery)	311	327	322
Public health acute services	460	469	469

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

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 reviews upheld
- average time to resolution for claims with reviews
- return to work within 10 weeks and 9 months (273 days)
- durable return to work rate
- percentage of clients not in the workforce returned to independence
- number of long-term clients returned to independence in the previous 12 months.

Refer to section 1 for performance against public value measures.

Other claims management output measures

The costs associated with this output class have the largest bearing on the financial sustainability of the overall Scheme. 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.

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 2014/15	Target 2015/16	Actual 2015/16	Performance against target
Social rehabilitation for serious injuries	Growth in average care hours package relative to outstanding claims liability valuation	2.4%	2.0%[5]	3.0%[5]	Not achieved – refer to Note 1
	Proportion of clients with care hours significantly above or below benchmarks[6]	47%	45%	47%	Not achieved – refer to Note 2
Rehabilitation	Return to work within six months (182 days)	88.6%	88.9%	88.3%	Not achieved – refer to Note 3
	Number of clients receiving weekly compensation for more than one year	11,483	12,200	12,290	Not achieved – Refer to Note 4
	Abatement rate for long-term clients[7]	13%	13%	12%	Not achieved – refer to Note 5
	Average time taken to make surgery decisions – declined requests	31.1 days	<35 days	32.1 days	Achieved
	Growth in average elective surgery cost per claim	5.9%	7.1%	3.6%	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	86%	87%	85%	Not achieved – refer to Note 6
Efficiency	Average cost per claim Administration costs less investment management and injury prevention costs/active entitlement claims	$2,403	$2,552	$2,370	Achieved

Note 1 – Growth in average care hours packages

The growth in average care packages over the past year for claims with accidents four or more years ago was 3.0%. This is above the valuation assumption of 2.0%. Average hours are relatively stable. Changes to the service mix, transfers between providers and a shift towards higher cost services, particularly within non-attendant care, is contributing to this increase.

While care provided by an agency is more expensive, it provides an assurance of the level and quality of care provided. Non-attendant care services such as supported activities, assessments and training for independence are used to identify needs and support the client to gain further independence. Once achieved for certain activities, this should reduce the need for assistance such as attendant care. We are working to ensure attendant care reduces as independence is achieved.

Note 2 – Proportion of clients with care hours significantly above or below benchmarks

ACC provides services such as supported living and training for independence programmes that are intended to reduce attendant care and help clients gain new skills. It is expected that as well as reducing dependency on attendant care, the programmes will support good client outcomes and our use of these services should lead to lower attendant care hours than the benchmark.

Note 3 – Return to work within six months

Growth in claims volumes remained a pressure throughout the year. Performance declined in the first half of the year but picked up and stabilised in the second half because of a number of initiatives. These included further enhancements and training to

5 *Based on OCL assumptions.*

6 *Compared with the outstanding claims liability.*

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

support our claims triaging and monitoring tools, and improvements to induction and training for frontline employees to more effectively manage increasing caseloads.

Note 4 – Number of clients receiving weekly compensation for more than one year

The number of clients receiving weekly compensation for more than 12 months increased to 12,290 at the end of June 2016. While the proportion of claims where clients are returned to independence within 12 months remains high (at 95.0%), 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 5 – Abatement rate for long-term clients

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 2016, 1,458 long-term clients were in part-time employment and this was stable for the majority of the year. Sustained claims growth in long-term claims over the year meant the overall proportion of clients receiving abated weekly compensation fell throughout the year.

Note 6 – The proportion of clients with surgery who are rehabilitated 12 months after being approved for surgery

This rate is declining. Over the past few years, there has been an increase in the proportion of surgery procedures for more complex surgery types or body sites. The increase in these more complex surgeries, in particular shoulder surgeries, will be contributing to the decline in this result for this year.

Financial statements for the year ended 30 June 2016

Consolidated statement of comprehensive revenue and expense

For the year ended 30 June 2016

$M	Notes	Actual 2016	Actual 2015	Budget 2016
Net levy revenue	4	3,926	4,313	4,146
Other revenue		1	2	–
Total net levy and other revenue		**3,927**	**4,315**	**4,146**
Investment revenue		3,273	3,997	1,628
Less investment costs		63	61	65
Net investment revenue	5	**3,210**	**3,936**	**1,563**
Claims paid		3,502	3,219	3,427
Increase in outstanding claims liability	19	6,334	2,632	1,538
Movement in unexpired risk liability	18	103	265	48
Total claim costs		**9,939**	**6,116**	**5,013**
Injury prevention costs	7	50	30	51
Operating costs	7	515	494	516
Net (deficit) surplus		**(3,367)**	**1,611**	**129**
Total comprehensive revenue and expense for the year		**(3,367)**	**1,611**	**129**

Consolidated statement of changes in reserves (equity)

For the year ended 30 June 2016

$M	Notes	Actual 2016	Actual 2015	Budget 2016
Total account reserves				
Balance at the beginning of the year (deficit)		1,502	(109)	(1,010)
Total comprehensive revenue and expense for the year		(3,367)	1,611	129
Balance at the end of the year (deficit)		**(1,865)**	**1,502**	**(881)**

Consolidated statement of financial position

As at 30 June 2016

$M	Notes	Actual 2016	Actual 2015	Budget 2016
Account reserves				
Motor Vehicle Account		770	1,294	651
Non-Earners' Account		(4,511)	(3,199)	(4,083)
Earners' Account		956	1,915	1,232
Work Account		2,548	2,380	2,746
Treatment Injury Account		(1,628)	(888)	(1,427)
Total Account reserves (deficit)		**(1,865)**	**1,502**	**(881)**
Represented by:				
Assets				
Cash and cash equivalents	8	282	303	362
Receivables	9	321	1,067	392
Accrued levy revenue	10	2,027	1,716	2,629
Investments	11	34,673	32,383	33,200
Derivative financial instruments	12	877	250	–
Property, plant and equipment, and intangible assets	14	111	134	228
Total assets		**38,291**	**35,853**	**36,811**
Less liabilities				
Payables and accrued liabilities	15	955	1,526	766
Derivative financial instruments	12	52	264	–
Provisions	16	43	42	–
Unearned levy liability	17	1,873	1,723	1,954
Unexpired risk liability	18	570	467	333
Outstanding claims liability	19	36,663	30,329	34,639
Total liabilities		**40,156**	**34,351**	**37,692**
Net assets (liabilities)		**(1,865)**	**1,502**	**(881)**

For and on behalf of the Board, which authorised the issue of these financial statements on 29 September 2016:

Paula Rebstock

Dame Paula Rebstock DNZM
ACC Chair
Date: 29 September 2016

Trevor Janes

Trevor Janes
Deputy Chair
Date: 29 September 2016

The accompanying notes form part of these financial statements.

Consolidated statement of cash flows

For the year ended 30 June 2016

$M	Notes	Actual 2016	Actual 2015	Budget 2016
Cash flows from operating activities				
Cash was provided from:				
Levy revenue		4,288	4,214	4,032
Investment revenue		1,243	1,144	1,627
Other revenue		24	25	1
Goods and services tax (net)		–	47	–
		5,555	**5,430**	**5,660**
Cash was applied to:				
Payments towards injury treatment and prevention		4,100	3,905	4,160
Goods and services tax (net)		65	–	8
		4,165	**3,905**	**4,168**
Net cash movement from operating activities		**1,390**	**1,525**	**1,492**
Cash flows from investing activities				
Cash was provided from:				
Proceeds from sale of investments		63,373	66,344	67,000
Proceeds from sale of property, plant and equipment, and intangible assets		1	–	–
		63,374	**66,344**	**67,000**
Cash was applied to:				
Payment for investments		64,762	67,995	68,375
Payment for property, plant and equipment, and intangible assets		23	37	117
		64,785	**68,032**	**68,492**
Net cash movement from investing activities		**(1,411)**	**(1,688)**	**(1,492)**
Net (decrease) in cash and cash equivalents		**(21)**	**(163)**	**–**
Cash and cash equivalents – opening balance		**303**	**466**	**362**
Cash and cash equivalents – closing balance		**282**	**303**	**362**

The accompanying notes form part of these financial statements.

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

$M	Actual 2016	Actual 2015	Budget 2016
Net (deficit) surplus	**(3,367)**	**1,611**	**129**
Add (less) items classified as investing activities:			
Realised (gains) on sale of investments	(1,862)	(1,212)	(8)
Add (less) non-cash items:			
Depreciation and amortisation	46	47	45
Property, plant and equipment impairment/write-offs	1	–	–
Unrealised (gains) on investments	(150)	(1,611)	–
Movement in provisions	1	(28)	–
Change in provision for impairment of levy debtors	10	7	–
Movement in unexpired risk liability	103	265	48
Increase in outstanding claims liability	6,334	2,632	1,538
Add (less) movements in working capital items:			
Receivables and accrued levy revenue	200	198	(148)
Payables and accrued liabilities	(76)	(58)	(146)
Unearned levy liability	150	(326)	34
Net cash inflow from operating activities	**1,390**	**1,525**	**1,492**

The accompanying notes form part of these financial statements.

ACC Accounts

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

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

During 1998 and 1999, the basis of setting 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.

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

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

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

Motor Vehicle Account

For the year ended 30 June 2016

$M	Notes	Actual 2016	Actual 2015	Budget 2016
Levy revenue[i]		732	1,087	681
Total net levy and other revenue		**732**	**1,087**	**681**
Investment revenue		1,007	1,202	491
Less investment costs		19	18	20
Net investment revenue		**988**	**1,184**	**471**
Claims paid[ii]		477	436	463
Increase in outstanding claims liability	19	1,687	445	325
Movement in unexpired risk liability	18	20	–	–
Total claim costs		**2,184**	**881**	**788**
Injury prevention costs		12	7	8
Operating costs		48	50	52
Net (deficit) surplus		**(524)**	**1,333**	**304**
Total comprehensive revenue and expense for the year		**(524)**	**1,333**	**304**
Account reserve – opening balance (deficit)		1,294	(39)	347
Total comprehensive revenue and expense for the year		(524)	1,333	304
Account reserve – closing balance		**770**	**1,294**	**651**

Notes:

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

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

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

The accompanying notes form part of these financial statements.

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

Non-Earners' Account

For the year ended 30 June 2016

$M	Notes	Actual 2016	Actual 2015	Budget 2016
Funds appropriated by Parliament[i]		1,075	976	1,091
Less funding of Treatment Injury Account		(120)	(90)	(120)
Total net levy and other revenue		**955**	**886**	**971**
Investment revenue		342	428	160
Less investment costs		7	7	7
Net investment revenue		**335**	**421**	**153**
Claims paid[ii]		964	901	935
Increase in outstanding claims liability	19	1,520	614	299
Total claim costs		**2,484**	**1,515**	**1,234**
Injury prevention costs		12	5	13
Operating costs		106	98	103
Net (deficit) surplus		**(1,312)**	**(311)**	**(226)**
Total comprehensive revenue and expense for the year		**(1,312)**	**(311)**	**(226)**
Account reserve – opening balance (deficit)		(3,199)	(2,888)	(3,857)
Total comprehensive revenue and expense for the year		(1,312)	(311)	(226)
Account reserve – closing balance (deficit)		**(4,511)**	**(3,199)**	**(4,083)**

Notes:

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

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

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

Earners' Account

For the year ended 30 June 2016

$M	Notes	Actual 2016	Actual 2015	Budget 2016
Levy revenue[(i)]		1,424	1,435	1,479
Less funding of Treatment Injury Account		(163)	(158)	(164)
Other revenue		–	1	–
Total net levy and other revenue		**1,261**	**1,278**	**1,315**
Investment revenue		784	982	410
Less investment costs		16	15	16
Net investment revenue		**768**	**967**	**394**
Claims paid[(ii)]		1,190	1,080	1,169
Increase in outstanding claims liability	19	1,427	716	487
Movement in unexpired risk liability	18	179	55	48
Total claim costs		**2,796**	**1,851**	**1,704**
Injury prevention costs		9	5	8
Operating costs		183	175	179
Net (deficit) surplus		**(959)**	**214**	**(182)**
Total comprehensive revenue and expense for the year		**(959)**	**214**	**(182)**
Account reserve – opening balance		1,915	1,701	1,414
Total comprehensive revenue and expense for the year		(959)	214	(182)
Account reserve – closing balance		**956**	**1,915**	**1,232**

Notes:

The Earners' Account derives its funds from:

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

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

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

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

Work Account

For the year ended 30 June 2016

$M	Notes	Actual 2016	Actual 2015	Budget 2016
Levy revenue(i)		695	816	895
Other revenue		1	1	–
Total net levy and other revenue		**696**	**817**	**895**
Investment revenue		797	976	397
Less investment costs		15	15	16
Net investment revenue		**782**	**961**	**381**
Claims paid(ii)		707	671	706
Increase in outstanding claims liability	19	533	419	108
Movement in unexpired risk liability	18	(96)	210	–
Total claim costs		**1,144**	**1,300**	**814**
Injury prevention costs		14	12	17
Operating costs		152	148	156
Net surplus		**168**	**318**	**289**
Total comprehensive revenue and expense for the year		**168**	**318**	**289**
Account reserve – opening balance		2,380	2,062	2,457
Total comprehensive revenue and expense for the year		168	318	289
Account reserve – closing balance		**2,548**	**2,380**	**2,746**

Notes:

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

Included in the Work Account is the Non-Compliers Fund (the Fund). The Fund was set up to cover employees who were injured while working for an employer who had not taken out accident insurance during the time when the workplace accident insurance market was opened up for competition. The Fund was transferred to ACC following the restoration of ACC as sole provider of workplace accident insurance. The net surplus for the year ended 30 June 2016 for the Fund was $41,000 (2015: $47, 000). The Fund's reserve as at 30 June 2016 was $0.4 million (2015: $0.3 million).

There were 45,835 (2015: 43,580) CoverPlus Extra policies purchased during the year. CoverPlus Extra is an optional product that lets self-employed people and non-PAYE shareholder employees negotiate a pre-agreed level of lost earnings compensation. Payments of $5.9 million (2015: $6.7 million) relating to work-related injuries were paid to clients who had purchased weekly compensation under CoverPlus Extra policies from the Work Account during the year. Non-work injury payments of $13.2 million (2015: $12.6 million) were paid from the Earners' and Motor Vehicle Accounts.

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

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

- work injury suffered on or after 1 April 2000 by employees of employers who are insured by ACC, and for all employees' work injuries incurred on and after 1 July 2000

- work injury suffered on or after 1 July 1999 and before 1 July 2000 by self-employed persons who were insured by ACC, and for self-employed work injuries incurred on or 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.

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

Treatment Injury Account

For the year ended 30 June 2016

$M	Notes	Actual 2016	Actual 2015	Budget 2016
Levy revenue[(i)]		283	247	284
Total net levy and other revenue		**283**	**247**	**284**
Investment revenue		343	409	170
Less investment costs		6	6	6
Net investment revenue		**337**	**403**	**164**
Claims paid[(ii)]		164	131	154
Increase in outstanding claims liability	19	1,167	438	319
Total claim costs		**1,331**	**569**	**473**
Injury prevention costs		3	1	5
Operating costs		26	23	26
Net (deficit) surplus		**(740)**	**57**	**(56)**
Total comprehensive revenue and expense for the year		**(740)**	**57**	**(56)**
Account reserve – opening balance (deficit)		(888)	(945)	(1,371)
Total comprehensive revenue and expense for the year		(740)	57	(56)
Account reserve – closing balance (deficit)		**(1,628)**	**(888)**	**(1,427)**

Notes:

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

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

Account solvency and capital management

Solvency is presented as a percentage and calculated as 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, Earners' and Work Accounts and the portion of the Treatment Injury Account funded out of the Earners' Account.

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

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

	2016	2015
Work Account	140.0%	140.8%
Work Account (including gradual process claims incurred but not yet made)	117.2%	118.7%
Motor Vehicle Account	107.8%	115.7%
Earners' Account	112.8%	131.7%
Non-Earners' Account	41.9%	48.8%
Non-Earners' Account – pre-2001 injuries	0.1%	0.5%
Non-Earners' Account – post-2001 injuries	80.2%	99.4%
Treatment Injury Account	68.3%	77.7%
Treatment Injury Account – Earners' Account portion	110.9%	115.4%
Treatment Injury Account – Non-Earners' Account portion, pre-2001 injuries	(0.3)%	(0.3)%
Treatment Injury Account – Non-Earners' Account portion, post-2001 injuries	79.6%	99.5%

The accompanying notes form part of these financial statements.

Notes to the financial statements

For the year ended 30 June 2016

1. Summary of significant accounting policies

(a) Reporting entity

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

ACC provides comprehensive 24-hour, no-fault personal injury cover for all New Zealand residents and visitors to New Zealand. ACC does not operate to make a financial return.

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

(b) Basis of preparation

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

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

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

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

2. Critical accounting judgements, estimates and assumptions

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

(a) Outstanding claims liability (OCL)

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

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

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

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

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

The general sources of uncertainty include:

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

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

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

(b) Gradual process claims

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

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

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

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

However, an assessment of the potential payments under such future claims has been made. The present value of the obligation for all future gradual process claims not yet made is estimated at $1,243 million (2015: $1,085 million). This is only for claims arising due to noise-induced hearing loss and exposure to asbestos, being the types of gradual process claims where sufficient data is available to permit a reasonable estimate of the obligation.

(c) Going concern assumption

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

3. Underwriting result

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

$M	2016 Total	Motor Vehicle Account	Non-Earners' Account	Earners' Account	Work Account	Treatment Injury Account	2015 Total
Net levy revenue	**3,926**	**732**	**955**	**1,261**	**695**	**283**	**4,313**
Claims paid	3,502	477	964	1,190	707	164	3,219
Claims handling costs	415	40	100	153	99	23	401
Increase (decrease) in outstanding claims liability							
Expected change	1,236	239	242	405	86	264	1,280
Effect of claims experience and modelling	583	177	180	148	(35)	113	377
Effect of changes in economic assumptions	4,889	1,376	1,174	874	627	838	1,460
Effect of legislative and policy changes	(374)	(105)	(76)	–	(145)	(48)	–
Effect of mortality assumption change	–	–	–	–	–	–	(540)
Effect of other changes	–	–	–	–	–	–	55
	6,334	**1,687**	**1,520**	**1,427**	**533**	**1,167**	**2,632**
Total claims incurred	**10,251**	**2,204**	**2,584**	**2,770**	**1,339**	**1,354**	**6,252**
Movement in unexpired risk liability	103	20	–	179	(96)	–	265
Other underwriting costs	150	20	18	39	67	6	123
(Deficit) from underwriting activities	**(6,578)**	**(1,512)**	**(1,647)**	**(1,727)**	**(615)**	**(1,077)**	**(2,327)**

4. Net levy revenue

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

$M	2016	2015
Government appropriations	1,075	976
Levy revenue:	2,876	3,355
Levy debts written off	(15)	(11)
Change in provision for impairment	(10)	(7)
Total net levy revenue	**3,926**	**4,313**

Levy revenue is from exchange transactions.

5. Investment revenue

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

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

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

$M	2016	2015
Investment revenue		
Rental revenue from investment properties	18	18
Revenue from concession rights arrangement	5	5
Financial assets at fair value through surplus or deficit (designated upon initial recognition)		
Dividend revenue	393	320
Interest revenue	747	783
Investment gains	1,376	1,532
	2,516	**2,635**
Financial assets and financial liabilities at fair value through surplus or deficit (held for trading purposes)		
Interest revenue	96	48
Investment gains	638	1,291
	734	**1,339**
Total investment revenue	**3,273**	**3,997**
Investment costs		
Investment costs	61	59
Direct expenses from investment properties generating revenue	2	2
Total investment costs	**63**	**61**
Total net investment revenue	**3,210**	**3,936**

Investment revenue is net of foreign withholding tax of $7.9 million (2015: $4.6 million).

6. Claims incurred

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

	2016			2015		
$M	Current year	Prior years	Total	Current year	Prior years	Total
Undiscounted	7,692	(8,188)	(496)	8,171	(8,052)	119
Discount movement	(3,072)	13,819	10,747	(3,914)	10,047	6,133
Total claims incurred	**4,620**	**5,631**	**10,251**	**4,257**	**1,995**	**6,252**

7. Analysis of operating expenses

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

(a) Expenses by function

$M	2016	2015
Investment costs	63	61
Injury prevention costs	50	30
Shaping Our Future costs	28	22
Operating costs	487	472
Total expenses	**628**	**585**

(b) Included in the above are:

$M	2016	2015
Computer expenses	38	38
Professional expenses	16	18
Rental of office premises and equipment	19	18
Travel and accommodation	8	6
Depreciation and amortisation	46	47
Personnel expenditure	314	289
Property, plant and equipment, and intangible assets write-offs	1	–
Restructuring costs	1	1
Other expenditure	185	168
	628	**585**

Personnel expenditure

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 $24.3 million (2015: $22.2 million).

Auditor remuneration

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

$000	2016	2015
Audit fee	628	619
Independent IT quality assurance services	548	848
Accounting advice	22	10
Risk review of remuneration model	9	–
Review in relation to the discontinuation of the Work Account residual levy	20	–
Assessment of funding methodology	16	–
Educational services	19	37
Actuarial survey	2	1
Risk/governance assurance services	38	90
Staff secondment	–	114
Total fees	**1,302**	**1,719**

8. 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 within the Reserves portfolio and not used for short-term cash needs.

$M	2016	2015
Cash (overdraft) at bank	(2)	12
Investment operational cash:		
Overnight call deposits	27	51
Deposits at call	50	100
New Zealand short-term fixed interest securities	207	140
Total cash and cash equivalents	**282**	**303**

The effective interest rate on overnight call deposits at 30 June 2016 was 2.4% (2015: 3.4%).

9. Receivables

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

$M	2016	2015
Levy debtors	119	656
Motor vehicle levy receivable(i)	26	34
Earners' levy receivable	27	–
Non-Earners' appropriation	–	16
Total levy receivables	**172**	**706**
Client debtors(ii)	5	4
Unsettled investment transactions	91	311
Dividends receivable	24	31
Interest receivable	–	2
Prepayments	23	7
Sundry debtors	6	6
Total non-levy receivables	**149**	**361**
Total receivables	**321**	**1,067**
Current	321	1,067
Non-current	–	–
Total receivables	**321**	**1,067**

Notes:

(i) Motor vehicle levy receivable consists of:

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

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

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

$M	2016	2015
Current	125	644
Past due 1–30 days	19	23
Past due 31–60 days	6	6
Past due > 60 days	22	33
Total	**172**	**706**

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

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

$M	2016	2015
Levy receivables	258	782
Less provision for credit losses and impairment	86	76
	172	**706**
Provision for credit losses and impairment		
Opening balance	76	69
Additional provision made during the year	10	7
Closing balance	**86**	**76**

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

All non-levy receivables that are financial assets are considered to be current and not impaired. The total of current non-levy receivables is $126.3 million (2015: $352.9 million).

All receivables are from exchange transactions.

10. 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.

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

$M	2016	2015
Motor Vehicle Account	75	57
Earners' Account	1,199	1,202
Work Account	753	457
Total accrued levy revenue	**2,027**	**1,716**
Current	2,027	1,716
Non-current	–	–
Total accrued levy revenue	**2,027**	**1,716**

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

The accrued levy revenue at 30 June 2016 therefore includes revenue for the period 1 July 2016 to 31 March 2017 for the Earners' and Work Accounts as well as uninvoiced revenue for levy periods up to 30 June 2016.

11. Investment assets

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

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

Fair value for investment assets is determined as follows:

- listed shares and unit trusts are valued at the quoted prices
- non-listed equity investments (private equity and venture capital) are initially recognised at cost and adjusted for the performance of the underlying business since purchase. This is consistent with the International Private Equity and Venture Capital Valuation Guidelines
- unlisted unit trust investments are valued based on the exit price (the value ACC would receive if the unit trusts were sold)
- bonds and other fixed interest investments are valued using quoted yield curves
- for investments without active markets or quotable inputs, fair value is determined using the most appropriate valuation technique. These techniques include reference to substantially similar investments with quotable prices, discounted cash flow analysis and option pricing models that incorporate as much supportable market data as possible, and keeping judgemental inputs to a minimum
- investment properties are valued annually by registered property valuers.

$M	2016	2015
New Zealand deposits at call	424	455
Overseas deposits at call	603	221
New Zealand Government securities	10,307	9,753
Other New Zealand debt securities	5,716	6,224
Overseas debt securities	6,415	5,061
New Zealand equities	3,603	3,278
Australian equities	2,116	1,579
Overseas equities	5,129	5,462
Investment properties	269	247
Intangible investment assets	48	51
Other investments	43	52
Total investments	**34,673**	**32,383**
Current	2,258	3,021
Non-current	32,415	29,362
Total investments	**34,673**	**32,383**

(a) Investment properties

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

$M	Land	Buildings	Total
Opening balance as at 1 July 2014	**130**	**105**	**235**
Additions	–	1	1
Net gains from revaluations	11	–	11
Closing balance as at 30 June 2015	**141**	**106**	**247**
Opening balance as at 1 July 2015	**141**	**106**	**247**
Disposals	(3)	(4)	(7)
Net gains from revaluations	19	10	29
Closing balance as at 30 June 2016	**157**	**112**	**269**
Current	–	–	–
Non-current	157	112	269
Total investment properties	**157**	**112**	**269**

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

(b) Investment intangible asset

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

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

$M	2016	2015
Year ended 30 June		
Opening net carrying amount	51	53
Amortisation charge	(3)	(2)
Closing net carrying amount	**48**	**51**
At 30 June		
At cost	56	56
Accumulated amortisation	(8)	(5)
Net carrying amount at 30 June	**48**	**51**

(c) Repurchase agreements

Securities dealt under repurchase agreements are included within investments classified as financial assets at fair value through surplus or deficit. These securities are subject to fully collateralised security lending transactions. Cash collateral received of $594 million (2015: $1,198 million) from these transactions is invested, and the liability to repurchase the investments is accrued in unsettled investment transactions (refer to Note 15).

$M	2016 Value of transferred assets	2016 Value of associated liabilities	2015 Value of transferred assets	2015 Value of associated liabilities
Nature of transaction				
New Zealand Government securities – repurchase agreements	594	595	1,198	1,200
	594	**595**	**1,198**	**1,200**

12. Derivative financial instruments

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

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

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

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

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

$M	2016 Fair value assets	2016 Fair value liabilities	2015 Fair value assets	2015 Fair value liabilities
Interest rate swaps	651	18	213	31
Credit default swaps	1	2	1	1
Cross-currency interest rate swaps	35	4	9	6
Forward foreign currency contracts	162	20	2	225
Futures contracts	28	8	25	–
Options	–	–	–	1
Total derivative instruments	**877**	**52**	**250**	**264**
Current	197	30	28	226
Non-current	680	22	222	38
Total derivative instruments	**877**	**52**	**250**	**264**

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

$M	2016	2015
Interest rate swaps	7,126	6,140
Credit default swaps	173	61
Cross-currency interest rate swaps	1,030	407
Forward foreign currency contracts	9,221	6,404
Futures contracts – long	1,030	444
Futures contracts – short	(202)	(871)
Options	276	113

13. Financial risk management

(a) Financial instrument classification

Financial instruments held by ACC are categorised as follows:

$M	2016	2015
Financial assets designated as at fair value through surplus or deficit		
Cash and cash equivalents (Note 8)	282	303
Receivables (Note 9)	298	1,059
Investments (Note 11)	34,356	32,085
Financial assets at fair value through surplus or deficit held for trading		
Derivative financial assets (Note 12)	877	250
Financial liabilities at fair value through surplus or deficit held for trading		
Derivative financial liabilities (Note 12)	52	264
Financial liabilities measured at amortised cost		
Payables (Note 13(e))	913	1,493

(b) Financial risk management objectives

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

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

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

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

(c) Market risk

(i) Interest rate risk

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

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

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

SENSITIVITY ANALYSIS

As at 30 June 2016, if the interest rate at the beginning of the financial year had been 1% higher/lower and held constant throughout the year with all other variables remaining constant, the consolidated net (deficit) surplus would have moved as per the table below. Any change in the net (deficit) surplus for the period would result in a corresponding movement in equity.

Fair value interest risk	Change in interest rate %	2016 Impact on net (deficit) surplus $M	2015 Impact on net (deficit) surplus $M
Long-term New Zealand dollar interest rates	+1.0	(2,075)	(1,612)
Long-term New Zealand dollar interest rates	-1.0	2,285	1,873

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 OCL. Refer to Note 19(d) (ii) for this sensitivity analysis.

(ii) Foreign exchange risk

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

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

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

SENSITIVITY ANALYSIS

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

	2016							
$M	AUD	USD	EUR	GBP	CHF	JPY	HKD	OTHER
Impact on net (deficit) surplus								
10% increase	(55)	(173)	(32)	(26)	(8)	(13)	(13)	(31)
10% decrease	67	212	40	32	10	15	16	38

	2015							
$M	AUD	USD	EUR	GBP	CHF	JPY	HKD	OTHER
Impact on net (deficit) surplus								
10% increase	(39)	(197)	(45)	(53)	(18)	(18)	(14)	(30)
10% decrease	48	240	55	65	22	22	17	37

(iii) Other price risk

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

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

SENSITIVITY ANALYSIS

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

$M	Movement %	2016 Impact on net (deficit) surplus	2015 Impact on net (deficit) surplus
Global equities	+10	513	546
	-10	(513)	(546)
New Zealand equities	+10	348	316
	-10	(348)	(316)
Private equities	+10	15	14
	-10	(15)	(14)
Australian equities	+10	210	156
	-10	(210)	(156)

(d) Credit risk

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

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

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

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

	2016						
$M	AAA	AA	A	BBB	Below BBB	Not rated	Total
Cash and cash equivalents	–	120	95	67	–	–	282
Deposits at call	–	311	716	–	–	–	1,027
Other New Zealand debt securities	1,491	2,800	701	545	–	179	5,716
Overseas debt securities	4,654	317	550	703	183	8	6,415
New Zealand Government securities	–	10,307	–	–	–	–	10,307
Interest rate swaps	–	637	–	47	–	2	686
Forward foreign currency contracts	–	115	43	1	–	3	162
Receivables	–	–	–	–	–	298	298
Accrued levy revenue	–	–	–	–	–	2,027	2,027
	6,145	**14,607**	**2,105**	**1,363**	**183**	**2,517**	**26,920**

ACC has an additional exposure of $173.1 million with regard to the credit default swaps. This is the potential liability faced if the underlying entity defaults on its contractual obligations, which ACC will then be obliged to pay (2015: $94.7 million).

	2015						
$M	AAA	AA	A	BBB	Below BBB	Not rated	Total
Cash and cash equivalents	–	220	32	51	–	–	303
Deposits at call	–	313	363	–	–	–	676
Other New Zealand debt securities	1,495	2,837	1,078	710	–	104	6,224
Overseas debt securities	3,211	964	163	458	163	102	5,061
New Zealand Government securities	–	9,753	–	–	–	–	9,753
Interest rate swaps	–	170	–	52	–	–	222
Forward foreign currency contracts	–	–	2	–	–	–	2
Other investments	–	–	–	–	–	16	16
Receivables	3	–	–	2	1	1,053	1,059
Accrued levy revenue	–	–	–	–	–	1,716	1,716
	4,709	**14,257**	**1,638**	**1,273**	**164**	**2,991**	**25,032**

(e) Liquidity risk

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

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

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

At 30 June 2015 $M	Less than 1 year	Between 1–2 years	Between 2–5 years	Greater than 5 years
Payables	1,493	–	–	–
Uncalled private equity commitments	8	8	12	4

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

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

At 30 June 2015 $M	Less than 1 year	Between 1–2 years	Between 2–5 years	Greater than 5 years
Net settled derivatives – inflows (outflows)	75	49	101	123
Gross-settled derivatives – cash inflows	6,195	8	15	1
Gross-settled derivatives – cash outflows	(6,414)	(6)	(13)	(1)

(f) Fair value hierarchy

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

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

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

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

	2015			
$M	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial instruments				
Interest rate swaps	–	213	–	213
Credit default swaps	–	1	–	1
Cross-currency swaps	–	9	–	9
Forward foreign currency contracts	–	2	–	2
Futures	25	–	–	25
	25	**225**	**–**	**250**
Financial assets designated at fair value through surplus or deficit				
New Zealand equities	3,065	–	213	3,278
New Zealand Government securities	–	9,753	–	9,753
New Zealand debt securities	–	6,259	105	6,364
Australian equities	1,548	15	16	1,579
Overseas equities	4,988	472	2	5,462
Overseas debt securities	–	5,061	–	5,061
Other investments	–.	–.	52	52
	9,601	**21,560**	**388**	**31,549**
	9,626	**21,785**	**388**	**31,799**
Financial liabilities				
Derivative financial instruments				
Interest rate swaps	–	(31)	–	(31)
Credit default swaps	–	(1)	–	(1)
Cross-currency swaps	–	(6)	–	(6)
Forward foreign currency contracts	–	(225)	–	(225)
Options	–.	(1)	–.	(1)
	–	**(264)**	**–**	**(264)**

Reconciliation of Level 3 fair value movements

$M	2016	2015
Opening balance	**388**	**362**
Total gains (losses) recognised in surplus or deficit	53	12
Purchases	77	125
Sales	(19)	(22)
Settlements	(30)	(43)
Transfers into Level 3	7	–
Transfers out of Level 3	(8)	(46)
Closing balance	**468**	**388**
Total gains (losses) stated on Level 3 instruments still held at balance date	**55**	**15**

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 (deficit) surplus of reasonably possible changes in one or more of the significant unobservable inputs into the fair values of investments in Level 3 while holding other inputs constant. Any change in the net (deficit) surplus for the period would result in a corresponding movement in equity.

	2016		2015	
	Impact on net (deficit) surplus		Impact on net (deficit) surplus	
$M	Increase	Decrease	Increase	Decrease
Private equity holdings				
Changes in the calculated share price of private equity investments (10% movement)	15	(15)	14	(14)
Convertible notes				
Change in discount rate (50 basis points movement)	(7)	7	(6)	6
Other investments				
Change in discount rate (50 basis points movement)	(9)	10	(5)	5

14. Property, plant and equipment, and intangible assets

Measurement

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

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

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

Depreciation and amortisation

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

The estimated useful lives are as follows:

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

$M	Leasehold improvements	Computer equipment	Internally generated software	Other fixed assets	Total
At 1 July 2014					
At cost and valuation	34	79	403	42	558
Accumulated depreciation/ amortisation	(22)	(64)	(288)	(37)	(411)
Accumulated impairment	–	–	(4)	–	(4)
Net carrying amount at 1 July 2014	**12**	**15**	**111**	**5**	**143**
Year ended 30 June 2015					
Opening net carrying amount	12	15	111	5	143
Additions	2	5	28	3	38
Depreciation/amortisation charge	(3)	(7)	(35)	(2)	(47)
Closing net carrying amount	**11**	**13**	**104**	**6**	**134**
At 30 June 2015					
At cost and valuation	36	81	430	43	590
Accumulated depreciation/ amortisation	(25)	(68)	(322)	(37)	(452)
Accumulated impairment	–	–	(4)	–	(4)
Net carrying amount at 30 June 2015	**11**	**13**	**104**	**6**	**134**
Year ended 30 June 2016					
Opening net carrying amount	11	13	104	6	134
Additions	2	5	11	5	23
Depreciation/amortisation charge	(3)	(7)	(33)	(3)	(46)
Impairment losses and other (including disposals)	–	–	(1)	1	–
Closing net carrying amount	**10**	**11**	**81**	**9**	**111**
At 30 June 2016					
At cost and valuation	38	73	436	43	590
Accumulated depreciation/ amortisation	(28)	(62)	(355)	(34)	(479)
Net carrying amount at 30 June 2016	**10**	**11**	**81**	**9**	**111**

(a) Impairment and write-offs

The carrying amounts of all intangible assets are reviewed on an ongoing basis. Any impairment in value is recognised immediately. Impairment losses and write-offs of $1.0 million were recognised for the year ended 30 June 2016 (2015: $0.5 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 2016 of $26.3 million (2015: $30.5 million). There is up to six years remaining in amortisation.

15. Payables and accrued liabilities

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

$M	2016	2015
Payables under exchange transactions		
Unsettled investment transactions	838	1,335
Claims expenditure	13	6
WorkSafe New Zealand	3	36
Sundry creditors	22	14
Levies overpaid by Inland Revenue	–	13
Other accrued expenditure	67	54
Total payables under exchange transactions	**943**	**1,458**
Payables under non-exchange transactions		
Goods and services tax	–	65
PAYE and earnings-related deductions	12	3
Total payables under non-exchange transactions	**12**	**68**
Total payables and accrued liabilities	**955**	**1,526**
Current	955	1,526
Non-current	–	–
Total payables and accrued liabilities	**955**	**1,526**

16. Provisions

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

$M	2016	2015
Employee benefits	42	40
Leasehold restoration	1	2
Total provisions	**43**	**42**
Current	32	33
Non-current	11	9
Total provisions	**43**	**42**

Movements in provisions

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

(a) Employee benefits

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

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

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

$M	2016	2015
Opening balance	40	38
Paid out during the year	(37)	(36)
Additional provision made during the year	40	40
Reversal of unused provision	(1)	(2)
Closing balance	**42**	**40**

(b) Leasehold restoration

Under certain lease agreements at the end of the lease term, ACC is required to restore leasehold properties to the condition as at the commencement of the lease. A provision of $1 million (2015: $2 million) for the costs of doing this has been made accordingly.

17. Unearned levy liability

ACC recognises levy revenue that will be earned up to the end of the levy year for the three levy-funded Accounts. The levy year runs from 1 April to 31 March for the Earners' and Work Accounts, and from 1 July to 30 June for the Motor Vehicle Account. This means that as of 30 June 2016, ACC has recognised levy revenue for the period 1 July 2016 to 31 March 2017 for both the Earners' and Work Accounts.

For the Motor Vehicle Account, ACC recognises vehicle registration levy revenue for vehicle registrations that expire after 30 June 2016, and petrol levy revenue that can be expected to be received after 30 June 2016 based on the number and expiry date of vehicle registrations purchased up to 30 June 2016, but which expire after 30 June 2016.

$M	2016 Total	Motor Vehicle Account	Earners' Account	Work Account	2015 Total
Opening balance at 1 July	1,723	232	1,096	395	2,050
Deferral of levies recognised in the year	1,873	215	1,101	557	1,723
Earnings of levies recognised in previous years	(1,723)	(232)	(1,096)	(395)	(2,050)
Closing balance at 30 June	**1,873**	**215**	**1,101**	**557**	**1,723**
Current	1,872	214	1,101	557	1,723
Non-current	1	1	–	–	–
Total unearned levy liability	**1,873**	**215**	**1,101**	**557**	**1,723**

18. Unexpired risk liability

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

If levies are insufficient to cover the expected future claims plus a risk margin, then it is deemed to be deficient. The entire deficiency is recognised immediately in surplus or deficit. The deficiency is recorded in the statement of financial position as an unexpired risk liability.

The expected future claims are determined as the present value of the expected future cash flows relating to future claims. ACC applies a risk margin to achieve the same probability of sufficiency for future claims as is achieved by the estimate of the claims liability.

$M	2016 total	Motor Vehicle Account	Earners' Account	Work Account	2015 total
Opening balance at 1 July	467	–	256	211	202
Recognition of additional unexpired risk liability in the period	570	20	435	115	467
Release of unexpired risk liability recorded in previous periods	(467)	–	(256)	(211)	(202)
Closing balance at 30 June	**570**	**20**	**435**	**115**	**467**
Calculation of deficiency					
Unearned levy liability as reported in the statement of financial position	1,873	215	1,101	557	1,723
Adjustment (i)	(118)	–	(118)	–	(121)
Adjusted unearned levy liability	**1,755**	**215**	**983**	**557**	**1,602**
Central estimate of present value of expected future cash flows arising from future claims	2,089	207	1,274	608	1,785
Risk margin	236	28	144	64	201
Present value of expected future cash flows for future claims	**2,325**	**235**	**1,418**	**672**	**1,986**
Deficiency (surplus)	**570**	**20**	**435**	**115**	**384**
Adjustment for surplus in Account (ii)	–	–	–	–	83
Total unexpired risk liability	**570**	**20**	**435**	**115**	**467**
Current	570	20	435	115	467
Non-current	–	–	–	–	–
Total unexpired risk liability	**570**	**20**	**435**	**115**	**467**

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 Motor Vehicle, Earners' and Work Accounts.

(iii) 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 OCL.

A liability adequacy test was not performed for the Non-Earners' Account as there was no unearned levy liability as at 30 June 2016 for this Account.

19. Outstanding claims liability (OCL)

The OCL consists of expected future payments associated with:

- claims reported and accepted as at the valuation date that remain unsettled as at the valuation date
- claims incurred, but not reported 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 OCL is the central estimate of the present value of expected future payments on claims occurring on or before the balance date, 30 June 2016, plus a risk margin to ensure the accrued liability is sufficient to meet all the costs of future claim payments 75% of the time.

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

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

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

(a) Outstanding claims liability (discounted)

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

$M	30 June 2016 total	Motor Vehicle Account	Non - Earners' Account	Earners' Account	Work Account	Treatment Injury Account	30 June 2015 total
Central estimate of present value of future claims payments	30,471	8,227	6,430	6,281	5,210	4,323	25,112
Present value of the operating costs of meeting these claims	1,986	487	395	414	495	195	1,744
	32,457	**8,714**	**6,825**	**6,695**	**5,705**	**4,518**	**26,856**
Risk margin	4,206	1,203	942	776	662	623	3,473
Outstanding claims liability	**36,663**	**9,917**	**7,767**	**7,471**	**6,367**	**5,141**	**30,329**
As at beginning of year	30,329	8,230	6,247	6,044	5,834	3,974	27,697
Movement during the year	**6,334**	**1,687**	**1,520**	**1,427**	**533**	**1,167**	**2,632**
Current	2,570	467	437	837	636	193	2,374
Non-current	34,093	9,450	7,330	6,634	5,731	4,948	27,955
Total outstanding claims liability	**36,663**	**9,917**	**7,767**	**7,471**	**6,367**	**5,141**	**30,329**

(b) Reconciliation of movement in discounted OCL

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

The broad definition of each movement category is:

(i) inflation assumptions – external assumptions made concerning inflationary factors that include labour cost inflation, average wage inflation, the 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 – allows for the relative uncertainty of the OCL. 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 – relates to the reversal of 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 the discount unwind

(x) claims anticipated over the year – is the expected claim costs arising from new accidents in the year to 30 June 2016. The cost is the present value of projected payments post-30 June 2016 plus the expected payments to be made in the year ended 30 June 2016

(xi) claims payments and handling costs – is the actual claims paid and the actual claims handling costs incurred during the year ended 30 June 2016.

Notes to the financial statements

For the year ended 30 June 2016

$M	30 June 2016 total	Motor Vehicle Account	Non-Earners' Account	Earners' Account	Work Account	Treatment Injury Account	30 June 2015 total
Outstanding claims brought forward	**30,329**	**8,230**	**6,247**	**6,044**	**5,834**	**3,974**	**27,697**
Effect of changes in inflation	(1,466)	(396)	(382)	(250)	(145)	(293)	(1,765)
Effect of changes in discount rates	6,355	1,772	1,556	1,124	772	1,131	3,225
Effect of changes in risk margin	–	–	–	–	–	–	–
Effect of claims experience and modelling	583	177	180	148	(35)	113	377
Effect of payments experience	(328)	(46)	(98)	(88)	(84)	(12)	(276)
Effect of legislative and policy changes	(374)	(105)	(76)	–	(145)	(48)	–
Effect of mortality assumption change	–	–	–	–	–	–	(540)
Effect of other changes	–	–	–	–	–	–	55
Effect of discount unwind	881	239	185	168	173	116	992
Claims anticipated over the year	4,600	563	1,219	1,668	803	347	4,184
Incurred claims recognised in the underwriting result	**10,251**	**2,204**	**2,584**	**2,770**	**1,339**	**1,354**	**6,252**
Claims payments and handling costs	(3,917)	(517)	(1,064)	(1,343)	(806)	(187)	(3,620)
Outstanding claims carried forward	**36,663**	**9,917**	**7,767**	**7,471**	**6,367**	**5,141**	**30,329**

(c) Claims development table

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

	Accident year							
$M	2010	2011	2012	2013	2014	2015	2016	Total
Estimate of ultimate claim costs:								
At end of accident year	7,035	7,517	6,877	6,794	7,264	7,192	6,884	
One year later	6,739	6,288	6,118	6,608	6,547	6,682	–	
Two years later	5,939	5,890	5,546	5,762	5,823	–	–	
Three years later	5,722	5,310	4,979	5,007	–	–	–	
Four years later	5,274	5,070	4,458	–	–	–	–	
Five years later	4,723	4,596	–	–	–	–	–	
Six years later	4,548	–	–	–	–	–	–	
Current estimate of cumulative claim costs	**4,548**	**4,596**	**4,458**	**5,007**	**5,823**	**6,682**	**6,884**	**37,998**
Cumulative payments	(1,582)	(1,494)	(1,479)	(1,535)	(1,618)	(1,576)	(972)	(10,256)
Outstanding claims – undiscounted	**2,966**	**3,102**	**2,979**	**3,472**	**4,205**	**5,106**	**5,912**	**27,742**

Discount	(15,533)
Claims handling costs	2,240
Prior to 2010 and other claims	22,200
Short-tail outstanding claims	14
Outstanding claims – per statement of financial position	**36,663**

(d) Key assumptions

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

The actuarial estimate has been made based on actual experience to 30 June 2016. The calculation of the OCL has been made in accordance with the standards of the New Zealand Society of Actuaries' Professional Standard No.4: General Insurance Business and PBE IFRS4: Insurance Contracts.

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

The table in Note 19(a), outstanding claims liability (discounted), shows the actuarial estimate of the present value of the OCL that will be payable in future years. The actual outcome is likely to range about this estimate and, like any such forecast, is subject to uncertainty.

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

	2016		2015	
	Year 1 % pa	Beyond Year 1 % pa	Year 1 % pa	Beyond Year 1 % pa
Discount rate	2.12%	1.95% to 4.75%	2.93%	2.81% to 5.50%
Inflation rates:				
weekly compensation	2.5%	2.5% to 3.0%	2.6%	2.6% to 3.5%
impairment benefits	0.4%	1.5% to 2.0%	1.6%	1.6% to 2.5%
social rehabilitation benefits	1.7%	1.7% to 2.2%	1.8%	1.8% to 2.7%
hospital rehabilitation benefits	1.7%	1.7% to 2.2%	1.8%	1.8% to 2.7%
short-term medical costs	1.7%	1.7% to 2.2%	1.8%	1.8% to 2.7%
other medical costs	1.7%	1.7% to 2.2%	1.8%	1.8% to 2.7%
Superimposed inflation:				
social rehabilitation benefits (care packages)(i)	5.7%	2.8% to 5.9%	2.8%	2.3% to 5.7%
social rehabilitation benefits (serious injury capital expenditure)(ii)	5.1%	1.0% to 5.1%	5.5%	1.0% to 5.5%
hospital rehabilitation benefits(iii)	5.0%	4.0% to 5.0%	5.0%	4.0% to 5.0%
short-term medical costs (general practitioners)	4.0%	3.0% to 4.0%	3.0%	3.0% to 4.0%
short-term medical costs (radiology)	5.8%	5.0% to 5.8%	5.0%	5.0% to 5.8%
short-term medical costs (physiotherapists)	2.0%	2.0%	2.0%	2.0%
other medical costs	3.3%	2.5% to 3.3%	2.5%	2.5% to 3.3%
Weighted average risk margin	13.0%		12.9%	
Weighted average claims handling costs ratio	6.5%		7.0%	

Notes:

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

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

(iii) Predominantly elective surgery costs.

(i) Process used to determine assumptions

DISCOUNT RATE

The risk-free rates are prescribed by the Treasury and based predominantly on the yield curve of the New Zealand Government bond rates. The longest term of a current New Zealand Government bond is approximately 17 years from now. Discount rates beyond 17 years are smoothed over a minimum of 10 years, with a maximum increment of 0.05% per annum, from now to eventually attain a long-term risk-free discount rate of 4.75%. This long-term rate is based on an examination of average New Zealand Government bonds over an extended period of time. This discounting methodology is consistent with that applied by the Treasury in valuing the liabilities on all Crown accounts.

The projected cash flows were discounted using a series of forward discount rates at balance date derived from Treasury's risk-free rates. The equivalent single effective discount rate, taking into account ACC's projected future cash flow patterns, is 3.22% (2015: 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 are based on their historic relationship to the CPI. Long-term inflation is determined by using an assumption about the gap between inflation and interest rates.

SUPERIMPOSED INFLATION

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

RISK MARGIN

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

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

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

CLAIMS HANDLING COSTS

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

(ii) Sensitivity to changes in key assumptions

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

$M	Movement	2016 Impact on net (deficit) surplus	2015 Impact on net (deficit) surplus
Discount rate	+1.0%	5,196	3,930
	-1.0%	(6,982)	(5,212)
Inflation rate	+1.0%	(7,118)	(5,370)
	-1.0%	5,380	4,106
Long-term gap between discount rate and inflation rates	+0.5%	102	173
	-0.5%	(587)	(462)
Superimposed inflation (excluding social rehabilitation for serious injury claims)	+1.0%	(835)	(587)
	-1.0%	613	446
Discounted mean term	+1 year	1,106	902
	-1 year	(1,141)	(930)
Superimposed inflation for social rehabilitation for serious injury claims after four years	+1.0%	(3,336)	(2,517)
	-1.0%	2,445	1,860
Long-term continuance rates for non-fatal weekly compensation	+1.0%	(968)	(768)
	-1.0%	803	641

(e) 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 9 and 13), liquidity risk (refer to Note 13), compliance risk and operational risk. ACC's approach to managing risk is set out in the governance and managing our risks section on pages 32-35. ACC's policies and procedures in respect of managing these risks are set out below.

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

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

- the maintenance and use of management information systems that provide up-to-date, reliable data relevant to the risks to which the business is exposed
- actuarial and business management reporting models, using information from the management information systems 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 Scheme covers the risks related to the provision of rehabilitation and compensation to people in New Zealand who have injuries as a result of accidents.

(iv) Credit rating

ACC is not required to have a credit rating.

20. Commitments

Capital commitments

$M	2016	2015
Investment-related	102	142
Total capital commitments	**102**	**142**

ACC has committed to provide a $123.1 million term debt facility to the Wellington Gateway Partnership SPV. As at 30 June 2016, ACC had an undrawn commitment to the SPV of $73.7 million (2015: $108.4 million).

The private equity portfolio includes investments in several venture capital/private equity funds. In these investments, funds seek commitments from investors, and only 'call' for the committed funds as they are required. ACC has committed to invest up to a total of $128.9 million (2015: $141.6 million) in these funds. As at 30 June 2016, ACC had undrawn commitments to these funds totalling $24.7 million (2015: $33.3 million).

ACC has a commitment to a lessee to reimburse them for costs of $4.0 million incurred in extending a building.

Operating leases

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

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

$M	2016	2015
Non-cancellable operating leases		
Within one year	19	18
After one year but not more than five years	57	61
More than five years	40	52
Total non-cancellable operating leases	**116**	**131**

21. Contingent liabilities

Litigation involving ACC arises almost exclusively from challenges to operational decisions made by ACC through the statutory review and appeal process. No accrual has been made for contingent liabilities which could arise, as these disputes are issue-based, and ACC's active management of litigation means that it will be either settling or defending, depending on the merits of the issue in dispute. ACC's Board believes the resolution of outstanding appeals will not have any material effect on the financial statements of ACC.

As at 30 June 2016, ACC has an estimated $0.45 million (2015: $0.66 million) worth of contingent liabilities.

22. Related parties

Investment in subsidiaries

ACC owns 100% (2015: 100%) of Shamrock Superannuation Limited which acts as the corporate trustee for the ACC Superannuation Scheme. Shamrock Superannuation Limited is a non-trading New Zealand entity that does not have a material impact on the financial position of ACC. The investment ACC holds in Shamrock Superannuation Limited is valued at $100 (2015: $100).

Related party transactions

Transactions with other government agencies (for example, government departments and Crown entities) are not disclosed as related party transactions when they are consistent with the normal operating arrangements between government agencies undertaken on the normal terms and conditions for such transactions. Related party disclosures have not been made for transactions with related parties that are within a normal supplier or client/recipient relationship, on terms and conditions no more or less favourable than those that it is reasonable to expect ACC would have adopted in dealing with the party at arm's length in the same circumstances.

Key management personnel

The compensation for key management personnel is set out below:

	2016	2015
Board members		
Remuneration ($000)	453	453
Full-time equivalent members	8.0	8.0
Executive team		
Remuneration ($000)	3,698	4,533
Defined contribution plans ($000)	248	316
Termination benefits ($000)	–	133
Full-time equivalent members	8.0	11.9
Total key management personnel remuneration ($000)	**4,399**	**5,435**
Total full-time equivalent personnel	**16.0**	**19.9**

Key management personnel did not receive any remuneration or compensation other than in their capacity as key management personnel (2015: $nil).

ACC did not provide any compensation at non-arm's length terms to close family members of key management personnel during the year (2015: $nil). ACC did not provide any loans to key management personnel or their close family members (2015: $nil).

23. Events after balance sheet date

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

24. Explanation of significant variances against budget

The budget figures are those in ACC's Service Agreement 2015/16. The Service Agreement 2015/16 was prepared based on the claims valuation as at 31 December 2014, using discount rates at 31 March 2015.

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.

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

After the budget was approved, Cabinet decided to reduce levy rates and cease collection of the residual levy that was charged to employers. These levy reductions had not been anticipated at the time the budget was approved, resulting in lower than budgeted net levy revenue.

Investment revenue

Investment revenue can be highly variable as it is dependent on movements in equity, bond, and foreign exchange markets. ACC budgets for investment revenue based on a projected 20-year median rate of return. This means that ACC expects to exceed budget for 10 out of the next 20 years, and similarly to achieve lower returns than budget for 10 out of the next 20 years.

Investment revenue was substantially higher than budget due to the combination of an excellent performance by ACC's Investment team, the 21st consecutive year, that the Investment team has outperformed against market benchmarks, and movements in investment markets.

Claims paid

Claims paid costs were higher than budget primarily because of higher than anticipated numbers of new claims. Claims numbers grew by 5.2% over the year, compared to expected growth of 2.1% at the time the budget was approved.

Growth in new claims is closely correlated with growth in the general New Zealand economy. The economy grew more strongly over the year than had been anticipated, resulting in more claims than expected and consequently higher than budgeted claims paid costs.

Increase in the OCL

The approved budgeted change in the OCL was based on the December 2014 actuarial valuation of claims liability and economic factors (such as interest rates) at 31 March 2015. The actual change in OCL was based on the June 2016 actuarial valuation of claims liability using economic factors at 30 June 2016.

The actual increase in the OCL was substantially higher than the budgeted increase. Interest rates dropped significantly, and these interest rate reductions, which were not anticipated at the time the budget was approved, increased the OCL by $4.9 billion over the year.

Movement in unexpired risk liability

The unexpired risk liability (URL) is the shortfall, if any, by Account between the levy income that ACC will earn for a future period where the rate of levy income has been fixed, and the actuarially calculated costs of claims arising over the same future period. The budgeted increase in URL was the difference between the budgeted calculation of the URL at 30 June 2015 and the budgeted calculation of the URL at 30 June 2016.

The actual increase in URL was higher than the budgeted increase in URL, primarily because the unanticipated reductions in levy rates reduced the expected future levy income, increasing the shortfall between future levy income and claims costs.

b) Statement of financial position

Receivables

The receivables balance is marginally lower than budgeted. The 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 income based on real-time assessments of investment opportunities by the Investment team. The volume of daily investment sales, and consequently the size of the receivables balance, varies substantially over time as these assessments change. At the time the budget was approved, market opportunities suggested that there would be more investment sales, with a correspondingly higher short-term receivables balance. However, as at 30 June 2016, market conditions resulted in slightly lower investment sales than anticipated when the budget was approved 15 months earlier.

Intangible assets

The value of intangible assets (primarily software) is lower than budget. When the budget was approved it was expected that, as part of the Transformation programme, significant investment in new software would have occurred by 30 June 2016. A revised timetable for the Transformation programme was developed after the budget was approved, which has delayed the timing of expenditure on software as part of the programme.

Investments

The net investment asset balance is higher than budget, reflecting the higher than budgeted investment income earned over the financial year due to the excellent performance of the Investment team, combined with movements in investment markets.

Payables and accrued liabilities

The payables and accrued liabilities balance is higher 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 higher investment purchases in the days immediately before 30 June 2016, and therefore a higher short-term payables balance than anticipated when the budget was approved.

Outstanding claims liability (OCL)

The actual OCL, based on the June 2016 actuarial valuation of claims liability using economic factors at 30 June 2016, is higher than the budgeted OCL based on the December 2014 actuarial valuation of claims liability and economic factors at 31 March 2015.

Interest rates declined between March 2015 and June 2016, which increased the OCL above the approved budget.

Unexpired risk liability

The URL is the shortfall between the expected future levy income and future costs.

Future levy income was lower than budgeted due to the unanticipated reductions in levy rates. As a result there was a larger shortfall than budgeted between future levy income and future costs, which increased the URL above the approved budget.

(c) Statement of cash flows

Net cash inflow from operating activities was marginally lower than budget as interest and dividend received were below expectations, and only partly offset by higher levy revenue cash received. Although reductions in levy rates have reduced the accrued levy revenue to below budgeted levels, particularly for Work Account revenue, there is a normal delay between the beginning of the levy cover period and the issuing of invoices.

The reduction in levy rates is therefore expected to primarily impact cash income in future financial years, while higher than anticipated levels of invoicing levies for historic levy years helped increase levy cash receipts in 2015/16 to above the approved budget.

Chartered Accountants

INDEPENDENT AUDITOR'S REPORT

TO THE READERS OF ACCIDENT COMPENSATION CORPORATION GROUP'S FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION FOR THE YEAR ENDED 30 JUNE 2016

The Auditor-General is the auditor of Accident Compensation Corporation Group, (the Group). The Auditor-General has appointed me, Grant Taylor, using the staff and resources of EY, to carry out the audit of the financial statements and the performance information, including the performance information for appropriations, of the Group consisting of Accident Compensation Corporation and its subsidiaries and other controlled entities, on her behalf.

Opinion on the financial statements and the performance information

We have audited:

- the financial statements of the Group on pages 63 to 110, that comprise the statement of financial position as at 30 June 2016, the statement of comprehensive revenue and expense, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the performance information of the Group on pages 10 to 26 and 49 to 61.

In our opinion:

- the financial statements of the Group:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2016; 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 Public Benefit Entity Standards.
- the performance information:
  - presents fairly, in all material respects, the Group's performance for the year ended 30 June 2016, 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;
      - its actual revenue and output expenses as compared with the forecasts included in the service agreement for the financial year;
    - what has been achieved with the appropriations; and
    - the actual expenses or capital expenditure incurred compared with the appropriated or forecast expenses or capital expenditure.
  - complies with generally accepted accounting practice in New Zealand.

Our audit was completed on 29 September 2016. 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.

Building a better working world

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 ACC's framework for reporting performance;
- the adequacy of the disclosures in the financial statements and the performance information; and
- the overall presentation of the financial statements and the performance information.

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 and New Zealand equivalents to International Reporting Standards as applied by public benefit entities;
- present fairly the Group's financial position, financial performance and cash flows; and
- present fairly the Group's performance.

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

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 the Public Audit Act 2001.

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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 independent quality assurance, technical accounting advice, model and methodology assurance, and educational services we have no relationship with or interests in the Group.

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

Grant Taylor
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:

$000	2016	2015	$000	2016	2015
$100 – $110	304	176	$390 – $400	–	4
$110 – $120	143	91	$400 – $410	2	1
$120 – $130	93	74	$410 – $420	2	2
$130 – $140	64	54	$420 – $430	–	2
$140 – $150	50	33	$440 – $450	2	–
$150 – $160	38	22	$450 – $460	1	–
$160 – $170	33	31	$460 – $470	1	–
$170 – $180	18	10	$470 – $480	1	2
$180 – $190	19	21	$480 – $490	–	1
$190 – $200	16	8	$490 – $500	2	–
$200 – $210	13	13	$500 – $510	1	1
$210 – $220	14	11	$520 – $530	–	1
$220 – $230	8	4	$530 – $540	–	1
$230 – $240	7	2	$540 – $550	1	–
$240 – $250	5	–	$550 – $560	1	–
$250 – $260	3	6	$560 – $570	1	1
$260 – $270	–	1	$590 – $600	1	–
$270 – $280	3	4	$600 – $610	–	1
$280 – $290	1	1	$610 – $620	2	–
$290 – $300	8	2	$620 – $630	–	1
$300 – $310	3	1	$640 – $650	1	–
$310 – $320	2	1	$680 – $690	–	1
$320 – $330	–	1	$700 – $710	1	–
$330 – $340	2	–	$760 – $770	–	1
$340 – $350	1	1	$770 – $780	–	1
$360 – $370	1	1	$810 – $820	1	–
$370 – $380	1	2	$860 – $870	1	–
$380 – $390	1	2			
				873	**594**
Average remuneration of above employees				**$145,404**	**$150,977**

There were 27 fortnightly pays included in the calculation of the above remuneration bands in 2016 compared to 26 in 2015. Normalised to 26 fortnightly pays, a total of 752 employees earned more than $100,000.

Forty-two employees received redundancy payments or settlement payments in 2016, totalling $1,198,047 (2015: 27 employees $752,636).

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Te Kaporeihana Āwhina Hunga Whara

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