



PREVENTION. CARE. RECOVERY.

Te Kaporeihana Āwhina Hunga Whara

Service Agreement 2019/20

Accident Compensation Corporation
Te Kaporeihana Āwhina Hunga Whara



Service Agreement

For the year ending 30 June 2020 between the Minister for ACC and the Accident Compensation Corporation

This Service Agreement¹ is required under the Accident Compensation Act 2001 and it also constitutes the annual statement of performance expectations for the purposes of the Crown Entities Act 2004 – both as amended by the Crown Entities Amendment Act 2013.



Hon Iain Lees-Galloway
Minister for ACC
Dated 26 June 2019



Dame Paula Rebstock DNZM
Board Chair
Dated 24 June 2019



James Miller
Temporary Deputy Chairperson
Dated 25 June 2019

Ratonga Whakaaetanga

Mo te mutunga o te tau 30 o Pipiri 2020 e te Minitā o ACC me te Kaporeihana Āwhina Hunga Whara.

Mā te Ratonga Whakaaetanga² e whaimana ana i raro o te Ture ACC me ngā mahi kōrero whaitake-a-tau me ngā hoaketanga o te Ture Crown Entities 2004 me ana nekeneketanga e te Ture Crown Entities 2013.

¹ For information on how this Service Agreement aligns with our other accountability documents, refer to [Appendix 1 – Alignment of the Service Agreement](#). The conditions of this Service Agreement are disclosed in [Appendix 2 – Conditions of the Service Agreement](#).

² Mā te kōrero e pēhea ana ki ngā Rātonga Whakaaetanga me nga herenga kōrero whānui, tirohia ki te [Appendix 1 – Alignment of the Service Agreement](#). Kei kōnei ngā herenga ki tēnei Rātonga Whakaaetanga ki [Appendix 2 – Conditions of the Service Agreement](#).



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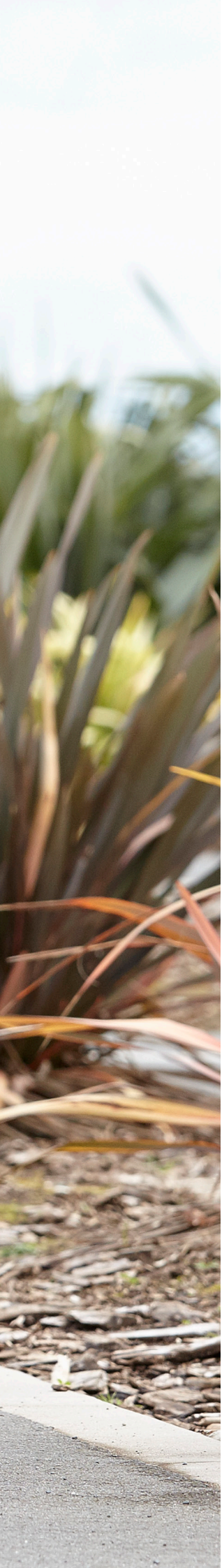
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An online version of this report can be found at www.acc.co.nz/about-us/corporate





Our strategic and performance environment

Our strategic framework

“Injury arising from accident demands an attack on three fronts. The most important is obviously prevention. Next in importance is the obligation to rehabilitate the injured. Thirdly, there is a duty to compensate them for their losses...”

Sir Owen Woodhouse, Chairman, Royal Commission on Compensation for Personal Injury, 1967

ACC’s vision and values reflect the organisation that we want to be and the vision established by Sir Owen Woodhouse.

Our vision, values and outcomes are intended to remain constant over time, while our strategic intentions reflect the areas that we have identified as needing the most focus during the period of the Statement of Intent (2018-2022).

We will continue to transform, contribute to our strategic intentions and respond to the changing needs of our customers. This will be achieved through delivery of new initiatives to support improved client outcomes, operational resilience and efficiency. This is in addition to upgrading several of our core systems.

We plan to maintain our pace of change and our management team and Board are committed to ensuring that our performance tracks as expected as changes are delivered.

There is a strong alignment between our outcomes and our strategic intentions.

Our strategic intentions represent our commitment to:

- reduce the incidence and severity of injury in New Zealand by increasing the success of our injury prevention activities
- rehabilitate injured people in New Zealand more effectively by improving our customers’ outcomes and experiences
- ensure that New Zealand has an affordable and sustainable scheme by improving the financial sustainability of the ACC Scheme.

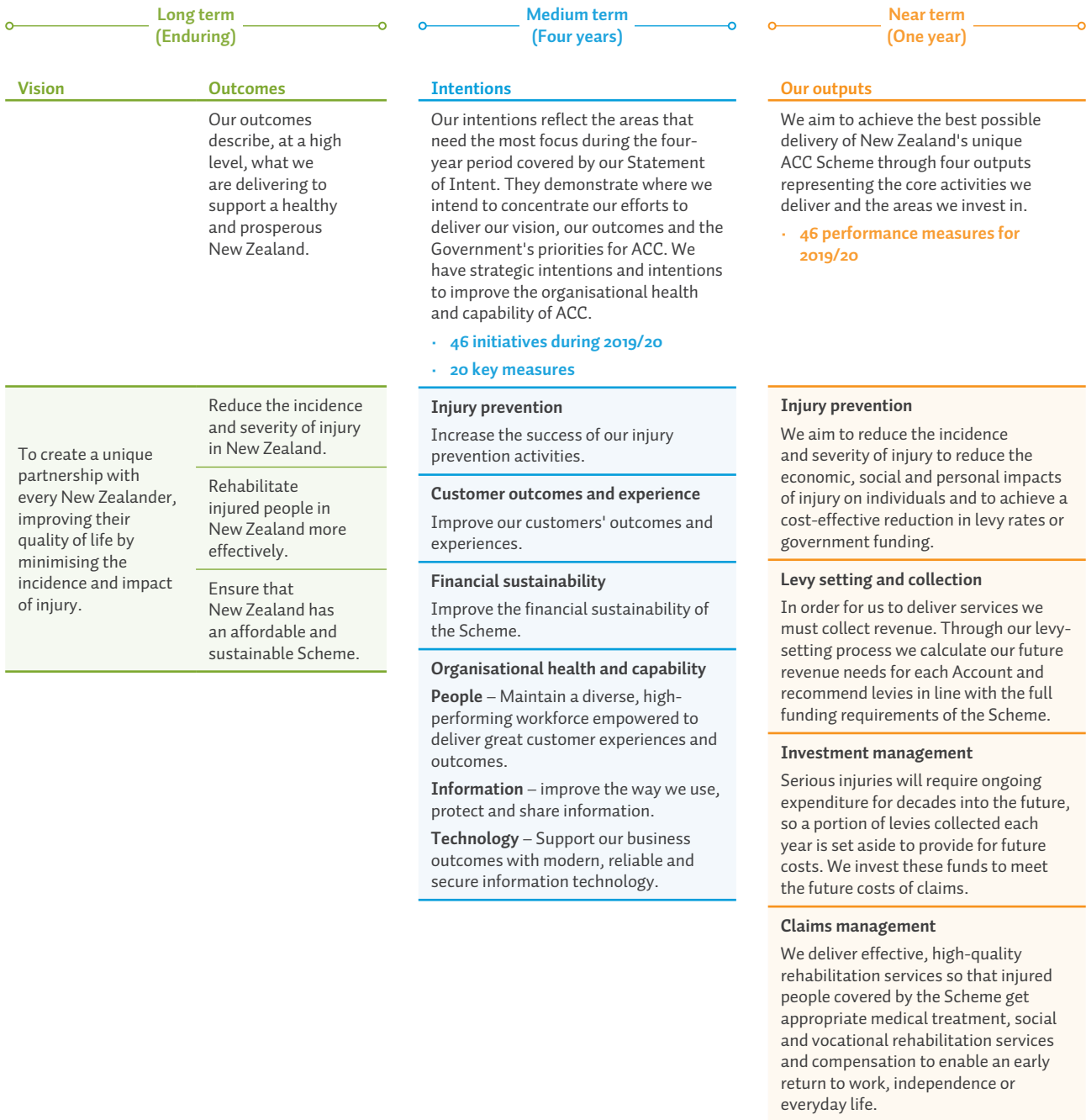
Injury prevention is critical to the success of ACC. Most injuries are preventable and we have an important role in encouraging those behaviours that contribute most to stopping injuries in the first place. Success in injury prevention goes a very long way towards improving quality of life in New Zealand.

Where an injury has occurred, ACC works to rehabilitate the individual. We recognise that an individual’s health and wellbeing are significantly improved with a rapid return to independence, so it is important that we ensure the Scheme is fair and accessible and provides individuals with the right services at the right time.

Our Integrated Change Investment Portfolio is the primary mechanism to deliver our Shaping Our Future strategy. This programme ensures the effective governance and delivery for organisational change.

Outputs and outcomes

FIGURE 1: OUTPUTS AND OUTCOME FRAMEWORK



Whāia Te Tika – our strategy to pursue what is right for Māori and deliver on our aspirations

Integrated Change Investment Portfolio – our mechanism for delivering Shaping Our Future

Our key performance measures

Our most important performance measures are presented in our Statement of Intent 2018–2022. These measures best reflect the aspects of performance we can control. They are closely aligned with the expectations of the Minister for ACC, as expressed in the letter of expectations. Together, these measures provide a succinct view of:

- how we are delivering impact
- the extent to which we are meeting customer expectations
- the extent to which we are delivering a scheme that New Zealanders have trust and confidence in
- whether we are delivering a cost-effective scheme that provides fair compensation in return for a fair levy.

These key performance measures cover our strategic intentions and extend to providing transparency in how we are developing our organisational health and capabilities and the success of our transformation efforts.

TABLE 1: KEY PERFORMANCE MEASURES – STRATEGIC INTENTIONS

Key measure	Rationale	Actual		Target	
		2017/18	Mar 2019	2019/20	
Injury prevention	The portfolio of injury prevention investments will have an assessed positive return on investment. ¹	We invest to keep New Zealanders safe from accidental injury by working with others to reduce the risk across a range of areas.	\$1.72:\$1	\$1.76:\$1	\$1.80:\$1
		We take a portfolio approach. This means that overall we expect our injury prevention programmes to deliver positive returns on investment.			
	Rate of serious injury.	Our investment in changing the behaviours of New Zealanders should reduce the severity of injuries sustained in the settings targeted by our investments.	79.5	78.3	80.1

Continued ...

¹ The total return on investment consists of two parts: the historical value of claims saved divided by the cost of the interventions to date, plus the 10-year expected claims saved divided by the likely future cost of the interventions.

Key measure	Rationale	Actual		Target
		2017/18	Mar 2019	2019/20
Customer outcomes and experience	Return to work within 10 weeks.	67.4%	66.9%	66.5%
	Return to independence for those not in the workforce.	86.7%	88.4%	86.0%
	Growth rate of the Long Term Claim Pool. ²	+5.1%	+5.4%	+6.2%
	Public trust and confidence.	61%	61%	65%
	Client net trust score.	+25.0	+28.0	+34.8
	Client net trust score for Māori.	+17.0	+23.0	+34.8
	Provider net trust score.	-8.0	-9.0	-8.0
	Business net trust score.	-19.0	-24.0	-14.0
Financial sustainability	Change in average treatment cost per injury.	3.3%	5.2%	≤4.5%
	Average care hours per serious injury claim.	1,363	1,357	1,370
	Actuarial movement. ³	New measure	0.8%	Within +/- 2%
	Investment performance after costs relative to benchmark.	-0.10%	-0.52%	+0.30%

² In this context, 'long term' refers to clients who have received weekly compensation for more than 365 days.

³ Actuarial movement tells us that claim volumes, types and costs differ from what we expected.

TABLE 2: KEY PERFORMANCE MEASURES – ORGANISATIONAL HEALTH AND CAPABILITY INTENTIONS

Key measure	Rationale	Actual		Target 2019/20
		2017/18	Mar 2019	
People	Employee net promoter score.	-6	-22	0
	Total recordable injury frequency rate. ⁴	6.1	3.3	6.1
Information	The number of category 3, 4 and 5 privacy breaches and near misses (as defined by the Government Chief Privacy Officer's privacy matrix).	0	0	<5 per year, no category 5 privacy breaches
Information technology	Overall operational system availability.	99.9%	99.7%	99.5%

TABLE 3: KEY PERFORMANCE MEASURES – OTHER TRANSFORMATION MEASURES

Key measure	Rationale	Actual		Target 2019/20
		2017/18	Mar 2019	
Transformation	Claims processed per full-time equivalent.	593	597	590
	Reduction in average weekly compensation days paid.	-1.98 days	-3.1 days	-2.3 days

These key performance measures form part of a comprehensive measures set that is detailed in the following sections (including our targets for the next four years). This broader set allows us to track the financial and non-financial measures that represent the many aspects of the Scheme. For more information on the full set of measures we use to monitor our performance and manage our organisation, refer to our [Statement of performance expectations by output](#) and [Appendix 4 – Other performance measures](#).

⁴ The total recordable injury frequency rate is the number of lost-time incidents, restricted work incidents and medical treatment incidents per million hours worked.

Drivers of the Scheme's financial performance

Through the course of 2019/20 we will manage the organisation in a way that strikes the right balance between ensuring financial sustainability and delivering our functions in the manner of a publicly administered and delivered social insurance scheme distinct in character from a private insurance company. This means we will deliver the services our customers expect while demonstrating responsible management of the Government's finances and a commitment to delivering the Government's priorities.

To achieve this balance, we need to have a good understanding of the drivers of financial performance. This understanding allows us to:

- forecast the drivers' potential impacts
- manage the drivers where we have control or influence
- manage the Scheme in a way that mitigates adverse impacts from drivers where we lack control or significant influence.

For the Scheme, there are five main drivers of financial performance:

- Claim volume – we offset some of the claim volume growth through our injury prevention activities. Our relationships with providers are also important in ensuring that we are responsible for all the injuries covered by the Accident Compensation Act 2001 (AC Act) and that injuries are treated appropriately. We actively monitor the way that treatment and rehabilitation costs change as our claim volumes change, allowing us to understand early cost pressures from claim volume growth. However, we also recognise that the growth in the number of new claims is driven by a range of factors outside our control: population growth, gross domestic product growth, the unemployment rate and the total vehicle distance travelled.
- Inflation – inflation increases the costs of the services we provide. The way we contract for services with providers (such as elective services) mitigates the impacts of inflation on the costs of our services. The nature of the services we purchase exposes us to additional cost inflation that is specific to treatment and rehabilitation

services. To make sure that our efforts have an impact, we constantly monitor our average treatment costs.

- Service offerings – we change the set of services we offer to reflect the availability of new and improved services and the need to support the rehabilitation of clients who have suffered injuries covered by the Scheme. We closely monitor the rehabilitation performance of the services we offer, ensuring that those services focus on both client rehabilitation outcomes and financial sustainability. We test this dual focus by monitoring return-to-work rates and the average cost per claim.
- Legislative changes – we engage closely with the Ministry of Business, Innovation and Employment and the Treasury to influence proposed changes and predict the impacts of those changes. Additions to the Scheme (such as the introduction of the Care and Support Workers (Pay Equity) Settlement Act 2017, implementing free GP visits for under-14-year-olds, continued growth in the provision of services for sensitive claims and improved road and air ambulance services) can increase both the number of claims we accept and our overall costs of providing treatment and rehabilitation services.
- Economic factors – we employ active strategies to best match our assets and liabilities. As such, we tend to favour long-term investments with relatively certain income streams. Given the size of our balance sheet relative to our underlying costs, small movements in interest rates and investment earnings can have material impacts on the solvency of the Scheme.





What we will deliver in 2019/20

The Government's key priorities

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

At a high level, the Government expects the Scheme to be client centric and to provide clients with the right services at the right time and be efficient and effective in doing so. The Scheme will provide fair compensation in return for a fair levy. The Government also expects ACC to ensure clients receive the entitlements available to them in a timely and transparent manner. ACC has an important contribution to make to improve the wellbeing of New Zealanders and their families. This specifically includes improving access, services and outcomes for Māori.

While ACC is accountable to the Government, and must play a role as a good partner across the state sector, it is above all accountable to clients and levy and tax payers. As such, the Government expects ACC to be able to demonstrate that clients can access what they are entitled to easily and consistently.

At a more detailed level, these priorities are represented by eight themes:

- Government priorities - ensure that ACC functions as a publicly administered and delivered social insurance scheme, distinct in character from a private insurance company.
- Injury prevention – work collaboratively with others to deliver injury prevention investments that improve the lives of New Zealanders.
- Integrated Change Investment Portfolio – continue high levels of transparency, including regular updates on upcoming key decisions and milestones, costs, benefits and risks.
- Financial management – demonstrate responsible management of the Government's finances through a diligent focus on value for money in the services delivered for New Zealanders.
- Independent review – continue to implement the final remaining recommendations of the Independent Review of Acclaim Otago (Inc) report to improve client experiences with the dispute resolution system.

- Cross government collaboration – be a good partner across the state sector and be cognisant of the effect ACC decisions can have on the wider system.
- Communication – take a no surprises approach to communication, keeping the Minister for ACC informed of any significant events or circumstances that could be contentious, attract wide public attention or affect ACC's financial position.
- Policy collaboration – work collaboratively to deliver the Government's Accident Compensation policy work programme.

The Minister's specific expectations are documented in the annual letter of expectations, presented in [Appendix 3 – Letters of expectations](#). The Government also communicates key priorities for ACC as a Crown Financial Institution. These priorities are presented in the Minister of Finance's letter of expectations ([Appendix 3 – Letters of expectations](#)) and are summarised in [Appendix 5 – Investment statement](#).

We have carefully considered these priorities and they have informed our planned actions and initiatives for the 2019/20 year.

Delivering our strategic intentions in 2019/20

Our strategic intentions reflect the areas that need the most focus during the period of our Statement of Intent 2018-2022. They demonstrate where we intend to concentrate our efforts to deliver our vision, our outcomes and the Government's priorities for ACC. They are:

- injury prevention – increase the success of our injury prevention activities
- customers' outcomes and experience – improve our customers' outcomes and experiences
- financial sustainability – improve the financial sustainability of the Scheme.

Strategic intention: Increase the success of our injury prevention activities

It all starts before injury. Most injuries are preventable, and through our injury prevention investments we focus on activities and behaviours that contribute most to stopping injuries occurring in the first place. Our success in injury prevention goes a very long way towards improving quality of life in New Zealand while ensuring the long-term sustainability of the Scheme.

It makes sense for us to be the champion for injury prevention, but we know we cannot do it alone. Our network of partners helps us to design and deliver a set of well integrated injury prevention programmes. This spirit of partnership extends to communities across New Zealand, allowing us to deliver programmes to improve the safety of New Zealanders of all ages and across a wide range of settings.

In 2018/19 we expect to have invested \$75 million in injury prevention programmes and we expect that investment to grow to \$120 million in 2019/20.

We deliver our injury prevention intention by focusing on five priorities:

What we will deliver in 2019/20

TABLE 4: INJURY PREVENTION DELIVERY STATEMENTS

What we want to achieve	What we will have delivered by 30 June 2020
We use analytics to target our injury prevention programmes and increase the impact of our efforts.	We will have implemented a new approach to using data and analytics for injury prevention. This will enable us help predict injuries and draw insights to better target and focus interventions increasing the likelihood of achieving positive returns from investment.
We design for the client, creating sustained behaviour changes.	We will have implemented a new approach to investing in injury prevention where we co-design and deliver programmes with our customers and partners.
We increase prevention effectiveness by partnering with capable, like-minded organisations.	We will have continued to evolve our existing injury prevention partnerships (particularly in the areas of workplace safety and improving road safety) while developing new partnerships where appropriate. Together with our partners, we will have designed and delivered initiatives in the areas that have the greatest impacts on reducing injuries.
We extend our reach by working closely with communities.	<p>We will have implemented a new operating model that, alongside our existing community injury prevention approach, allows us to develop and deploy our injury prevention programmes to a broader cross-section of the New Zealand population.</p> <p>We will have piloted a new model for partnering and funding community injury prevention with, and for Māori in Tairāwhiti.</p> <p>We will have increased our ability to work with Māori to deliver effective injury prevention initiatives.</p>
Our injury prevention interventions contribute to a reduction in the Outstanding Claims Liability (OCL).	<p>We will have implemented a new approach to investing in injury prevention to better balance benefits, costs and risks and, where appropriate, assess both the claim numbers and social economic returns that result from our investment.</p> <p>We will have continued our existing investments, focusing on the areas with the greatest liability. We will also have identified and understood strategic opportunities to invest in new areas, including re-injury prevention, alcohol harm reduction, intentional self-harm, family and sexual violence, serious road injuries and childhood wellbeing.</p> <p>We will have implemented a targeted financial incentives programme that motivates small and medium businesses to continue to improve workplace health and safety performance.</p>

Strategic intention: Improve our customers' outcomes and experiences

Once somebody has sustained an injury, we know that person's health and wellbeing are significantly improved with a rapid return to independence. This improvement extends to their family and their community.

We need to deliver the right treatment and rehabilitation services at the right time. To support this, we will ensure that all of our clients are connected with the right treatment and rehabilitation services from across the wider health sector. We can do this by being closely connected to our providers, and enabling a simple, seamless and effective delivery of treatment and rehabilitation services to our clients.

We are committed to ensuring that the delivery of our services reflects the diversity of our communities, so that all New Zealanders have the opportunity to access our services in ways that meet their needs.

We will continue the work to improve our customers' outcomes and experiences by focusing on four priorities:

What we will deliver in 2019/20

TABLE 5: CUSTOMERS' OUTCOMES AND EXPERIENCES DELIVERY STATEMENTS

What we want to achieve	What we will have delivered by 30 June 2020
We engage with our clients in ways that add the most value to their recovery and deliver the most appropriate client outcomes.	We will have rolled out our new case management model. This will improve our clients' experience and return to independence outcomes, increase internal efficiency and enhance employee engagement.
	We will have developed a health outcomes framework that defines our approach to classifying and measuring health outcomes.
We actively make it easier for others to work with us.	We will have continued to increase the range of digital self-service options for our customers. This will have given our customers more choice in selecting the options that work best for them and increased the efficiency of working with us.
	We will have implemented ways to make non-weekly compensation payments more consistent, timely and accurate. This includes providing clients with more and better options to manage their income replacement, with greater transparency.
	We will have ensured our business levy management and invoicing system (Juno) delivers the expected efficiency benefits to our customers and improved customers' experiences.
	We will have consulted on a workplace incentive programme that recognises business customers that proactively reduce the risk of harm to workers, and rewards them with levy discounts.
	We will have a real-time feedback system to understand the experiences of our customers (clients, providers and business customers) at key interaction moments. This system will enable us to respond quickly to customer feedback and suggestions.
	By starting to tell our story, we have begun to demonstrate the value we offer to New Zealand and our customers.
	We will be working collaboratively with the Ministry of Business, Innovation and Employment and the Treasury to deliver the Government's Accident Compensation policy work programme priorities.
	We will have implemented a customer strategy to ensure customer-centric approaches are applied at key decision points to achieve the right customer experience and outcomes.

Continued ...

What we want to achieve

We achieve improved experiences and outcomes for Māori.

What we will have delivered by 30 June 2020

We will have delivered an evidenced-based cultural competency workforce programme, enhancing our people's cultural literacy levels and lifting our ability to engage with all our customers.

We will have applied the learning from our Māori access pilot to create a set of essential service experiences for Māori customers.

We will have implemented a Māori Customer Advisory Panel enabling Māori customers to have a voice into ACC.

We will have delivered a marae based engagement programme to increase awareness of ACC for Māori customers.

We will have developed kaupapa Māori pathways and approaches to enable kaupapa Māori providers to deliver services to our customers.

We will have continued the active measurement and internal reporting of Whāia Te Tika performance measures. This includes the development of a Māori access performance measure for our Service Agreement 2020/21.

We adopt new ways of working with providers.

We will have multiple prototypes in place delivering new, integrated pathways of care for clients with back, shoulder and knee injuries. These client-centric approaches will improve outcomes, reduce the need for surgical intervention, enable faster return to work, and reduce the incidence of re-injury.

We will have developed a framework that establishes a strategic conceptual relationship with general practitioners. This will enable the commissioning of future primary health care services.

We will be working with providers to trial new methods of purchasing services to deliver better outcomes for our clients. This will include a case-mix approach for non-acute rehabilitation, and pathways of care for active rehabilitation.

Strategic intention: Improve the financial sustainability of the Scheme

A strong financial platform allows us to provide the high-quality service our clients expect while simultaneously reducing the burden of the Scheme on all levy payers (including the Government). A consistent dual focus on client outcomes and financial performance helps to maintain the Scheme's financial position.

We can continue to improve customer experiences and outcomes only while we are increasing our financial sustainability and levy stability. The provision of high-quality rehabilitation and independence outcomes for our clients will lead to improved financial performance.

We must be mindful of the role we play in maximising intergenerational fairness. Our careful stewardship of the Scheme will reinforce the fully funded model, meaning that future generations of levy payers are not paying for injuries that happened in earlier years.

We will strengthen the financial sustainability of the Scheme by focusing on five priorities:

What we will deliver in 2019/20

TABLE 6: FINANCIAL SUSTAINABILITY DELIVERY STATEMENTS

What we want to achieve	What we will have delivered by 30 June 2020
We carefully consider the costs of the services we offer to achieve the most appropriate client outcomes.	<p>We will have continued to refine our performance management approach, ensuring that we manage the dual focus on the costs and outcomes of the services we provide while increasing our overall effectiveness.</p> <p>We will have standard, effective and easy-to-use systems, controls and processes for non-health expenditure purchasing, up-front approval and related payment activities.</p>
We manage cost and liability growth.	We will have continued to develop our understanding of price and volume cost drivers, including the use of benchmarking. We will continue to develop our understanding of what drivers are controllable versus those that are outside our control.
We apply the insurance approach when making investment decisions.	<p>We will have continued to develop a deeper understanding of changes in injury causation and associated risk factors over the life courses of individuals. This will have involved us thinking beyond the ACC client experience and used a range of factors (such as interactions with other agencies, changes in earning potential and other demographic factors) to support better prevention, treatment and rehabilitation interventions. We will be working towards monitoring health outcomes and experiences to measure the extent to which people are 'fully' rehabilitated, improving our understanding of the efficacy of our treatment and rehabilitation pathways, and supporting outcome based commissioning with providers.</p> <p>Our application of the insurance approach will have taken into account opportunities to achieve synergies between ACC's services and other publicly funded medical and disability services. Any changes made to our approach to treatment purchasing will have considered the impacts on the wider health sector and improving access and outcomes for clients.</p>
We maintain investment performance above benchmarks.	<p>We will have improved the technology environment for our investments function to deliver fit-for-purpose, effective solutions. This will create an environment for better investment decisions.</p> <p>We will have worked with the Minister of Finance's office and the Treasury to confirm communication requirements, ensuring that there is an effective line of sight as matters arise.</p> <p>We will have continued to manage our investments with the objective of obtaining the best possible balance of return and risk.</p>
Risk management is embedded across our organisation.	We will be enabling risk maturity across the organisation. We will optimise risk appetite statements' use and reports and will conduct ongoing risk culture assessments and support. This will be supported with updated employee training. Delivering risk maturity will improve the longer-term sustainability of the Scheme.

Building organisational health and capability in 2019/20

To deliver our outcomes and our strategic intentions successfully, we need to have high-performing, diverse teams that are focused on all our different customers. These teams must be supported by a suite of modern, reliable and secure systems.

- People – maintain a diverse, high-performing workforce empowered to deliver great customer experiences and outcomes
- Information – improve the way we use, protect and share information
- Technology – support ACC business outcomes with modern, reliable and secure information technology.

Maintain a diverse, high-performing workforce empowered to deliver great customer experiences and outcomes

Our ability to deliver our strategic intentions depends on the culture and capabilities of our people.

Our leaders will have the capabilities and motivation to develop and nurture high-performing, customer-focused teams. These leaders will make our environments, and those over which we have influence, injury free. In fact we will demonstrate genuine workplace safety leadership as an example for all New Zealand organisations. We know that reflecting New Zealand’s diversity in our own workforce is important. It allows us to listen, respond to and anticipate our customers’ needs more effectively while also creating the right conditions for our people to be highly engaged and proud to be part of our organisation.

We will maintain a diverse, high-performing team by focusing on five people priorities:

TABLE 7: PEOPLE DELIVERY STATEMENTS

What we want to achieve	What we will have delivered by 30 June 2020
Our workforce reflects New Zealand’s diversity.	<p>We will have increased participation in employee networks and cultural capability activities, and increased the availability of resources to support inclusion and accessibility.</p> <p>We will have created an environment, employment brand and talent sourcing strategies that improves the representation of Māori and employees with disabilities within our workforce.</p>
We have highly motivated, capable leaders.	We will have enhanced our leadership capabilities by increasing the pool of future leaders and mitigating risks through deliberate succession planning.
We make our environments, and those we have influence over injury free.	We will have developed the capabilities of our leaders in relation to risk management and due diligence in health, safety and wellbeing. We will have embedded our employee participation and engagement framework to support health, safety and wellbeing performance.
Our people are capable and are proud to be part of ACC.	We will have supported our people to drive their own development, through options that align with our desired organisational capabilities and enhanced support of on-the-job development.
Our organisation design and our practices facilitate high performance now and into the future.	<p>We will have equipped our people to successfully transition to our new technology and ways of working through effective organisational design, learning, leadership, communication and change management.</p> <p>We will have increased our organisational change management capabilities by embedding our change management framework and increasing the role of our leaders in change.</p>

TABLE 8: WORKFORCE PROFILE AND EQUAL OPPORTUNITIES

3,563 Permanent and temporary staff	67% of our workforce are women
41 is the average age of our people	84% European 11% Asian 12% Māori 6% Pasifika 10% Other
15% of our people indicated a disability via survey	Ethnicity profile of our people via survey ¹

**What we will
deliver in
2019/20**

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

¹ Sums to more than 100% as employees were able to select more than one ethnicity.

Improve the way we use, protect and share information

We collect and use personal, confidential and sensitive information from a large number of people and entities, including clients, providers and business customers. Our relationship with this information is complex – some information is compelled by law, some is volunteered, some comes directly from our customers and some comes to us through third parties. We use this information to make decisions about a person’s individual circumstances and in some cases we need to share it with others. New Zealanders must have confidence that this information is collected appropriately, stored securely and accurately and only disclosed with appropriate authority, and that they can access it when they need it.

At the same time, our technology must empower our people by providing them with the tools to deliver positive outcomes for our clients. Part of this empowerment will come through improved data and analytics capabilities, enhancing our culture of data-driven decision-making to create a higher-performing and more effective and efficient organisation.

We expect to achieve our intended information objectives through four priorities:

TABLE 9: INFORMATION DELIVERY STATEMENTS

What we want to achieve	What we will have delivered by 30 June 2020
We enable safe and appropriate sharing of information.	We will have further protected our customers’ information by rolling out important updates to our systems, and invested to ensure our systems have the capacity to meet predicted future demands.
We are custodians of customer information.	We will have implemented a Privacy Assurance Framework for our provider network. This will improve privacy maturity among those in our provider network, helping us to better identify areas of privacy risk and report those risks.
We enable the appropriate sharing of information across government.	We will have refined our ‘privacy by design’ approach, ensuring that it continues to reflect leading privacy management practices while supporting the need to share information appropriately across the sector.
We have an organisation-wide strength in analytics.	We will have provided an uplift in ACC’s ability to leverage analytics across the organisation. We will have set up a Centre of Excellence to provide skill and expertise in analytics.

Support ACC business outcomes with modern, reliable and secure information technology

ACC will continue to evolve as an organisation, requiring the development of new capabilities to respond to the challenge of offering our customers more choice with less effort when they interact with us.

In this changing environment, we need to ensure that our organisation, our clients and our providers are supported by reliable, safe and secure information technology. This technology needs to be flexible to allow us to adapt to changing needs quickly.

We will achieve our technology intentions by focusing on four priorities:

What we will deliver in 2019/20

TABLE 10: TECHNOLOGY DELIVERY STATEMENTS

What we want to achieve	What we will have delivered by 30 June 2020
We maintain safe, secure and stable information technology.	We will have continued to maintain the stability and security of our information technology by implementing an appropriate maintenance programme and ensuring that our suite of technologies remains well integrated.
Our technology empowers our people.	We will have rolled out minor enhancements to our systems, allowing our operational teams to deliver services efficiently to our customers and improving our clients' experiences and outcomes.
Our technology enables our digital aspirations.	We will have continued to enhance our digital environment, allowing us to have: <ul style="list-style-type: none"> • automated manual tasks and processes to remove friction and improve the quality and timeliness of payments, data and services • increased the range of assisted and self-service options so that our customers can choose the best options to suit their needs • worked collaboratively with our providers to ensure that our solutions integrate seamlessly with their ways of working.
We create and maintain an adaptive technology environment.	We will have continued to develop our adaptive technology environment by: <ul style="list-style-type: none"> • implementing a range of modern technologies, supporting ACC to deliver an increase in the speed of change • removing the legacy customisation of our core systems to provide more flexibility and agility, allowing us to upgrade or change more easily and delivering a better return on investment.

Whāia Te Tika

We know from ACC data that Māori are more likely to sustain serious, life changing injuries, but are less likely to access ACC services. We know there are disparities and barriers for some Māori, and that some services are difficult for Māori to access and foreign to their lived experiences and values.

We have a clear commitment to do better.

Whāia Te Tika is our strategy to pursue what is right for Māori and deliver on our aspirations. It will help us to transform how we engage with Māori customers (regardless of whether they are business customers, providers or clients) and improve outcomes for Māori when they are injured.

The essence of Whāia Te Tika is best reflected by our aspirations:

Ngā Hua Tautika – Māori customers achieve improved outcomes.

Ngā Wheako Tautika – Māori customers have an improved experience with ACC.

Mātauranga Māori – Māori is a source of innovation and creativity at ACC.

To deliver on these aspirations, we will focus our actions on two key areas in 2019/20.

Developing our capability to deliver

It is critical that we have the capabilities to deliver the Whāia Te Tika strategy.

In order to achieve this, we will deliver an evidenced-based cultural competency workforce programme, enhancing our people's cultural literacy levels and lifting our ability to engage with all our customers.

In addition, we are working to create the environment, employment brand and talent-sourcing strategies that improve the representation of Māori within our workforce.

These initiatives will help to integrate Māori cultural practices throughout ACC. This in turn, will better prepare our people to deliver an appropriate focus to all our Māori customers.

Improving our customer focus

At its heart, Whāia Te Tika is about making a difference to customer outcomes.

To achieve this, we will take a kaupapa Māori approach to customer insight and build initiatives that deliver the right outcomes for Māori. This will be achieved through improving the awareness and understanding Māori have of the services we offer and how they can access those services. We will complete further analyses of the issues of access for Māori and develop measures that meaningfully demonstrate Māori experience with ACC.

Continuing our transformation

The Shaping Our Future strategy to transform our organisation and the way we work with customers continues to be underpinned by six clear objectives:

- Continue to improve customer trust and confidence in ACC.
- Improve the productivity of ACC.
- Reduce the number of productive days lost to injury.
- Empower and engage ACC's staff to deliver services more effectively.
- Enhance operational resilience to reduce exposure to operational failures such as privacy breaches.
- Improve levy collection.

The strategy is organisation-wide and it sets out what we need to do to become the ACC we want to be. It challenges us to question what we are doing today and how we could make it better for tomorrow.

In recent years, our Transformation Programme has been a key driver of real change under our Shaping Our Future strategy. The programme has managed a number of projects focused on improving our systems and processes.

Our transformation capability has now matured and, with a customer-focused operating model and culture in place, delivering service improvements is something we do every day. This means that we no longer need a dedicated programme. Instead, we are delivering our transformative initiatives on a project-by-project basis through an integrated portfolio.

Our integrated change portfolio approach

Since July 2018, the Integrated Change Investment Portfolio has been the primary mechanism to deliver our transformation.

The Integrated Change Investment Portfolio is delivering new initiatives to support improved client outcomes, operational resilience, and efficiency, as well as upgrading some of ACC's core systems. Four upcoming key change initiatives are:

- Next Generation Case Management – our new case management model will improve client outcomes and increase productivity. We are simplifying and streamlining our processes and tools so we can make more consistent decisions. We will be engaging with clients in ways that add the most value to their recovery
- Health Services Strategy – we are focusing on changing our approach to partnering and funding health service providers. Through greater collaboration and partnerships with providers we will be able to support clients to recover more quickly and effectively from injury
- renewed technology – we are consolidating three of five of our core systems into one upgraded claims management system. This will reduce complexity for ACC staff and allow future-flexibility in the ways we interact with clients and providers to improve their experiences and outcomes
- analytics – we are improving ACC's capability to leverage analytics to support decision-making. This will support improvements in injury prevention and client rehabilitation outcomes.

Throughout this continued period of change, we will ensure that we plan carefully and keep a close eye on how we are progressing, especially when looking to maintain accuracy and privacy.

Over time we will also develop our ability to integrate what we are doing with many government departments, such as Inland Revenue and the Ministry of Social Development. This is solely aimed at making it easier for New Zealanders to deal with one entity that can interact with others, thereby streamlining many activities.

What we will
deliver in
2019/20





Statement of performance expectations

Statement of performance expectations by output

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

The information includes:

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

We will report quarterly against a wide range of output performance measures to assess whether our activities are making a difference and the extent to which we are achieving our strategic intentions. Each measure has a target for each year from 2019/20 to 2022/23.

Breakdown of budget against output classes

TABLE 11: 2019/20 BUDGET BY OUTPUT CLASS

(\$M)	Administration	2019/20 budget Claims paid	Revenue
Output class			
Output class 1 – Injury prevention	120		
Output class 2 – Levy setting and collection	39		4,438
Output class 3 – Investment management	58		1,666
Output class 4 – Claims management	508	4,720	
Total	725	4,720	6,104
Other operating costs	91		
Total ACC	816	4,720	6,104

Other operating costs include indirect costs allocated to all four outputs by support business groups such as Finance, Talent, Information Technology and executive management.

Aligning our strategic intentions with the outputs

Our outputs are clearly related to our three externally focused strategic intentions.

TABLE 12: ALIGNMENT OF STRATEGIC INTENTIONS WITH OUTPUTS

Increase the success of our injury prevention activities	Output 1 Injury prevention	By developing and delivering the ACC and cross-government injury prevention strategy.
Improve our customers' outcomes and experiences	Output 2 Levy setting and collection	By working closely with our business customers (largely employers and self-employed) to identify appropriate products, to invoice accurately and to collect levies.
	Output 4 Claims management	By working closely with our clients and their families to return them to independence as soon as possible, and by collaborating with our providers to achieve the most appropriate outcomes for our clients.
Improve the financial sustainability of the Scheme	Output 1 Injury prevention	By only investing in a portfolio of injury prevention activities that will lead to a positive return on investment.
	Output 2 Levy setting and collection	By recommending levies that are sufficient to cover the costs of claims incurred in each year and collecting the levies approved by Cabinet.
	Output 3 Investment management	By investing effectively in order to meet the future costs of claims from injuries already incurred.
	Output 4 Claims management	The costs associated with this output class have the largest bearing on overall Scheme financial performance. To achieve cost stability we must balance the quality, efficiency and effectiveness of services delivered to clients.

Statement of performance expectations

Output 1: Injury prevention

What is intended to be achieved?

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

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

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

TABLE 13: OUTPUT 1 PERFORMANCE MEASURES

Measure	Rationale	Actual		Target			
		2017/18	Mar 2019	2019/20	2020/21	2021/22	2022/23
Key measure The portfolio of injury prevention investments will have an assessed positive return on investment.	We invest to keep New Zealanders safe from accidental injury by working with others to reduce risks across a range of areas. We take a portfolio approach. This means that overall we expect our injury prevention programmes to deliver positive returns on investment.	\$1.72:\$1	\$1.76:\$1	\$1.80:\$1	\$1.85:\$1	\$1.90:\$1	\$1.95:\$1
Supporting measure Number of claims avoided through our injury prevention investments.	Our investment in changing the behaviours of New Zealanders should reduce the number of injuries sustained and the severity of any injuries that occur.	New measure	5,461	12,100	13,310	14,641	16,105
Key measure Rate of serious injury. ¹		79.5	78.3	80.1	79.3	78.5	77.7

For information on the other measures we use to assess our output performance, refer to [Appendix 4 – Other performance measures](#).

¹ The number of new serious injury and fatal claims per 100,000 new registered claims.

Output 2: Levy setting and collection

What is intended to be achieved?

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

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

TABLE 14: OUTPUT 2 PERFORMANCE MEASURES

Measure	Rationale	Actual		Target			
		2017/18	Mar 2019	2019/20	2020/21	2021/22	2022/23
Key measure Actuarial movement.	This provides an indicator of the effectiveness of our management of the controllable factors driving the OCL.	New measure	0.8% ²	Within +/- 2%	Within +/- 2%	Within +/- 2%	Within +/- 2%
Supporting measure Ratio of this year's total levies to the total claims incurred for this year's accidents over time.	This provides an indicator of how well levies are matched to the costs incurred each year as a result of accidents, ensuring intergenerational fairness.	0.7	Annual measure	0.7 – 0.9	0.7 – 0.9	0.7 – 0.9	0.7 – 0.9

For information on the other measures we use to assess our output performance, refer to [Appendix 4 – Other performance measures](#).

² As at 31 December 2018.

How we are funded

TABLE 15: SOURCES OF ACCOUNT FUNDING

The Account and who funds it	What's covered	2016/17	2017/18	2018/19	2019/20
Work Account Employers: Based on wages paid to staff. Self-employed: Based on income earned.	Work-related injuries	\$0.80 per \$100 liable earnings	\$0.72 per \$100 liable earnings	\$0.72 per \$100 liable earnings	\$0.67 per \$100 liable earnings
Earners' Account Employees: Based on income earned. Self-employed: Based on income earned.	Non-work injuries to people in employment	\$1.21 per \$100 liable earnings	\$1.21 per \$100 liable earnings	\$1.21 per \$100 liable earnings	\$1.21 per \$100 liable earnings
Motor Vehicle Account Vehicle owners: Funded through petrol use and the motor vehicle licensing fees.	Injuries that involve moving motor vehicles on public roads	\$131.00 per motor vehicle	\$113.94 per motor vehicle	\$113.94 per motor vehicle	\$113.94 per motor vehicle
Non-Earners' Account The Government: Funded by general taxation.	Injuries that happen to people not in the paid workforce				
Treatment Injury Account All New Zealanders: Funded by the Earners' and Non-Earners' Accounts.	Injuries caused by medical treatment				

Activity information

INCOME BY ACCOUNT

Table 16 shows our 2019/20 forecasts for the number of funders, and the levy and appropriation revenue, for each Account.

TABLE 16: INCOME BY ACCOUNT

		Forecast 2019/20
Levy-funded Accounts		
Work Account	Number of employed and self-employed (million).	2.74
	Levy revenue (\$million).	778
Earners' Account	Number of earners (million).	2.74
	Levy revenue (\$million).	1,664
Motor Vehicle Account	Number of vehicles (million).	3.99
	Levy revenue (\$million).	459
Government-funded Account		
Non-Earners' Account	Number of non-earners (million).	2.24
	Government appropriation (\$million).	1,273
Mixed-funded Account		
Treatment Injury Account	Number of non-earners (million).	2.24
	Government appropriation (\$million).	191
	Number of earners (million).	2.74
	Levy revenue (\$million).	72

**Statement of
performance
expectations**

Scheme solvency

Financial sustainability is best shown by Scheme solvency, which is measured as the ratio of assets (mainly investments) to the OCL in each of ACC's Accounts and provides an indication of funding adequacy. Year-on-year changes in Scheme solvency are the measures of ACC's performance against the full funding target for each Account.

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

The 10-year funding policy is designed to reduce the volatility of both levy rates and the solvency of Accounts due to changes in operating settings, economic factors or investment earnings.

TABLE 17: ACCOUNT SOLVENCY

As at 30 June (%)	Forecast 2018/19³	Budget 2019/20	Funding policy target
Work Account	130.5	128.4	
Including gradual process claims incurred but not yet made	109.4	107.9	100.0 to 110.0
Motor Vehicle Account	103.2	101.9	100.0 to 110.0
Earners' Account	103.6	100.4	100.0 to 110.0
Non-Earners' Account	40.7	40.2	
Fully funded portion	68.5	65.6	88.0
Treatment Injury Account	72.8	71.2	
Earners' portion	141.7	137.1	100.0 to 110.0
Non-Earners' fully funded portion	71.7	69.0	88.0

The Non-Earners' and Treatment Injury Accounts' solvency positions appear low. The 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 in a way that is consistent with the AC Act. 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).

³ As at 28 February 2019

Output 3: Investment management

What is intended to be achieved?

The purpose of our investment portfolio is to meet the future costs of incurred claims from long-term injuries without the need for any catch-up contributions from future levy payers. To meet this purpose, we tend to favour long-term investments that we expect to deliver relatively certain income streams for long periods of time. Such investments match our long-term cash flow requirements and also tend to provide a partial offset against the risk of movements in interest rates. Movements in interest rates result in needing to put aside more or less money in the present to fund future claim costs.

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

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

Statement of performance expectations

How we will know we have achieved this

TABLE 18: OUTPUT 3 PERFORMANCE MEASURES

Measure	Rationale	Actual		Target			
		2017/18	Mar 2019	2019/20	2020/21	2021/22	2022/23
Key measure Investment performance after costs relative to benchmark.	The quality of our investment management can only be gauged by comparing our returns net of costs with that of a blended market average benchmark, which provides a comparison with the asset classes in which we have invested.	-0.10%	-0.52%	0.30%	0.30%	0.30%	0.30%
Supporting measure Investment management costs as a proportion of total funds under management.	The efficiency of our investment management is measured by expressing total investment management costs as a proportion of the total funds under management.	0.14%	0.13%	0.15%	0.15%	0.15%	0.15%

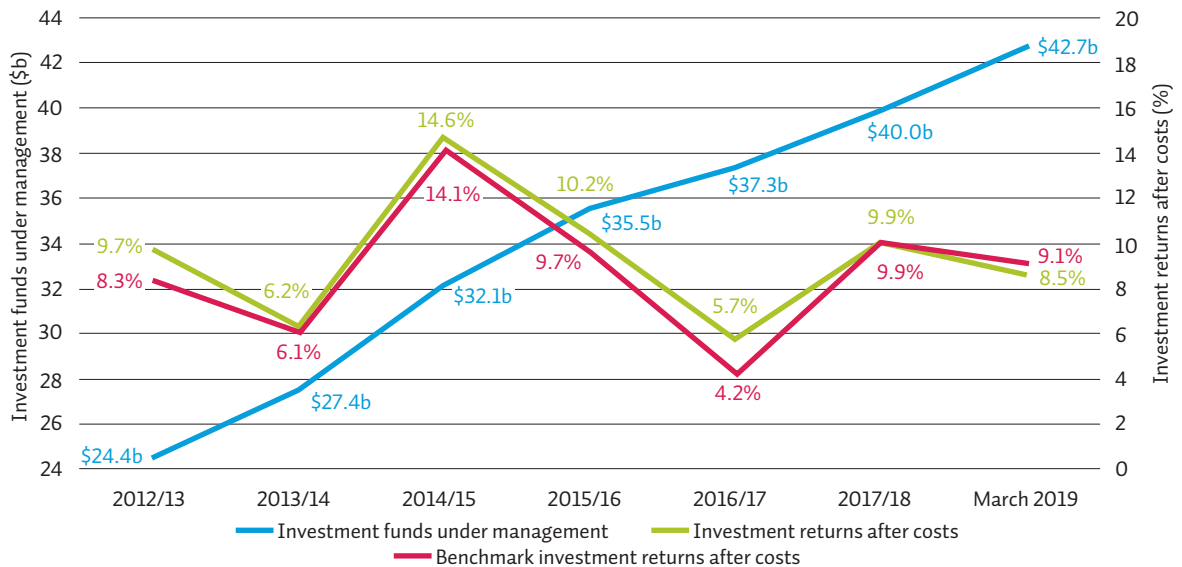
For information on the other measures we use to assess our output performance, refer to [Appendix 4 – Other performance measures](#).

Activity information

INVESTMENTS

ACC had \$42.7 billion of investment funds at the end of March 2019 and has returned 8.54%, after costs, in the 2018/19 financial year to date.

FIGURE 2: HISTORICAL FUNDS UNDER MANAGEMENT AND INVESTMENT RETURNS



EXPECTATIONS AS A CROWN FINANCIAL INSTITUTION

The Government communicates key priorities for ACC as a Crown Financial Institution through the annual letter of expectations from the Minister of Finance. These priorities are presented in [Appendix 3 – Letters of expectations](#) and are summarised in [Appendix 5 – Investment statement](#).

Output 4: Claims management

What is intended to be achieved?

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

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

How we will know we have achieved this

TABLE 19: OUTPUT 4 PERFORMANCE MEASURES

Measure	Rationale	Actual		2019/20	Target		
		2017/18	Mar 2019		2020/21	2021/22	2022/23
Key measure Return to work within 10 weeks.	Research confirms that when people make rapid returns to independence or work after injury, their overall health and wellbeing is significantly improved. These measures evaluate how effectively we are supporting our clients to return to work or independence, and whether their returns are sustained.	67.4%	66.9%	66.5%	66.9%	67.8%	68.3%
Supporting measure Return to work within nine months.		92.9%	92.4%	92.6%	93.0%	93.4%	93.5%
Supporting measure Durable return to work.		80%	Annual measure	1% higher than Australia	1% higher than Australia (last year)	1% higher than Australia	1% higher than Australia (last year)
Supporting measure Weekly compensation days paid reduction.		-1.98 days	-3.1 days	-2.3 days	-0.4 days	+1.6 days	+3.6 days
Key measure Return to independence for those not in the workforce.		86.7%	88.4%	86%	86%	86%	86%
Key measure Public trust and confidence.	The way the public views ACC is a useful indicator of how effectively we have communicated the value that ACC delivers, and demonstrated this in our interactions with levy payers, clients, providers and stakeholders.	61%	61%	65%	67%	69%	70%
Key measure Client net trust score.	If we get the experiences and outcomes right, our clients will trust us and have confidence in our abilities. Increased trust in turn leads to more proactive engagement with rehabilitation pathways.	+25.0	+28.0	+34.8	+39.0	+39.0	+39.0
Key measure Client net trust score for Māori		+17.0	+23.0	+34.8	+39.0	+39.0	+39.0
Supporting measure Speed of cover decisions.		New method	2.57 days	1.80 days	1.75 days	1.70 days	1.70 days
Supporting measure Reviews as a percentage of decline decisions.		7.2%	7.4%	≤7.2%	≤7.1%	≤7.1%	≤7.1%

Continued ...

Measure	Rationale	Actual		2019/20	Target		2022/23
		2017/18	Mar 2019		2020/21	2021/22	
Supporting measure Average time to resolution for claims with reviews.		99.5 days	92.1 days	≤94.0 days	≤91.5 days	≤89.0 days	≤86.5 days
Supporting measure Proportion of ACC reviews upheld (in favour of ACC).		81.3%	82.3%	≥83.0%	≥84.0%	≥85.0%	≥85.0%
Supporting measure ACC is focused on the best possible outcomes for clients given their situation.		New measure	78%	80.5%	83.0%	84.5%	86.0%
Key measure Provider net trust score.	Successful partnering through simplified business operating structures and enhanced technology platforms will increase the trust and confidence our providers have in us. Our providers are our partners in each and every rehabilitation journey, and trusted relationships ensure we work together to achieve the best possible outcomes.	-8.0	-9.0	-8.0	-6.0	-2.0	+2.0
Key measure Business net trust score.	Simpler business operating structures and enhanced technology platforms will make it easier for business customers to work with us. We rely on businesses not just to pay levies, but to enhance health and safety in the workplace and support employee rehabilitation following injury. Increased trust results in greater partnership in working for these outcomes.	-19.0	-24.0	-14.0	-13.0	-9.0	-7.0
Key measure Growth rate of the Long-Term Claim Pool. ⁴	Getting clients back to independence is positive for them and can make a significant difference to the long-term costs of the Scheme.	+5.1%	+5.4%	+6.2%	+6.1%	+5.2%	+4.6%
Supporting measure Long-Term Claim Pool returns to independence.		3,285	3,467	3,530	3,808	4,010	4,189
Supporting measure Rate of long-term clients in part-time work.		11.8%	11.9%	12.0%	12.0%	12.0%	12.0%

Continued ...

⁴ In this context, 'long term' refers to clients who have received weekly compensation for more than 365 days

Measure	Rationale	Actual		Target			
		2017/18	Mar 2019	2019/20	2020/21	2021/22	2022/23
Key measure Change in average treatment cost.	Managing costs means we are effectively countering inflationary pressures while delivering effective services to our clients.	3.3%	5.2%	≤4.5%	≤3.2%	≤3.9%	≤4.2%
Supporting measure Administration costs per active claim.		\$2,662	\$2,386	\$2,590	\$2,461	\$2,376	\$2,378
Supporting measure Percentage of total expenditure paid directly to clients, or for services to clients.		85.9%	86.8%	86.2%	87.2%	87.7%	87.9%
Supporting measure Claims processed per full-time equivalent		593	597	590	609	627	639
Key measure Average care hours per serious injury claim.		1,363	1,357	1,370	1,370	1,370	1,370

For information on the other measures we use to assess our output performance, refer to [Appendix 4 – Other performance measures](#).

Activity information

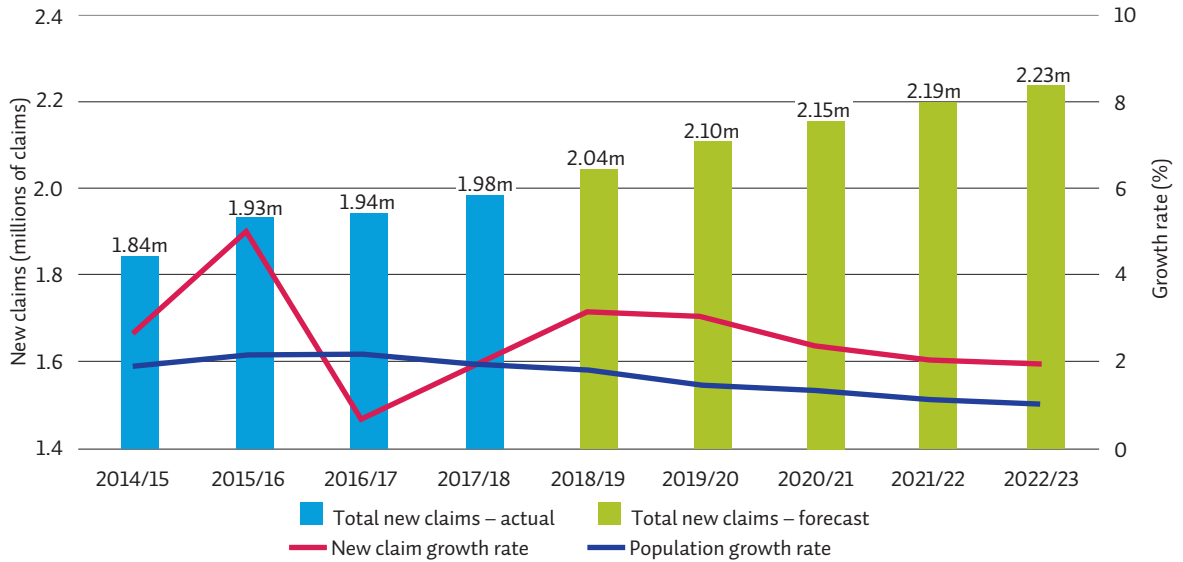
CLAIMS ACTIVITY

Our analysis has demonstrated a strong correlation between claim volume growth and four key drivers:

- **Population** – as the population increases, the number of claims increases (assuming the rate of injury stays constant)
- **GDP** – an increase in the rate of GDP growth will increase the rate of new claim growth
- **Unemployment** – as unemployment goes up claim numbers tend to reduce
- **Distance driven** – motor vehicle claim volumes increase as the total distance travelled increases.

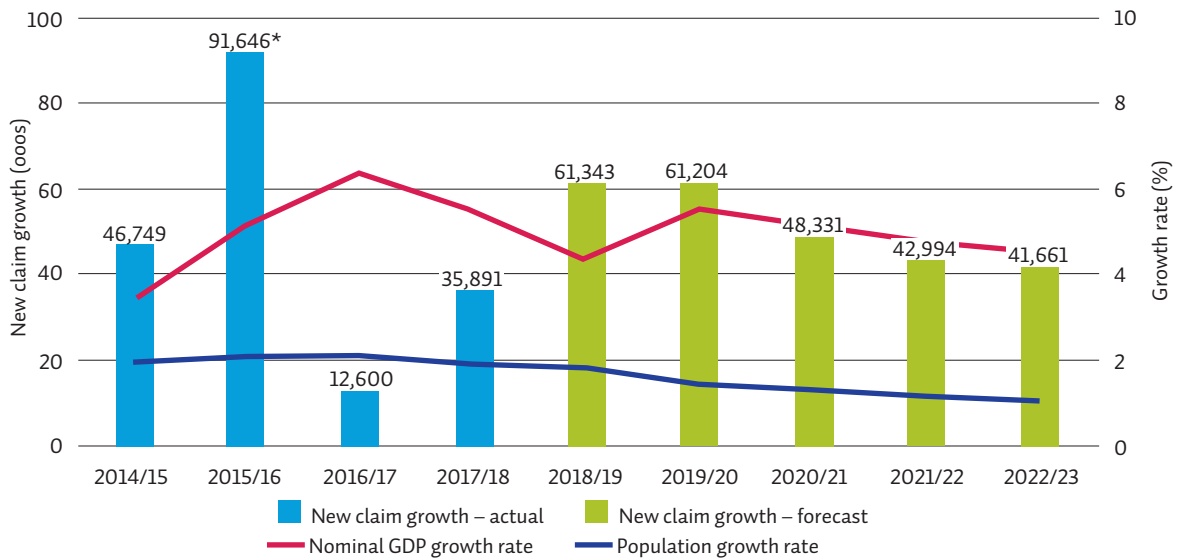
We forecast claim volumes in order to ensure that we can respond to the anticipated demand for our services. If actual claim volumes differ significantly from our forecast claim volumes, our ability to achieve performance targets may be impacted.

FIGURE 3: TOTAL NEW REGISTERED CLAIMS VS. RATE OF NEW CLAIM GROWTH, BY YEAR (ACTUAL, FORECAST)



Forecasts of our claim volume drivers project weaker economic growth in 2019/20 that improves in the following years and considerably lower population growth than experienced in the past three years. Unemployment is predicted to stay at historically low levels. This is expected to drive a declining rate of new claim growth in the next four years.

FIGURE 4: TOTAL NEW REGISTERED CLAIM GROWTH RATE VS. SELECTED CLAIM DRIVER RATES, BY YEAR (ACTUAL, FORECAST)



* Legislative and policy changes also have an impact on claims volume growth. For example, the introduction by the Government of 24-hour free medical care for children aged 12 and under from 1 July 2015 increased claim volumes by approximately 15,000 in the second half of 2015/16 alone.

Table 20 shows recent trends in the types of claim that we receive and accept. The Scheme is based on legislation and each claim is evaluated to determine whether it meets the requirements of the AC Act. We do not ration our services, as demand is determined by the number of covered injuries that occur and the service types and amounts of services that those who have covered injuries are eligible to receive.

TABLE 20: HISTORICAL CLAIM VOLUMES, BY TYPE

Measure	Definition	2015/16	2016/17	2017/18	Mar 2019
Registered claims.	Total number of registered claims in the period.	1,930,529	1,943,310	1,977,606	2,019,468 ⁵
Medical fees only claims.	Total number of medical fees only claims in the period.	1,658,320	1,668,034	1,689,739	1,220,048
Other entitlement claims.	Total number of entitlement claims (all entitlement claims excluding weekly compensation) that receive payments in the period.	110,674	116,002	129,573	115,211
Weekly compensation claims.	Total number of weekly compensation claims that receive payments in the period.	106,953	113,431	119,424	101,464
Long-term weekly compensation claims.	Number of clients receiving weekly compensation for more than one year as at 30 June.	12,290	12,691	13,333	14,052
New serious injury claims.	Total number of new serious injury claims in the period.	275	223	232	159
Fatal claims.	Total number of fatal claims in the period.	1,270	1,292	1,336	927

Statement of performance expectations

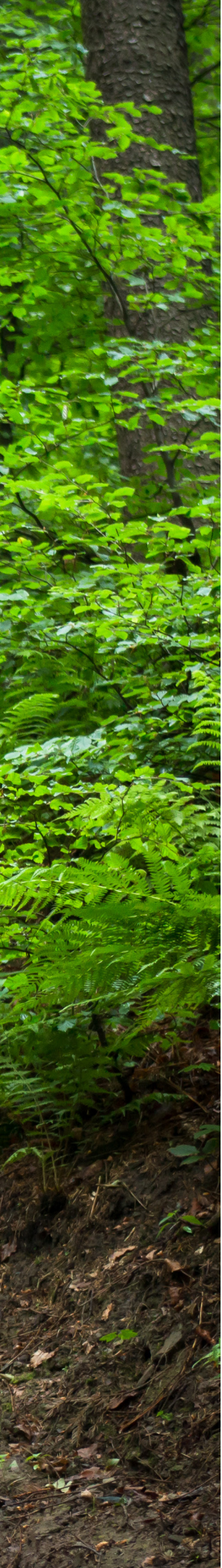
We enable clients to receive the appropriate entitlements under the Scheme while at the same time keeping total expenditure at a financially sustainable level. We monitor expenditure against budget for the key cost drivers of the Scheme.

TABLE 21: EXPENDITURE AGAINST KEY COST DRIVERS

(\$M)	Actual 2017/18	Mar 2019	2019/20 Forecast
Non-fatal weekly compensation	1,200	984	1,423
Medical treatment	756	609	901
Social rehabilitation	740	582	872
Public health acute services	492	385	545
Hospital treatment (elective surgery)	347	274	398

⁵ Registered claims for March 2019 are for the 12 months prior. All other figures as at March 2019 are financial year to date.





Financial information

Forecast financial information

Introduction

The information below sets out the 2019/20 budget for ACC. Comparative information is based on the forecast financial results for the year to 30 June 2019, prepared as at 28 February 2019.

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

Overall results

The budget for 2019/20 is a deficit of \$992 million compared with the forecast deficit of \$3,088 million for 2018/19. The projected deficit for 2019/20 (in comparison with the 2018/19 forecast deficit) is mainly due to the combined impact of:

- a lower 2019/20 forecast increase in the OCL, a reduction of \$3,470 million compared with the 2018/19 forecast. The 2018/19 increase in OCL includes \$3,675 million due to changes in economic and other factors.
- a projected increase in levy income (\$84 million)
- a projected decrease in net investment income (\$1,070 million). The 2018/19 forecast includes investment gains achieved during the eight months to 28 February 2019 in excess of budget
- a projected increase in the costs of claims paid (\$334 million)
- a projected increase in investment costs, operating costs and investment in injury prevention (\$88 million)

The budgeted accumulated deficit (net liabilities) therefore increases to \$5,435 million at 30 June 2020.

STATEMENT OF COMPREHENSIVE INCOME BY ACCOUNT (BUDGET)

(\$M)	2019/20 budget						2018/19 forecast
	Motor Vehicle Account	Non-Earners' Account	Earners' Account	Work Account	Treatment Injury Account	Total ACC	
Income							
Levies and appropriations	459	1,273	1,664	779	263	4,438	4,354
Investment income	479	186	432	378	191	1,666	2,732
Less investment costs	18	5	14	15	6	58	54
Net investment income	461	181	418	363	185	1,608	2,678
Total income	920	1,454	2,082	1,142	448	6,046	7,032
Expenditure							
Claims costs							
Claims paid	658	1,243	1,676	872	271	4,720	4,386
Change in unexpired risk liability	(1)	0	21	12	0	32	62
Change in OCL	340	291	433	142	322	1,528	4,998
Total claims costs	997	1,534	2,130	1,026	593	6,280	9,446
Expenses							
Injury prevention costs	11	26	38	34	11	120	75
Operating costs	70	115	215	204	34	638	599
Total expenses	81	141	253	238	45	758	674
Total expenditure	1,078	1,675	2,383	1,264	638	7,038	10,120
Surplus/(deficit)	(158)	(221)	(301)	(122)	(190)	(992)	(3,088)

Financial information

STATEMENT OF CHANGES IN RESERVES (EQUITY) (BUDGET)

(\$M)	2019/20 budget						2018/19 forecast
	Motor Vehicle Account	Non-Earners' Account	Earners' Account	Work Account	Treatment Injury Account	Total ACC	
Reserve – opening balance (deficit)	395	(5,790)	342	2,344	(1,734)	(4,443)	(1,355)
Net surplus/(deficit)	(158)	(221)	(301)	(122)	(190)	(992)	(3,088)
Reserve – closing balance/ (deficit)	237	(6,011)	41	2,222	(1,924)	(5,435)	(4,443)

Levy revenue

LEVY RATES

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

TABLE 22: BUDGET LEVY RATES

Account	2018/19	2019/20
Motor Vehicle	\$113.94 per vehicle through licensing fees and petrol levies.	\$113.94 per vehicle through licensing fees and petrol levies.
Earners'	\$1.21 per \$100 liable earnings.	\$1.21 per \$100 liable earnings.
Work	\$0.72 per \$100 liable earnings.	\$0.67 per \$100 liable earnings.

LEVY REVENUE

The \$4,438 million levy revenue for 2019/20 is \$84 million higher than forecast for 2018/19. The budget for levy revenue incorporates:

- levy rates as approved for 2019/20
- the current approved Non-Earners' Account appropriation of \$1,464 million
- earnings in employment derived from economic forecasts accounting for employment growth (from 2.69 million people at 30 June 2019 to 2.74 million people at 30 June 2020) and earnings' growth (a 2.67% increase in average weekly earnings to 30 June 2020)
- changes in motor vehicle registrations and petrol consumption forecasts for the 2019/20 year (the number of vehicles is forecast to increase by 3.3% in 2019/20)
- the Non-Earners' appropriation, including the non-earners' portion of the Treatment Injury Account, which has decreased from \$1,467 million to \$1,464 million.

Non-Earners' Account appropriation

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

TABLE 23: BUDGET NON-EARNERS' ACCOUNT OUTPUT EXPENSES

	2019/20 budget	Relevant ACC activity	Relevant ACC output class
Case management and supporting services.	\$199m	Setting, invoicing and collecting levies – the Vote Labour Market appropriation process.	2 Levy setting and collection
		Management of investment assets.	3 Investment management
		Lodgement of new claims and making cover decisions. The costs of determining, processing, paying and monitoring payments to treatment and service providers and clients. Also includes the cost to ACC of managing claims with the goal of returning clients to independence.	4 Claims management
		Development and delivery of programmes to reduce the incidence and severity of injury.	1 Injury prevention
Sexual abuse assessment and treatment	\$7m	Payments to providers for sexual abuse and treatment services, and associated training and accreditation services, for victims of sexual abuse or assault.	4 Claims management
Rehabilitation entitlements and services.	\$865m	Payments to providers for services including social rehabilitation, medical treatment, and vocational rehabilitation.	4 Claims management
Public health acute services.	\$316m	Funding via the Ministry of Health to provide services to injured people in hospitals during the acute phase of their treatment.	4 Claims management
Compensation entitlements.	\$77m	Direct payments of entitlements to clients including weekly compensation, independence allowances and lump sum payments.	4 Claims management
Total	\$1,464m		

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Claims paid

TABLE 24: BUDGET CLAIMS PAID

(\$M)	2018/19 forecast	2019/20 budget	Variance
Rehabilitation			
Treatment	1,900	2,033	(133)
Vocational rehabilitation	113	126	(13)
Social rehabilitation	795	872	(77)
Total rehabilitation (including treatment)	2,808	3,031	(223)
Compensation			
Income maintenance	1,324	1,432	(108)
Other compensation and benefits	254	257	(3)
Total compensation	1,578	1,689	(111)
Total cash cost of claims	4,386	4,720	(334)

Rehabilitation costs are budgeted to increase by \$223 million (7.9%) to \$3,031 million, driven mainly by increasing claim numbers and inflation.

Income maintenance costs are budgeted to increase by \$108 million (8.2%) to \$1,432 million, reflecting an increase of 6.0% in entitlement claim volumes during the year, growth in the labour cost index of 1.87%, and an increase in average weekly earnings of 2.67%.

Other compensation and benefit costs are budgeted at \$257 million, an increase of \$3 million (1.1%). This increase is due to forecast claim volume increases and the impact of inflation.

Increase in outstanding claims liability (OCL)

The future costs of claims incurred are estimated allowing for future inflation (including superimposed inflation for certain benefit types), and payment decay/continuance rates derived from Scheme experience. Those costs are discounted back to present value using a series of forward discount rates. The liability is forecast to increase from \$45,603 million to \$47,131 million during 2019/20, an increase of \$1,528 million. This reflects the 31 December 2018 valuation, with adjustments to reflect economic assumptions as at 28 February 2019.

TABLE 25: BUDGET MOVEMENT IN THE OCL

OCL (\$M)	2018/19 forecast	2019/20 budget	Variance
Value at year open	40,605	45,603	
Value at year end	45,603	47,131	
Increase/(decrease) in OCL	4,998	1,528	3,470

Increase in unexpired risk liability

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

TABLE 26: BUDGET MOVEMENT IN UNEXPIRED RISK LIABILITY

(\$M)	2018/19 forecast	2019/20 budget	Variance
Value at year open	772	834	
Value at year end	834	866	
Increase/(decrease) in unexpired risk liability	62	32	30

Operating costs

ACC's operating costs comprise claim handling, levy collection and other operating costs. The 2019/20 operating costs budget of \$638 million is \$39 million higher than the forecast for 2018/19. This reflects the current estimate of the impact on operating costs of the Integrated Change Investment Portfolio of \$11 million in the 2019/20 year (an increase to \$100 million from the 2018/19 forecast of \$89 million).

Personnel costs are up \$14 million in 2019/20 compared to the 2018/19 forecast. This is due to the continued growth in the organisation and provision for wage growth. The continued growth is also seen through technology and telephony costs (up \$7 million) and depreciation (up \$3 million).

TABLE 27: BUDGET OPERATING COSTS

Operating costs by classification (\$M)	2018/19 forecast	2019/20 budget	Variance
Claims handling	473	508	(35)
Levy collection	39	39	0
Other operating	87	91	(4)
Total operating costs	599	638	(39)

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Investment income

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

Investment income in the 2019/20 year has been calculated by Account. The projected rate of return range in 2019/20 is 3.69% to 4.65% per annum, depending on the Account.

Statement of financial position

STATEMENT OF FINANCIAL POSITION (BUDGET)

As at 30 June (\$M)	2018/19 forecast	2019/20 budget	Variance
Total reserves	(4,443)	(5,435)	(992)
Assets			
Investments	41,650	42,084	434
Other assets	2,599	2,815	216
Total assets	44,249	44,899	650
Liabilities			
Claims liability	45,603	47,131	(1,528)
Other liabilities	3,089	3,203	(114)
Total liabilities	48,692	50,334	(1,642)
Net assets	(4,443)	(5,435)	(992)

Capital expenditure

TABLE 28: BUDGET CAPITAL EXPENDITURE

(\$M)	2018/19 forecast	2019/20 budget	Variance
Property, plant and equipment			
Maintenance – information technology (IT)	8	3	5
Property	6	6	0
Motor vehicles, equipment	0	1	(1)
Total	14	10	4
Intangible assets			
Change initiatives	47	43	4
Maintenance – IT	5	7	(2)
Total	52	50	2
Total capital expenditure	66	60	6

The proposed 2019/20 capital expenditure of up to \$60 million is \$6 million lower than the forecast for 2018/19, mainly due to the completion of significant investment programmes in the current financial year. Maintenance – IT is the IT infrastructure expenditure on maintaining and implementing minor enhancements to existing core applications. Property spend is the necessary annual spend to ensure that our property is fit for purpose.

Financial risks

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

A major risk is the impact of economic factors that are not controlled by ACC (for example, wage and cost inflation, and interest rates) on future claim payments, investment income and the OCL.

The nature, timing and magnitude of expenditure related to planned organisational change projects is decided through our structured prioritisation process. It is important to note that these expenses are estimates only and are subject to the completion of detailed designs and implementation plans.

Statement of cash flows

STATEMENT OF CASH FLOWS (BUDGET)

(\$M)	2018/19 forecast	2019/20 budget
Operating activities		
Cash flows from operating activities		
Cash was provided from:		
Levy revenue and other income	4,376	4,325
Investment income	1,332	1,301
Cash provided from operating activities	5,708	5,626
Cash applied to operating activities	5,184	5,487
Net cash movement from operating activities	524	139
Investing activities		
Net cash movement from investing activities	(595)	(139)
Financing activities		
Net cash movement from financing activities		
Net increase in cash and cash equivalents	(71)	0
Cash and equivalents – opening balance	115	44
Cash and equivalents – closing balance	44	44

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Summary of other important assumptions

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

TABLE 29: IMPORTANT ASSUMPTIONS

Index	Indices (year to June)				
	2019	2020	2021	2022	2023
Claim volume growth	3.10%	3.00%	2.30%	2.00%	1.90%
Entitlements claim growth	5.60%	6.00%	3.30%	2.70%	2.60%
Population growth	1.64%	1.37%	1.26%	1.07%	0.95%
Consumer price index	0.99%	1.67%	1.67%	1.67%	1.67%
Labour cost index	1.97%	1.87%	1.87%	1.87%	1.87%
Average weekly earnings	2.67%	2.67%	2.67%	2.67%	2.67%

Summary of significant accounting policies

A) ACC ACCOUNTS

The Accident Compensation Corporation Scheme (as required through the Accident Compensation Act 2001) comprises 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 provide 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 reports separately on the performance and solvency of each Account.

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

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

B) 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. The accrual is estimated based on expected liable earnings at the applicable levy rates with the assumptions that the levy revenue is earned evenly over the levy period. The portion of levies not earned at the reporting date is recognised in the statement of financial position as unearned levy liability.

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C) INVESTMENT INCOME

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

- Dividends on equity securities are recorded as revenue on the ex-dividend date (the date on which holders of an equity become entitled to a dividend).
- Interest income 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 its carrying value. Unrealised gains/losses represent the difference between the carrying value of the investment assets at the beginning of the year and at year end.

D) UNEXPIRED RISK LIABILITY

At each balance date ACC reassesses whether the levy revenue recognised in the current period is sufficient to cover all expected future cash flows relating to future claims incurred 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.

E) OUTSTANDING CLAIMS LIABILITY

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 incurred but not yet reported claims.

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

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

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

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

F) INVESTMENT ASSETS

All investment assets, other than concession rights, are designated as financial assets at fair value through surplus or deficit.

Fair value for investment assets is determined as follows:

- Listed shares and unit trusts are valued at the quoted prices on established markets.
- Non-listed equity investments (private equity and venture capital) are valued at fair value, as determined using the most appropriate valuation technique. This is consistent with the International Private Equity and Venture Capital Valuation Guidelines.
- Bonds and other fixed interest investments are valued using quoted yield curves.
- Unlisted unit trust investments are valued based on the exit prices (the value ACC would receive if the unit were sold).
- For investments with no active markets, 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 independent registered property valuers.







Appendices

Appendix 1 – Alignment of the Service Agreement

How the Service Agreement aligns with our other accountability documents

We have three key accountability documents:



Purpose of the Statement of Intent

Our Statement of Intent summarises our strategic intentions for the next four years. It includes our medium-term outcomes, our vision, our areas of focus and how we assess our performance overall using a public value measurement approach. Our Statement of Intent also summarises how we maintain our organisational health and capabilities, and our risk management framework. Our Statement of Intent 2018-2022 can be found at www.acc.co.nz

- the expected cost of delivering those services
- the performance measures, targets and related information necessary for the Minister to assess our performance
- the nature and frequency of the reporting requirements against the Agreement
- how we will deliver our outputs: injury prevention, levy setting and collection, investment management, and claims management.

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

Purpose of the Service Agreement

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

The Agreement outlines for the forthcoming year:

- what we will have delivered by 30 June 2020 to demonstrate progress against our strategic intentions
- the quality and quantity of services to be provided by ACC

Purpose of our Annual Report

Our Annual Report provides information on our progress relative to our strategic intentions (as per our Statement of Intent) and reports on our progress during the year. The Annual Report also provides a summary of our actual results against all of the performance measures included in this Agreement. Our Annual Reports can be found at www.acc.co.nz

Appendix 2 – Conditions of the Service Agreement

Roles and responsibilities

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

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

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

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

Parties

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

Term

This Agreement, entered into pursuant to section 271 of the Accident Compensation Act 2001 (AC Act), relates to a one-year period from 1 July 2019 to 30 June 2020. This Agreement revokes the Service Agreement for the period 1 July 2018 to 30 June 2019.

ACC's functions and duties

ACC provides accident insurance cover for all New Zealanders and visitors to New Zealand. We receive approximately two million claims per year.

Our core services are:

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

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

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

Amendments to this Agreement

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

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

Payment

The Minister, on behalf of the Crown, will pay ACC up to the amount authorised by Parliamentary Appropriations for 2019/20. The Ministry of Business, Innovation and Employment (the Ministry, acting as the administering agency responsible for Vote Labour Market) will action payments to ACC in accordance with the Public Finance Act 1989. Payments will be made monthly by direct credit from the Ministry to ACC, coinciding with the Ministry's receipt of funding from the Treasury.

Interpretation

The appendices to this Agreement form part of this Agreement, as do any amendments to those appendices signed by the Minister and the Board.

The parties agree to discuss and seek to resolve any differences of opinion between them under this Agreement, or any matter not covered by this Agreement relating to the supply of outputs.

Quarterly reporting

ACC will provide quarterly reports on our performance against this Agreement. Quarterly reports are to be read in conjunction with this Agreement and the reports of any preceding quarters to provide a context for the reporting of our ongoing performance for the financial year 2019/20.

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

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

- an analysis of causes
- strategies and plans to improve performance and meet the specified targets
- an outlook for full year performance against our targets.

As necessary we will provide the Minister with:

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

The timeframes for quarterly reporting to be provided to the Minister are:

TABLE 30: QUARTERLY REPORTING SCHEDULE

Quarterly performance report	Timeframe
Quarter 1 report	By 31 October 2019
Quarter 2 report	By 31 January 2020
Quarter 3 report	By 30 April 2020
Quarter 4 report	By 31 July 2020

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

Appendix 3 – Letters of expectations

Hon Iain Lees-Galloway

MP for Palmerston North

Minister for Workplace Relations and Safety Deputy Leader of the House

Minister of Immigration

Minister for ACC



12 DEC 2018

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

Dear Dame Paula

ANNUAL LETTER OF EXPECTATIONS

I am writing to convey my expectations of the Accident Compensation Corporation (ACC) as it commences its strategic planning process for the forthcoming year. I thank you, the rest of the Board and ACC staff for all your work over the last year.

You will also receive a separate letter from the Minister of Finance that sets expectations for all Crown Financial Institutions, including specific expectations regarding ACC's investment function.

Government priorities

This Government is focused on improving the wellbeing of New Zealanders and their families. ACC has an important contribution to make and its involvement in the joint venture to reduce family and sexual violence is a good example.

Improving services and outcomes for Māori is another area of focus. I am pleased to see that ACC has developed Whāia Te Tika, its strategy to improve Māori outcomes. I would like ACC to include specific performance metrics in its next Service Agreement so I can monitor progress.

The Government expects that ACC will function as a publically administered and delivered social insurance scheme distinct in character from a private insurance company. This means that the scheme will be claimant-centric, will provide claimants the right services at the right time for successful rehabilitation and is efficient and effective in doing so. It is my expectation that the scheme provides fair compensation in return for a fair levy. I expect claimants will receive what they are entitled to in a timely and transparent manner.

Injury prevention

I expect ACC to work collaboratively with others to deliver injury prevention investments that improve the lives of New Zealanders. For example, I expect ACC to be a good partner in the areas of workplace safety (in collaboration with Worksafe) and working with other government partners on improving road safety. Injury prevention is of

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paramount importance to reduce the incidence and impact injury has on the community and for the effective financial management of the scheme.

Integrated Change Investment Portfolio (ICIP)

I recognise the progress ACC has made to transform toward a more customer-centric organisation that is fair, transparent, and easy to understand. The changes you are making are important to improve the experience and outcomes for many New Zealanders. I note the report back to Cabinet in early 2019, which represents a good opportunity to update the government on progress. Going forward, I would like regular six-monthly reporting to Cabinet with the next report due by 30 June 2019.

I expect continuing high levels of transparency and ask that you keep me and my officials well informed on upcoming key decisions and milestones, costs, benefits and risks. This can be achieved through our regular meetings, quarterly performance reports and ACC's engagement with my officials.

Financial management

I expect ACC to demonstrate responsible management of the Government's finances through a diligent focus on value for money in the services it delivers for New Zealanders. Investments should be value enhancing and based on robust business cases, which evaluate options thoroughly, based on reasonable assumptions and take into consideration all risks.

It is also important that ACC is able to exercise effective management of its cost pressures. Claim costs have increased above expectations in recent years, while some rehabilitation rates have decreased. I expect ACC to develop a more in-depth understanding of its price and volume cost drivers including the use of benchmarking. It should also seek to understand what drivers are controllable versus those that are outside ACC's control. ACC should work collaboratively with the Ministry of Business, Innovation and Employment (MBIE) to explore whether there are appropriate legislative or policy option responses.

I expect ACC to deliver on its performance targets and provide robust explanations for any variances.

Independent Review

I would like to recognise the work that ACC, in conjunction with MBIE, the Ministry of Justice, and FairWay has done to progress the implementation of the recommendations of the Independent Review of Acclaim Otago (Inc) Report into Accident Compensation Dispute Resolution. ACC has made improvements targeting claimant experience in the dispute resolution process and has implemented a majority of the twenty recommendations made by the Review.

I understand that the final recommendations made in the review are in the process of either being consulted on or implemented. It is my expectation that work continues to implement the final recommendations in line with ACC's commitment to improve claimant experiences with the dispute resolution system. I will continue to focus on key performance indicators to monitor ACC's progress.

Cross government collaboration

ACC is an integral part of the social sector and I expect it to be a good partner across the state sector and be cognisant of the effect that ACC decisions can have on the wider system.

I recognise ACC's contribution to the family and sexual violence joint venture and improving child wellbeing. ACC should also engage in the work across government to improve the state sector, in particular, the Health and Disability System Review, the Mental Health and Addiction Inquiry and the Review of the Welfare System.

Communication

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

Policy collaboration

Finally, I also expect the ongoing commitment of ACC to work constructively with advisors from my office, MBIE, and the Treasury.

This includes working collaboratively alongside MBIE and Treasury to deliver the government's Accident Compensation policy work programme priorities, responsively providing information and data to inform policy development, and early engagement with MBIE and Treasury when ACC considers making operational changes that have policy implications.

Thank you in advance for your work in the coming year.

Yours sincerely



Hon Iain Lees-Galloway
Minister for ACC

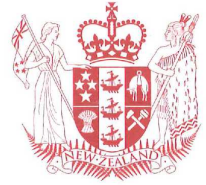
Hon Grant Robertson

MP for Wellington Central

Minister of Finance

Minister for Sport and Recreation

Associate Minister for Arts, Culture and Heritage



17 DEC 2018

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

Dear Dame Paula

ANNUAL LETTER OF EXPECTATIONS

I'd like to thank you, as well as the rest of the Board and staff for all of your work in the last year. I'd like to build on your good work by conveying my expectations of the investments function of the Accident Compensation Corporation (ACC) as it executes its business planning process for the forthcoming year. I note that you will also be receiving a Letter of Expectations relating to ACC's insurance function from the Minister for ACC. Any general expectations contained in that letter should also be applied to the investments function where relevant.

Expectations for All Crown Financial Institutions

Fit for purpose

The ability of all Crown Financial Institutions (CFIs) to deliver on their legislated purpose is a key consideration for Ministers in this Government.

I recognise that investment returns may vary from year to year, and it is my expectation that the Board, acting as the Crown's agent, will continue to focus on the appropriate balance of risk and return to assure the Fund's investment performance is able to meet its policy objectives and obligations.

Should investment performance impact your institution's ability to meet its intended purpose I expect the Board to inform me, and my officials at the Treasury, of any remedial action the Board will take. Such information should include a detailed explanation of risks, financial or otherwise, which may have an impact on the Crown's fiscal position or cause a prejudicial impact on New Zealand's reputation.

Crown Risk

2018 marked the tenth anniversary of the Global Financial Crisis which had real costs to the people of New Zealand.

The nature of your mandate is to accept risk, but the Crown must have a good understanding of the potential fiscal implications to the Crown's consolidated balance sheet. To better understand such risks and implications it is my expectation that your organisation will proactively work with the Treasury to help develop a framework that will aid the Government in its consideration of such scenarios, and in so doing, making the New Zealand economy more resilient to future financial crises.

Where derivative instruments or leverage are employed in your organisation I expect that their use is aligned with your entity's purpose. When such instruments are employed, CFIs should be mindful of their fiduciary responsibilities and statutory duties.

Where derivatives or leverage are employed I expect that the appropriate level of knowledge, skill, transparency and controls are in place throughout your organisation to ensure that negative financial or reputational outcomes do not impact the Crown.

Partnership

Your organisation, along with other CFIs, is an important asset on the Crown's balance sheet – this importance will increase over time.

For the Crown to be effective there needs to be a collaborative approach across all of Government (including CFIs and other Crown Entities). Your institution can play a part in delivering positive outcomes for New Zealanders through active and constructive engagement. This type of engagement, led by the Board, should permeate throughout your organisation, helping all concerned be more efficient in the use of scarce resources.

A successful partnership should be built on openness and trust. It is my expectation that this policy will continue in the shape of the existing 'no surprises' policy, and I encourage your institution to maintain a policy of transparency in its operations, expenses and communications across all of Government.

Citizenship

This Government is committed to acting as a responsible citizen. In your role in the investment community you can play an important part by: adopting, sharing and promoting investment policies and practices with other areas of Government that are not only consistent with your mandate, but help lift New Zealand's reputational standing as a responsible investor in the international community. To achieve this, it is my expectation that CFIs maintain robust ethical investment policies which are reviewed regularly, and reflect best practice standards both here in New Zealand and internationally.

As CFIs with domestic investments you have a unique role in the future of New Zealand. While investments are undertaken with regard to purpose and investment mandates, there is a wider arc of responsibility. CFIs must be seen as 'good citizens' in their home markets; and be cognisant of second order effects in their investment activities.

It should be the goal of all CFIs in fulfilling their mandates to give consideration to the part they can play in New Zealand's financial market landscape - helping make the economy more productive and sustainable for all New Zealanders.

Expectations Specific to ACC

Investments Oversight: To the extent that matters arise with regard to ACC's investments function, I expect you to engage with me and / or the Treasury in the first instance, with information copied to the Minister for ACC. I request that the management of the

investments team discusses communications requirements with the Treasury, to ensure that there is an effective line of sight in this regard.

If you have any questions or require further clarification on any of my expectations, please contact Oliver Martin at the Treasury on 04 890 7284 in the first instance.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Grant Robertson', written in a cursive style.

Hon Grant Robertson
Minister of Finance

cc: John Healy
Chief Financial Officer
Accident Compensation Corporation
PO Box 242
WELLINGTON 6140



Appendix 4 – Other performance measures

Our statement of performance expectations by output presents our key and supporting performance measures. We have a set of other measures that we use to demonstrate the extent to which we are achieving our organisational health and capability intentions, and the performance of our assets.

Our organisational health and capability performance measures

TABLE 31: PERFORMANCE MEASURES – MAINTAIN A DIVERSE, HIGH-PERFORMING WORKFORCE EMPOWERED TO DELIVER GREAT CUSTOMER EXPERIENCES AND OUTCOMES

Measure	Rationale	Actual		Target			
		2017/18	Mar 2019	2019/20	2020/21	2021/22	2022/23
Key measure Employee net promoter score.	Equipping our staff with the right tools and capabilities enables them to be high-performing employees, proud of their organisation.	-6	-22	0	+12	+25	+28
Supporting measure Proportion of ACC staff who identify as Māori.	We are committed to being an equal employment opportunity (EEO) employer through our organisation-wide EEO good employer practices relating to the recruitment and selection, development and retention of all staff.	New measure	12% ¹	13%	14%	15%	15%
Supporting measure Proportion of ACC staff who identify as having a disability.	It is also important that our workforce reflects the community we serve.	New measure	15.4% ¹	15%	16%	17%	18%
Key measure Total recordable injury frequency rate.	We keep people safe, healthy and well, enabling them to arrive home in the same mental and physical condition they were in when they left for work.	6.1	3.3	6.1	5.8	5.5	5.2
Supporting measure Lost-time injury frequency rate. ²		1.4	1.3	1.4	1.2	1.1	1.0

TABLE 32: PERFORMANCE MEASURE – IMPROVE THE WAY WE USE, PROTECT AND SHARE INFORMATION

Measure	Rationale	Actual		Target			
		2017/18	Mar 2019	2019/20	2020/21	2021/22	2022/23
Key measure The number of category 3, 4 and 5 privacy breaches and near misses (as defined by the Government Chief Privacy Officer's privacy matrix).	We deal with confidential and sensitive information for a large number of people and entities. Our customers expect us to protect this information and maintain our progress in reducing privacy breaches.	0	0	<5 per year No category 5 privacy breaches	<5 per year No category 5 privacy breaches	<5 per year No category 5 privacy breaches	<5 per year No category 5 privacy breaches

¹ As at 31 December 2018.

² The lost-time injury frequency rate is the number of lost-time incidents per million hours worked.

TABLE 33: PERFORMANCE MEASURE – SUPPORT ACC BUSINESS OUTCOMES WITH MODERN, RELIABLE AND SECURE INFORMATION TECHNOLOGY

Measure	Rationale	Actual		Target			
		2017/18	Mar 2019	2019/20	2020/21	2021/22	2022/23
Key measure Overall operational system availability.	Our systems need to be available so that we can deliver the services our customers expect.	99.9%	99.7%	99.5%	99.5%	99.5%	99.5%

Asset performance measures

Cabinet Office Circular CO(15)5 introduced expectations for agencies to report on investment performance.

To address this requirement, we selected the following asset performance measures aligned with our two largest asset portfolios: property; and information and communications technology (ICT).

TABLE 34: ASSET PERFORMANCE MEASURES

Measure	Rationale	Actual		Target			
		2017/18	Mar 2019	2019/20	2020/21	2021/22	2022/23
ICT Utilisation: Average claims management system transaction time.	Measuring the time that it takes to complete a claim management transaction is a good indicator of whether our ICT asset portfolio is reaching maximum capacity.	372ms	397ms	≤475ms	≤450ms	≤425ms	≤400ms
ICT Condition: Percentage of time key applications and network are able to perform required functions.	This measure demonstrates the reliability, and therefore condition, of the underlying assets.	99.9%	99.7%	99.5%	99.5%	99.5%	99.5%
ICT Functionality: Total operational ICT spend per full-time equivalent (FTE).	Measuring ICT cost per FTE demonstrates the efficiency of our ICT expenditure and the value for money achieved in the delivery of functionality, and is able to be compared with that of peer groups to ensure that it is appropriate.	\$19,173	\$22,398	\$24,300	\$24,300	\$24,300	\$24,300
Property Utilisation: Square metres (m ²) of leased area per FTE.	This measure is applied across the entire leased property portfolio. Performance can be easily compared year on year and against the Government Property Group's guidelines.	17.3m ²	16.1m ²	12–16m ² /FTE	12–16m ² /FTE	12–16m ² /FTE	12–16m ² /FTE
Property Condition: Percentage of total leased area with a current code compliance certificate/building warrant of fitness.	This measure offers an independently assessed perspective of property condition. It is also easy to apply consistently to the entire leased property portfolio.	100%	100%	100%	100%	100%	100%
Property Functionality: Percentage of total leased area that meets or exceeds the ACC security standards.	We have ACC security standards in line with our current building security policy and regularly assess our total leased property portfolio against these standards.	100%	100%	100%	100%	100%	100%

Appendix 5 – Investment statement

The Government’s expectations

The Government’s expectations for ACC’s investment function are outlined in the letter of expectations to ACC from the Minister of Finance. The expectations for all Crown Financial Institutions are represented by four themes:

Fit for purpose:

- performance: focus on the appropriate balance of risk and return to assure performance can meet policy objectives and obligations. Inform the Minister of Finance and the Treasury of details of remediation where investment performance could affect ACC’s ability to meet its intended purpose.

Crown Risk:

- risk profile: proactively work with the Treasury to help develop a framework to aid the Government in consideration of risk and implication scenarios.
- complex products and activities: be mindful of fiduciary responsibilities and statutory duties where derivative instruments are employed.

Partnership:

- collaborative approach: actively and constructively engage across all of government to deliver positive outcomes for New Zealanders. Help all concerned to be more efficient in the use of scarce resources.
- no-surprises policy: maintain a policy of transparency in operations, expenses and communications across all of government.

Citizenship:

- ethical investment: maintain robust ethical investment policies that are reviewed regularly and reflect best practice both in New Zealand and internationally.
- good citizens: be seen as ‘good citizens’ in home markets, and be cognisant of second order effect in investment activities. Consider the part ACC plays in New Zealand’s financial landscape. Help make the economy more productive and sustainable for all New Zealanders.

There is also one expectation specific to ACC:

- Investments oversight: engage with the Minister of Finance and the Treasury as matters arise.

Discuss communication requirements with the Treasury to ensure there is an effective line of sight.

Investment context

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

Until 1999 ACC operated on a ‘pay-as-you-go’ basis, collecting only enough levies each year to cover the cost of claims for that particular year. In 1999 the Government decided to change the Scheme to a fully funded way of operating. That means we should now collect enough money during each levy year to fund all the future costs of any injuries that occur in that year.

Some people who are injured need ACC’s help for 30 years or more, so significant reserves must be built up to fund these future costs. This money is invested and earns returns that help to pay the costs of claims. While the ultimate cost of these claims are expected to far exceed the current value of our investments, we would be able to meet the future costs of these claims out of our investments if our long-term investment returns exceed inflation by at least 1.1% per annum. In order to reduce the risk that future levy payers may have to pay significantly higher levies to help fund the cost of injuries that have occurred in the past, we aim to protect ACC against the risk that investment returns could be lower than this by building an investment portfolio that is both likely to increase in value if real interest rates decline and unlikely to decline significantly in any one year.

As at 31 March 2019, ACC’s investment portfolio was worth \$42.7 billion. The OCL was \$48.4 billion, of which 88% was for claims covered on a fully funded basis.

Purpose

ACC’s investment portfolio aims to meet the future costs of claims as a result of injuries that have already occurred without the need for any catch-up contributions from future levy payers. ACC is currently less than fully funded in some Accounts;

this means there is a significant risk that catch-up contributions will be required in the future. To the extent that catch-up contributions may be required, we aim to reduce the impact that these may have on levy rates and on the contribution that the Government is required to make to the Scheme. We tend to favour long-term investments that we expect to deliver relatively certain income streams for long periods of time. Such investments match our long-term cash flow requirements and also tend to provide an offset against the risk of declines in interest rates. Interest rate declines mean that we need to put aside more money in the present to fund every dollar of future claim costs. Accordingly, if not offset by strong investment returns, a decline in interest rates may create a need for levy increases.

Governance

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

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

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

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

controls are enforced and that conflicts of interest are minimised.

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

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

Risk management

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

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

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

Ethical investment policy

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

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

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

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

UN Principles for Responsible Investment

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

Management strategy

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

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

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

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

Our investment objective

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

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

Investment strategy

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

We intend to continue actively managing all our investment portfolios. The majority of our investments are actively managed by our own investment staff, while about 18% of our investments are managed by external fund managers. Changes in the proportion of funds managed internally versus externally would most likely be affected by any decisions to change the allocation of funds between Australasia and global markets, as ACC manages most of its Australasian funds internally, and uses external fund managers for the majority of its global investments.

We intend to increase selectively the resourcing of the investment team during 2019/20. In particular, we will continue to expand the teams responsible for direct (unlisted) investments and the internally managed global equity portfolio.

We continue to work on initiatives to reduce the amount of credit exposure that ACC incurs as a result of its use of derivative contracts.

We intend to hold our investment costs at a similarly low percentage of the portfolio value to that we achieved in 2018/19.

Measuring performance

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

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

Inherently, most investment decisions involve a considerable degree of uncertainty and the outcomes of a few investment decisions in a short period of time could be regarded as being due more to luck than skill. But with enough time and enough

distinct investment decisions to consider, we should expect that any unpredictable positive or negative results will average out. Therefore investment performance over a longer timeframe is more likely to reflect mainly the quality of the investment decisions rather than the 'noise' of relatively unpredictable fluctuations in investment markets.

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

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

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

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

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

active management of investment portfolios can be measured in a meaningful way, particularly if considered in a timeframe of at least three years. We measure the performance of each portfolio against a relevant benchmark and measure our overall investment return against a composite benchmark.

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

Glossary of terms

ACC Scheme

New Zealand's no-fault accident insurance scheme that provides cover to all New Zealanders and visitors to our country.

Accident Compensation Act 2001 (AC Act)

The major piece of legislation under which ACC is governed.

Business customer

A business that pays a levy under the Scheme.

Client

A person who makes a claim under the Scheme.

Consumer price index

A measure of the price change of goods and services purchased by private New Zealand households.

Crown entity

An organisation in which the Government has a controlling interest.

Customer

A client, provider or business customer.

Durable-return-to-work rate

A measure of the percentage of clients who have returned to work and have remained at work.

Earners' Account

The Account for injuries that occur outside work (e.g. at home or playing sport).

Entitlement claim

A claim that has received additional support such as weekly compensation or social or vocational rehabilitation for a covered injury, as well as any funded medical treatment required.

Full-time equivalent (FTE)

The hours worked by one employee on a full-time basis, generally considered to be 35-40 hours per week.

Gradual process claims

Claims as a result of injuries that occurred due to prolonged exposure in the workplace to conditions that result in some form of harm (e.g. hearing loss).

Labour cost index

A measure of the increase in cost of salaries and wages paid to workers, commonly expressed as an annual percentage.

Levy

An amount charged, separate from general taxation, and used to cover the cost of injuries caused by an accident within the Motor Vehicle, Earners' and Work Accounts.

Long-Term Claim Pool

Clients who have been received weekly compensation payments for more than 365 days.

Motor Vehicle Account

The Account for all road-related injuries.

Net promoter score

A measure of how likely our employees are to recommend ACC as a place to work. Respondents rate themselves on an 11-point scale, with 0 being 'not at all likely' and 10 being 'very likely'. The net promoter score is the number of 'promoter' respondents (score 9-10) less the number of 'detractor' respondents (score 0-6). Scores range from -100 to +100.

Net trust score

A measure of the extent to which respondents have trust and confidence in ACC on a 0-10 scale grouped into four categories (low trust and confidence, medium trust and confidence, high trust and confidence, and don't know/refused). The net trust score is the number of respondents with high trust and confidence (score 9-10) less the number of respondents with low trust and confidence (score 0-6). Scores range from -100 to +100.

Non-Earners' Account

The Account for people not in the workforce, such as children and retirees.

Outstanding claims liability (OCL)

An estimate of the present value of expected future payments on all existing ACC claims.

Pay-as-you-go basis

Funding the costs of injuries as the costs are incurred.

Provider

A person or organisation providing a treatment or rehabilitation service to a client (eg a GP or physiotherapist).

Rate of serious injury

The number of new serious injury and fatal claims per 100,000 new registered claims.

Return on investment

The return or benefit obtained from an investment over and above the original investment, commonly expressed as a percentage or ratio.

Shaping Our Future

Our overarching strategy to look at how we operate, from our technology to how we train our people, while putting the customer at the centre of everything we do.

Statement of Intent

A statutory document that covers a four-year period and outlines our medium-term strategic intentions.

Strategic intentions

The areas that ACC has identified as needing the most focus during the period of the Statement of Intent (2018-2022).

Superimposed inflation

Increase in costs over and above baseline inflation.

Transformation Programme

A series of projects that was focused on improving our systems, processes and employee capabilities.

Treatment Injury Account

The Account for injuries caused by treatment.

Weekly compensation

Payments to a client who cannot work because of an injury, based on 80% of weekly income (capped) before the injury occurred.

Whāia Te Tika

Our strategy to pursue what is right for Māori and deliver on our aspirations.

Work Account

The Account for injuries that occur in the workplace.



Te Kaporeihana Āwhina Hunga Whara

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New Zealand Government

