Service Agreement 2017/18

Minister for ACC and the Accident Compensation Corporation

Contents

Service Agreement

For the year ending 30 June 2018 between the Minister for ACC and the Accident Compensation Corporation

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

Hon Michael Woodhouse
Minister for ACC
Dated 23 June 2017

Dame Paula Rebstock DNZM
Board Chair
Dated 23 June 2017

Trevor Janes
Deputy Chair
Dated 23 June 2017

How the Service Agreement aligns with our other accountability documents

We have three key accountability documents:

Statement of Intent

Covers a four-year period and outlines our medium-term strategic intentions

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Service Agreement

Annual agreement with the Minister for ACC setting out the services we will deliver and the expected performance standards

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Annual Report

Annual report that enables stakeholders to compare our actual performance with expected performance

Purpose of the Statement of Intent

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

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

Purpose of the Service Agreement

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

The Agreement outlines for the forthcoming year:

- what we will have delivered by 30 June 2018 to demonstrate progress against our strategic intentions
- the quality and quantity of services to be provided by ACC
- the expected cost of delivering those services
- the performance measures, targets and related information necessary for the Minister to assess our performance
- the nature and frequency of the reporting requirements against this Agreement
- how we will deliver our outputs: injury prevention, levy setting and collection, investment management, and claims management.

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

Purpose of our Annual Report

Our Annual Report provides information on our progress 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***

The Government's key priorities

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

- value for money and reporting – demonstrate ACC's commitment to value for money through the control of cost pressures
- collaboration – continued collaboration by ACC with other parts of the social sector
- transformation – maintain confidence in ACC's ability to deliver this complex programme of work.

Theme	Specific expectations
Value for money and reporting.	Balance transformation with strategies to address claims cost growth.
	Report clearly where ACC is taking a social investment approach.
	Ensure injury prevention value is delivered back to the Scheme.
	Build benefit profiles (including injury prevention) into financial forecasts.
	Support funding recommendations with strong performance stories, risks and opportunities.
	Reconsider the critical indicators of short/medium-term performance.
	Continue to improve the reporting of operational risks.
Collaboration.	Identify examples of successful social investment approaches.
	Deliver the joint workplace injury prevention action plan with WorkSafe New Zealand.
	Continue good engagement with the Government's functional leads.
	Demonstrate awareness of the contracting behaviours that can drive up prices in other sectors.
	Continue to work constructively and collaboratively with the Minister's office, the Ministry of Business, Innovation & Employment (MBIE) and the Treasury.
	Contribute to the Regulatory Systems Bill.
	Support work to future proof the Motor Vehicle levy framework.
	Implement proposed improvements to the ACC dispute resolution process, identified in the Government's response to the Miriam Dean QC report.
	Continue to deliver on the Better Public Services Result Areas' 9 and 10 commitments.
Transformation.	Maintain transparency of the Transformation Programme's ongoing status.
	Deliver the 2018 benefits.
	Report integration points with other Government transformation programmes.

The Government's key priorities for ACC as a Crown Financial Institution are defined in the annual letter of expectations from the Minister of Finance. These priorities are presented in Section 3: Investment statement.

The 2017/18 letters of expectations from the Minister and the Minister of Finance are attached in Appendix 1: Letters of expectations.

SECTION 1:

Our strategic intentions

"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

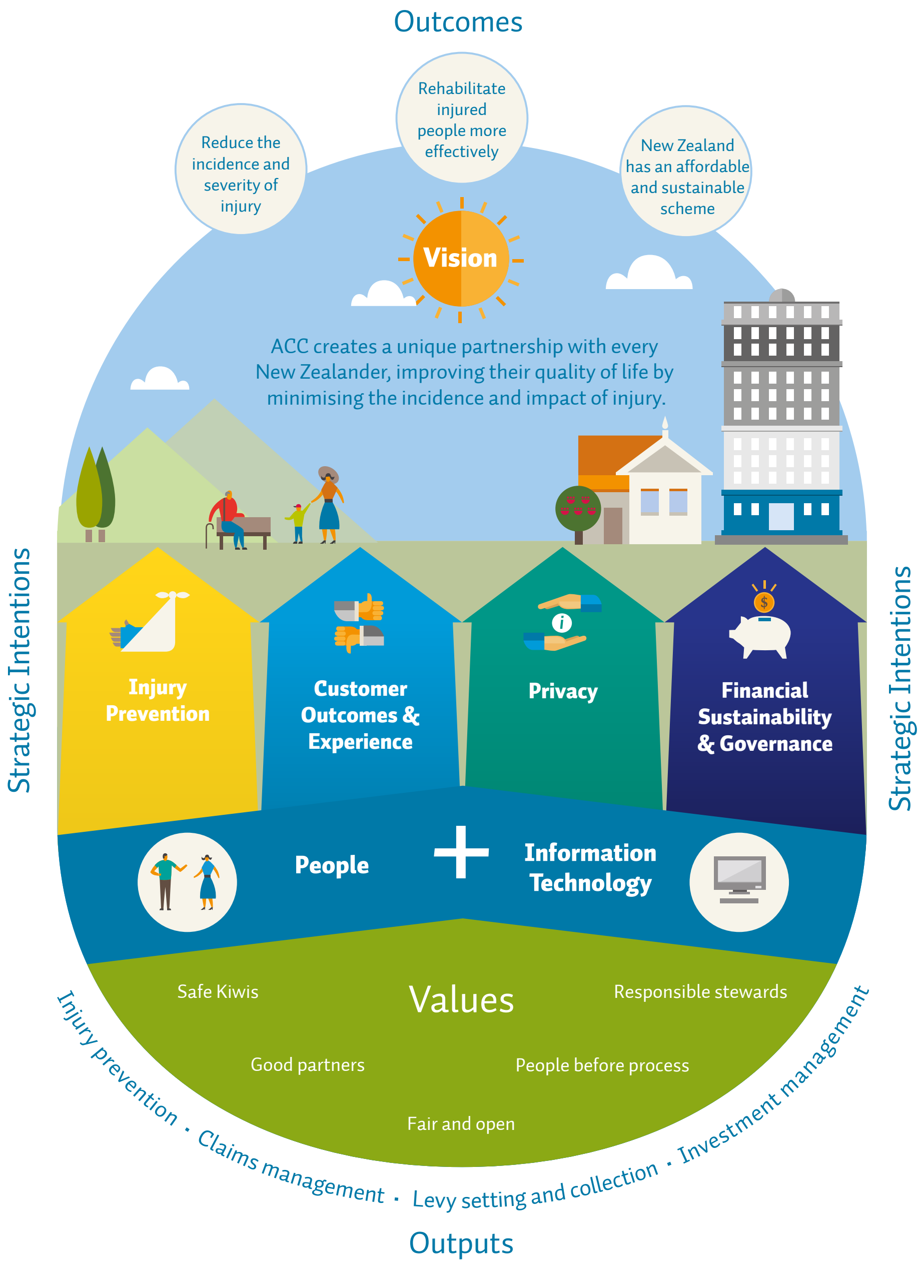
ACC's vision and values reflect the organisation we want to be and the vision established by Sir Owen Woodhouse.

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 (2015-2019). There is a strong alignment between our outcomes and our strategic intentions.

These intentions are expressed as our commitment to achieve:

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

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



Assessing our performance

We are focused on improving our performance while successfully delivering our transformation.

Through the course of 2017/18, we will manage the organisation in a way that strikes the right balance between financial sustainability and delivering the services our customers expect.

To do this, we need to have a good understanding of the drivers of performance. This understanding allows us to regularly forecast the drivers' potential impact and to manage the Scheme in a way that mitigates the impact of these drivers. For the Scheme, there are five main drivers:

- claim volume – we offset some of the claim volume growth through our injury prevention activities. Our relationships with providers are also important in ensuring we are responsible for all the injuries covered by the AC Act and that injuries are treated appropriately. We actively monitor the way treatment and rehabilitation costs change as our claim volumes change, allowing us to take early actions where we see 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 services we purchase exposes us to additional cost inflation that is specific to treatment and rehabilitation services. To make sure our efforts are making 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 newly covered by the Scheme. We closely monitor rehabilitation performance of the services we offer, ensuring those services offer the best balance between client rehabilitation outcomes and financial sustainability. We test this balance by monitoring return to work rates and 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 impact of these changes. Additions to the Scheme (such as the introduction by the Government of free medical care for children aged 12 and under from 1 July 2015) can increase the number of claims we accept and push up our overall costs of providing treatment and rehabilitation services.
- economic factors – we employ active strategies to ensure our assets and liabilities are matched so, where possible, the impacts of movements in key economic factors are hedged. We have also recently reviewed the funding policy for the levied accounts to ensure that levy payers are able to spread any impacts over a 10-year period. Given the size of our balance sheet relative to our underlying costs, small movements in interest rates and investment earning can have a material impact on the solvency of the Scheme.

With these drivers in mind we have selected a small, balanced set of measures that best reflects the aspects of our performance we can control. These measures are closely aligned with the expectations of the Minister, as expressed in the Letter of Expectations. Our management team and Board are committed to ensuring our performance is tracking as expected.

Our key performance measures

	Measure	Rationale	Actual 2015/16	Actual Mar 17	Target 2017/18
Injury prevention	The portfolio of injury prevention investments will have an assessed positive return on investment.[1]	We take a portfolio approach. This means overall we expect our injury prevention programmes to deliver positive returns on investment.	$1.60:$1	$1.87:$1	$1.70:$1
	Total direct reach for planned injury prevention programmes.	The success of our injury prevention programmes relies on our ability to connect with a large number of New Zealanders through a range of programmes.	New Measure	468,472	375,000
	Total investment across all injury prevention programmes.		New Measure	New Measure	$71.6m
Customer outcomes and experience	Return to work within 10 weeks.	Research confirms that when people make rapid returns to independence or work after injury, their overall health and wellbeing is significantly improved.	67.6%	68.4%	69.0%
	Return to work within nine months.		92.8%	93.0%	93.2%
	Return to independence for those not in the workforce.		86.7%	85.6%	86%
	Net movement in the number of clients receiving weekly compensation for more than one year.		807	362	518
	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.	62%	63%	65%
Privacy	The number of category 3, 4 and 5 privacy breaches and near misses (as defined by the Government Chief Privacy Officer's privacy matrix).	We deal with confidential and sensitive information for a large number of people and entities. Our customers expect us to protect this information and maintain our progress in reducing privacy breaches.	New measure	1	<5 per year No category 5 privacy breaches
Financial sustainability and governance	Percentage of total expenditure paid directly to clients, or for services to clients.	Key cost drivers are influenced by underlying new claim numbers, entitlement claim numbers, and the average cost of claims.	86.0%	86.1%	86.2%
	Change in average treatment cost per injury.		1.7%	1.9%	≤2.9%
	Growth in average care hours packages.	We need to manage rising health care costs that also affect future liabilities and levy rates. We focus on controllable costs, ensuring that all services are delivered cost-effectively.	3.0%	5.7%	≤2.2%
	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 against the asset classes that we have invested in.	0.55%	1.08%	0.30%

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 forecasted claims saved divided by the likely future cost of future interventions. Together, these provide a return per dollar invested at a point in time.*

	Measure	Rationale	Actual 2015/16	Actual Mar 17	Target 2017/18
Transformation	Claims processed per full-time equivalent (FTE).	Improving the productivity of ACC drives improved customer satisfaction and contributes to safeguarding the Scheme into the future.	New measure	586	582
	Reduction in average weekly compensation days paid.	Reducing the number of productive days lost to injury attributable to ACC's management of cases helps our clients return to work and/or independence more quickly.	New measure	-0.9 days	0.3 days
	Client net trust score.	Improving customer experiences, while delivering services through a simplified business operating structure and enhanced technology platform, will increase the level of trust and confidence our customers have in ACC.	New measure	19	26.5
	Business customer net trust score.		New measure	-32	-31
	Provider net trust score.		New measure	-11	-7.1
	Employee net promoter score.	Equipping our staff with the right tools and capabilities enables them to be high performing employees, delivering ACC's core services more efficiently.	New measure	-3	1.5

These form part of a comprehensive range of measures set out in more detail 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 Appendix 3: Our performance measures.

How we will deliver on our strategic intentions in 2017/18

This Agreement summarises what we will have delivered by 30 June 2018 for each strategic intention. It also demonstrates how we are intending to respond to the expectations of the Minister for ACC and the Minister of Finance.

Increase the success of our injury prevention activities

We invest in injury prevention because it will reduce the harm to individuals and reduce long-term costs, not only for ACC but also for other agencies providing responses to the consequences of injuries. We are focused on delivering more successful injury prevention activities over time.

Our ability to work with partners to prevent injuries occurring in the first place will have positive impacts that go beyond the physical effects on individuals. We know that most injuries are preventable, and we focus on the activities and drivers that contribute most to injuries occurring.

What we want to achieve	What we will have delivered by 30 June 2018
We understand which areas will have the most impact on reducing the severity and incidence of injury for New Zealanders and this is where we focus our activity.	We will have designed and delivered new initiatives in the seven areas[2] that have the greatest impact on our claims liability. This represents our continued commitment to applying an investment approach to our injury prevention initiatives.
	We will have developed more partnerships that are reducing the incidence and severity of injuries, as well as delivering a positive return on our injury prevention investment.
	We will have made clear to New Zealanders what ACC's role in patient safety is, how ACC is working with providers to reduce treatment injuries and what impact we are making together.
We use our partner's expertise and reach to deliver and design effective injury prevention interventions.	Together with WorkSafe New Zealand, we will have implemented the agreed Harm Reduction Action Plan that outlines all workplace injury prevention programmes that will be delivered by the two agencies (either jointly or separately). The Plan aims to achieve positive health and safety outcomes, and support the Government's target of reducing serious injuries and fatalities in the workplace by at least 25% by 2020.
Injury prevention interventions are assessed to ensure they contribute to an overall reduction in the outstanding claims liability (OCL).	We will have continued to take a systematic, portfolio approach to the identification, selection and assessment of our injury prevention interventions. We will have stopped interventions where they are failing to deliver the expected benefits.

2 *The seven areas are falls, sport and recreation, community, road, work, treatment injury, and violence injury prevention.*

Improve our customers' outcomes and experiences

We ensure people with injuries covered by the Scheme get the treatment and rehabilitation they need to return to full roles in society as quickly as possible. Research demonstrates that a rapid return to independence after injury makes a significant improvement to peoples' overall health and wellbeing while reducing the adverse social and economic impacts of their injuries on their families, communities and New Zealand.

This means we focus on ensuring out clients receive the right care at the right time.

We also want to continue to improve the experience of those who interact with us including injured people, levy payers and providers. We are also focused on ensuring our services reflect the diversity of our communities so that all of our customers have the opportunity to access our services in ways that meet their needs.

What we want to achieve	What we will have delivered by 30 June 2018
New Zealanders understand what we do and how we can help them.	Customers and ACC employees will see a clearer description of ACC and the services we provide. Messaging through a consistent ACC story in all our communications will provide greater insight for New Zealanders into the Scheme, the functions of the Corporation and the outcomes we are seeking. Alongside this we will have delivered a new ***www.acc.co.nz*** website that will be mobile friendly and easier for customers to use and understand.
Customers receive the services they need, when they need them.	We will have improved the way we deliver services to Māori by better understanding and responding to their needs and expectations.
	We will have worked to improve our case management approach to focus resources and effort where they can have the greatest impact and influence on client outcomes. We will be able to demonstrate clearly the gains and benefits achieved from this use of the investment approach.
	We will have worked collaboratively with the Minister and other government agencies through the continued delivery of our Transformation Programme. We will have successfully delivered, or be well underway with, the Programme's 'modernisation' initiatives. These initiatives will have focused on simplifying systems and processes for clients and business customers, including: • self-service option, simplified claims lodgement, streamlined weekly compensation payments, and a well-equipped contact centre • further foundational capabilities including operational reporting, enterprise business rules, application program interface (API) strategy development, and enterprise knowledge base • key changes to improve employee experience and ACC outcomes such as a customer-centric claims system and off-site safety. We will have met the planned milestones, delivered the targeted initiatives and realised the expected benefits. This progress will have been reported in a clear and transparent style.
	We will have worked constructively with MBIE to update ACC regulations where required.
	We will have improved our Official Information Act practices as set out in Commitment 2 of the Open Government Partnership National Action Plan 2016-2018.
	We will have successfully implemented changes to ACC's dispute resolution processes in response to the recommendations of the Miriam Dean QC review.
We empower providers to deliver the right care, at the right time, by building effective trust and partnerships.	We will have worked closely with providers to deliver an efficient, effective and affordable service for clients, helping them back to pre-injury life. We will have designed improved ways to purchase and support the delivery of high-quality, well integrated and cost-effective services that lead to better overall client experiences and outcomes.
We take customer feedback seriously and improve services as a result.	We will have used our customer advocacy network to support our efforts to better understand and improve customer experiences.
	We will have improved our processes and insights to deliver improved customer experiences.

What we want to achieve	What we will have delivered by 30 June 2018
Partnering is the essence of what we do and how we engage with others.	We will have developed our approach for better aligning our investments to social outcomes, including how we measure whether desired outcomes are being achieved from those investments. We will have supported the further expansion of the use of the investment approach across the social sector to improve client outcomes by working with and advising other agencies that are developing and using their own investment approaches.
	We will continue to support the Better Public Services Result Areas: • Result 9: Improving Business' Interactions with Government programme including our commitment to recognising the New Zealand Business Number through our Transformation Programme by the end of 2017 • Result 10: New Zealanders can complete their transactions with government easily in a digital environment, including our plan to provide self-service options to our customers through the Transformation Programme.

Improve the way we protect our customers' personal information

We deal with confidential and sensitive information for a large number of people and entities including clients, providers and employers. We have made significant improvements in the way we manage our customers' information and we are focused on continuing to embed this 'privacy by design' approach across our processes and systems.

What we want to achieve	What we will have delivered by 30 June 2018
Our people respect and protect customer information as if it were their own.	We will have improved how we manage customer information by progressing the implementation of ACC's four-year Privacy Maturity Plan.
Processes and systems are designed to minimise the possibility of privacy breaches occurring.	We will have continued to use a 'privacy by design' approach to drive improvement into the underlying design of ACC's processes and systems.

Maintain the financial sustainability and governance of the Scheme

We must have a strong platform from which we can provide the right balance of quality, efficiency and effectiveness of services to our clients and levy payers while improving our financial position. Our consistent focus on the rehabilitation of clients, prudent cost management and good investment performance underpins this financial position.

A stable levy path enables levy payers to have predictability and consistency in the levies they pay over time. By being responsible stewards of the Scheme, we will continue to improve the stability of the levy path.

What we want to achieve	What we will have delivered by 30 June 2018
We optimise our performance and resources are aligned with our strategic priorities.	Aligned with the aim of the Transformation Programme to deliver consistent and improved services and outcomes to customers, we will have confirmed our approach to how and where we deliver services. This includes the location of our services and the resources required.
	We will have prepared the Statement of Intent, incorporating feedback from the 2017 Performance Improvement Framework review and a longer-term view of ACC's strategic challenges.
	We will have delivered savings through cost-reduction initiatives and improved supplier/customer outcomes by broadening the targeted opportunities to new categories of spend.
We enable a stable and transparent levy path.	We will have developed a robust and effective way of communicating our performance and the impacts of our management interventions and integrated this into our 'business as usual' performance management activity. We will more effectively link our operations, finance and actuarial functions to deliver better, more consistent performance.
	We will have increased confidence in our ability to identify and quantify benefits. Proposed financial benefits will have been achieved, with benefits for future periods incorporated into budgets.

What we want to achieve	What we will have delivered by 30 June 2018
	We will have reviewed the Motor Vehicle Account and levy framework to ensure they are fit for purpose.
	Our people will understand the individual and collective impact they can make to mitigate the impact of the external pressures we face.
We maintain our investment performance above benchmarks.	We will have continued to manage our investments with the objective of obtaining the best possible balance of risk and return.
	We will have kept the Minister of Finance informed of any significant strategic changes which may be implemented in response to the pressures created by declining bond yields.
Risk management is embedded in our culture and systems.	We will have used consistent, high-quality risk practices across ACC supported by an improvement in the quality and impact of our risk reporting. This will have provided us with a clearer understanding of risks and allowed a thoughtful consideration of those risks when making decisions.

Organisational health and capability

To deliver on our strategic intentions we need high-performing, customer-focused teams that are supported by modern, reliable and secure systems. This section sets out the actions we intend to take during 2017/18 to improve our organisational health and capability.

Workforce profile and equal opportunities (as at March 2017)

Full-time equivalent

3,338

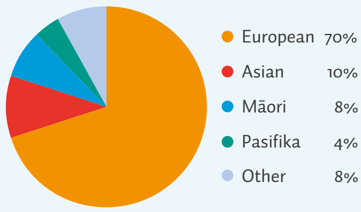
3,338 permanent and temporary staff
2,038 direct frontline staff
531 indirect frontline staff

Headcount

3,524

3,524 permanent and temporary staff

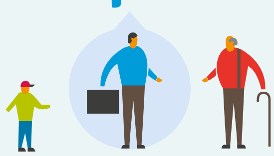
Ethnic profile*



Ethnic diversity remains stable

Age profile

41



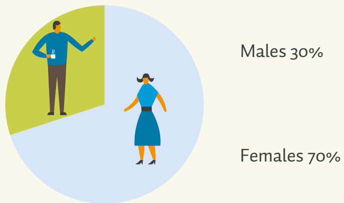
Average age 41 years

Disability profile*

1.2%

Our proportion of employees with disabilities is 1.2% (permanent staff)

Gender profile



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

* This information is voluntarily reported by staff.

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

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

Our organisational culture and capabilities underpin our ability to deliver on our strategic intentions. We are focused on continuing to develop and sustain high performing, customer-focused team led by capable leaders across ACC.

Given our role and mandate in workplace health and safety, it is important that ACC continues to demonstrate safety leadership and excellence in the workplace.

What we want to achieve	What we will have delivered by 30 June 2018
We have a diverse and high-performing workforce empowered to deliver a consistently great customer experience.	We will have defined the core competencies that reflect our vision and values, support the Transformation Programme, align to the desired culture and ensure we have the right people in the right roles at the right time for the organisation to be successful.
	We will have designed and delivered business groups' structural changes that are aligned to the Transformation Programme's future requirements.
	We will have further developed capability in our key performers and across our leadership roles.
	We will have completed an accessibility review of our whole working environment and identified opportunities to be inclusive and increase the diversity in our workforce.
Our people are proud to work here and tell others how great ACC is.	We will have improved employee performance across the organisation by simplifying the performance development cycle and encouraging more frequent performance conversations between managers and employees. This will have supported an increase in our employees' sense of pride in ACC, especially as we continue to roll out our Transformation Programme's big changes.
We are an exemplar in health, safety and wellbeing.	We will have maintained our strong culture of health and safety and continued to ensure compliance with legislation.
We have trusted and capable leaders at all levels.	We will have ensured that our leaders are well supported with leadership advice and development plans. This will have enhanced their ability to lead ACC through our Transformation Programme.

ACC is powered by current, reliable and secure information technology

Our customers expect a better experience and we are committed to delivering it. This means that we must offer customers more choice and less effort in their interactions with us. Our systems and technologies should enable us to do this.

What we want to achieve	What we will have delivered by 30 June 2018
We have simple and modern business systems.	We will have implemented a real-time customer feedback system, enabling us to understand our customers' experiences 'in the moment' and respond quickly to their changing needs.
	We will have delivered systems to simplify levy invoicing, revenue collection and product management.
	We will have achieved operational efficiencies in our HR tools and processes by better utilising our systems and automating key talent processes. These improvements will have reduced the time to hire and familiarise our employees with our business, reducing privacy risks and supporting Transformation Programme initiatives.
We have secure, private, automated information management practices.	We will have strengthened the way data and information are governed, managed and protected to ensure that: • we have a data and information governance framework that clearly establishes accountabilities and includes the processes, roles, standards and metrics that drive the effective and efficient use of information • we maintain appropriate protection of information, including the prevention of unauthorised access to our data and systems • our employees and third parties are aware of and are able to identify information security risks • we constantly monitor and act on increasing our perimeter security, data security and cyber security • we reduce detection time and align our response options.

What we want to achieve	What we will have delivered by 30 June 2018
We deliver a consistent customer experience across our channels, making better use of digital and modern technologies.	We will have modernised the way ACC interacts with customers over telephony channels, making interactions more efficient and effective. This includes more customers having enquiries resolved during their first contact with ACC. Customers will have reached the right people at ACC to assist them more often, more easily. We will have improved the efficiency of our outbound calling to customers.
We maintain stability across the business systems environment.	We will have ensured the stability and security of our information technology by delivering a robust maintenance programme.

Our Transformation Programme

Work is underway to roll out targeted improvements to customer services and outcomes following the approval by the ACC Board of our Transformation Programme. We will deliver the programme in two stages in a five-year period to enable us to meet delivery objectives while ensuring minimal disruption to business operations. We are taking a steady, incremental approach where all significant new initiatives will be fully tested before going live, with appropriate assurance in place including external independent quality assurance.

The first tranche focuses on solutions that can be delivered in 2017/18 and includes:

- service improvements for business customers (levy payers) such as simplified levy invoices, which have already been introduced, and enabling more digital interactions with ACC
- an improved weekly compensation experience through clients being able to access compensation more quickly. Removing delays will enable a greater focus on rehabilitation
- customers being able to access online information more easily through a revised **www.acc.co.nz** website.

Throughout this work, we will continue to collaborate with other Government agencies' transformation programmes.

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

How we will know we are on track

		Actual		Target			
Measure	**Rationale**	**2015/16**	**Mar 17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**
Claims processed per FTE.	Improving the productivity of ACC drives improved customer satisfaction and contributes to safeguarding the Scheme into the future.	New measure	586	582	593	593	605[3]
Reduction in average weekly compensation days paid.	Reducing the number of productive days lost to injury attributable to ACC's management of cases helps our clients to return to work and/or independence more quickly.	New measure	-0.9 days	0.3 days	0.5 days	2.0 days	4.25 days[4]
Client net trust score.	Improving customer experiences, while delivering services through a simplified business operating structure and enhanced technology platform, will increase the level of trust and confidence our customers have in ACC.	New measure	19	26.5	30.6	34.8	39.0
Business customer net trust score.		New measure	-32	-31	-22	-22	-9
Provider net trust score.		New measure	-11	-7.1	-4.8	2	2

3 *The target increase in claims processed per FTE is expected to deliver cumulative nominal savings of $79.9 million over the five-year period ended 30 June 2021.*

4 *The target reduction in the average weekly compensation days paid is expected to deliver cumulative nominal savings of $59.5 million over the five-year period ended 30 June 2021.*

Measure	Rationale	Actual 2015/16	Actual Mar 17	Target 2017/18	Target 2018/19	Target 2019/20	Target 2020/21
Employee net promoter score.	Equipping our staff with the right tools and capabilities enables them to be high-performing employees, delivering ACC's core services more efficiently.	New measure	-3	1.5	8.2	14.9	25

The net trust score is based on a methodology that is used across industries and globally, adapted for the non-competitive environment we operate in.

The employee net promoter score is the measure for assessing our employee engagement, using a method similar to the one used for the net trust score. The employee net promoter score is a management tool for tracking how internal staff feel about working at ACC.

SECTION 2:

ACC's statement of performance expectations by output

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

The information includes:

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

We will report quarterly against a wide range of output performance measures to assess whether our activities are making a difference the extent to which we are achieving our strategic intentions. Each measure has a target for each year from 2017/18 to 2020/21.

Breakdown of budget against output classes

Budget 2017/18 ($million)	Administration	Claims paid	Revenue
Output class 1 – Injury prevention	72		
Output class 2 – Levy setting and collection	39		4,104
Output class 3 – Investment management	73		1,462
Output class 4 – Claims management	459	4,076	
Total	**643**	**4,076**	**5,566**
Other operating costs	80		
Total ACC	**723**	**4,076**	**5,566**

Aligning our strategic intentions to the outputs

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

Strategic intention	Output	How
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 experience	**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 (ie those who have been injured) and their families to return them to independence as soon as possible
Improve the way we protect our customers' personal information	**Output 2:** Levy setting and collection	By protecting the information we hold about employers and employees
	Output 4: Claims management	By protecting the information we hold about our clients
Maintain the financial sustainability and governance 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.

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 Outstanding Claims Liability, and levies.

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

How we will know we have achieved this

Output 1 – Injury prevention (key performance measures)

		Actual		Target			
Measure	**Rationale**	**2015/16**	**Mar 17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**
The portfolio of injury prevention investments will have an assessed positive return on investment.	We take a portfolio approach. This means that overall we expect our injury prevention programmes to deliver positive returns on investment. Taking a portfolio approach means we are able to invest in a wide range of injury prevention activities with a mixture of higher and lower expected returns across the individual activities.	$1.60:$1	$1.87:$1	$1.7:$1	$2:$1	$2:$1	$2:$1
Total direct reach for planned injury prevention programmes.	The success of our injury prevention programmes relies on our ability to connect with a large number of New Zealanders through a range of programmes.	New measure	468,472	375,000	400,000	425,000	450,000
Total investment across all injury prevention programmes.		New measure	New measure	$71.6m	$80.0m	$80.0m	$80.0m
Work portfolio.		New measures	New measures	16 programmes 21,300 direct reach $12.9m investment	17 programmes 22,800 direct reach $14.6m investment	18 programmes 24,200 direct reach $14.0m investment	19 programmes 25,600 direct reach $14.0m investment
Falls portfolio.		New measures	New measures	4 programmes 25,400 direct reach $12.2m investment	4 programmes 27,100 direct reach $13.5m investment	5 programmes 28,800 direct reach $14.0m investment	5 programmes 30,500 direct reach $14.0m investment

Measure	Rationale	Actual 2015/16	Actual Mar 17	Target 2017/18	Target 2018/19	Target 2019/20	Target 2020/21
Road portfolio.		New measures	New measures	12 programmes 26,500 direct reach $10.8m investment	13 programmes 28,300 direct reach $12.1m investment	14 programmes 30,000 direct reach $12.0m investment	14 programmes 31,800 direct reach $12.0m investment
Sport and recreation portfolio.		New measures	New measures	14 programmes 185,400 direct reach $10.6m investment	16 programmes 197,600 direct reach $11.8m investment	18 programmes 210,100 direct reach $12.0m investment	18 programmes 222,400 direct reach $12.0m investment
Treatment injury portfolio.		New measures	New measures	9 programmes 800 direct reach $10.6m investment	10 programmes 900 direct reach $12.0m investment	11 programmes 900 direct reach $12.0m investment	12 programmes 1,000 direct reach $12.0m investment
Community portfolio.		New measures	New measures	8 programmes 99,100 direct reach $7.1m investment	8 programmes 105,700 direct reach $7.7m investment	9 programmes 112,300 direct reach $8.0m investment	9 programmes 118,900 direct reach $8.0m investment
Violence portfolio.		New measures	New measures	15 programmes 16,500 direct reach $7.4m investment	16 programmes 17,600 direct reach $8.3m investment	17 programmes 18,700 direct reach $8.0m investment	18 programmes 19,800 direct reach $8.0m investment

For more information on the performance measures we use to assess our output performance, refer Appendix 3: Our performance measures.

OUTPUT 2:

Levy setting and collection

What is intended to be achieved?

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

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

How we will know we have achieved this

Output 2 – Levy setting and collection (key performance measures)

		Actual		Target			
Measure	Rationale	2015/16	Mar 17	2017/18	2018/19	2019/20	2020/21
Customer satisfaction – levy payers.	The best measure of how well we are tracking in our efforts to improve the customer experience is by asking our clients and levy payers.	69%	70%	71%	75%	77%	80%
Work Account solvency.[5]	The solvency of our levied Accounts, which is measured as the ratio of net assets to the Outstanding Claims Liability in each Account, provides an indication of funding adequacy. The AC Act sets a goal of full funding for the levied Accounts.	117.2%	128.7%	124.6%	125.8%	126.5%	127.4%
Earners' Account solvency.		112.8%	123.1%	109.5%	107.5%	105.3%	102.9%
Motor Vehicle Account solvency.		107.8%	115.6%	109.7%	110.6%	110.9%	110.8%
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.	0.8	Annual measure	0.7-0.8	0.7-0.8	0.7-0.8	0.7-0.8

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

How we are funded

The Account and who funds it	What's covered		2014/15	2015/16	2016/17	2017/18
Work Account **Employers:** Based on wages paid to staff **Self-employed:** Based on income earned	WORK RELATED INJURIES		$0.95 per $100 liable earnings	$0.90 per $100 liable earnings	$0.80 per $100 liable earnings	$0.72 per $100 liable earnings
Earners' Account **Employees:** Based on income earned **Self-employed:** Based on income earned	NON-WORK INJURIES TO PEOPLE IN EMPLOYMENT		$1.26 per $100 liable earnings	$1.26 per $100 liable earnings	$1.21 per $100 liable earnings	$1.21 per $100 liable earnings
Motor Vehicle Account **Vehicle owners:** Funded through petrol use and the motor vehicle licensing fees	INJURIES THAT INVOLVE MOVING MOTOR VEHICLES ON PUBLIC ROADS		$330.68 per motor vehicle	$195.00 per motor vehicle	$131.00 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					

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

Activity information

Income by Account

The table below shows the 2017/18 forecast number of funders, and the levy and appropriation revenue, for each Account.

		2017/18 Forecast
Levy-funded Accounts		
Work Account	Number of employed and self-employed	2,513,000
	Levy revenue ($million)	742
Earners' Account	Number of earners	2,513,000
	Levy revenue ($million)	1,440
Motor Vehicle Account	Number of vehicles	3,735,000
	Levy revenue ($million)	424
Government-funded Account		
Non-Earners' Account	Number of non-earners	2,291,000
	Government appropriation ($million)	1,190
Mixed-funded Account		
Treatment Injury Account	Number of non-earners	2,291,000
	Government appropriation ($million)	164
	Number of earners	2,513,000
	Levy revenue ($million)	144

Scheme solvency

Financial sustainability is best shown by Scheme solvency, which is measured as the ratio of net assets 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 levied Account.

Each Account operates independently and cannot cross-subsidise another. For this reason, we also monitor forecast funding ratios by Account for the year.[6]

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

As at 30 June (%)	Forecast 2016/17	Budget 2017/18
Motor Vehicle Account	109.9%	109.7%
Non-Earners' Account	43.2%	43.3%
Earners' Account	114.1%	109.5%
Treatment Injury Account	69.9%	69.9%
Work Account	124.7%	124.6%
ACC	**94.4%**	**93.3%**

The Non-Earners' and Treatment Injury Accounts' solvency positions appear low. 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 through appropriation on a fully-funded basis (excluding the inclusion of a risk margin on the liability being funded).

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

- *the total forecast ACC Work Account funding ratio as at 30 June 2017 is 147.1%*
- *the total forecast ACC funding ratio as at 30 June 2017 is 97.1%*
- *the budgeted Work Account funding ratio as at 30 June 2018 is 146.9%*
- *the total budgeted ACC funding ratio as at 30 June 2018 is 95.9%.*

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 an offset against the risk of declines in interest rates. Interest rate declines mean that we need to put aside more money in the present to fund every dollar of future claim costs.

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

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

How we will know we have achieved this

Output 3 – Investment management (key performance measures)

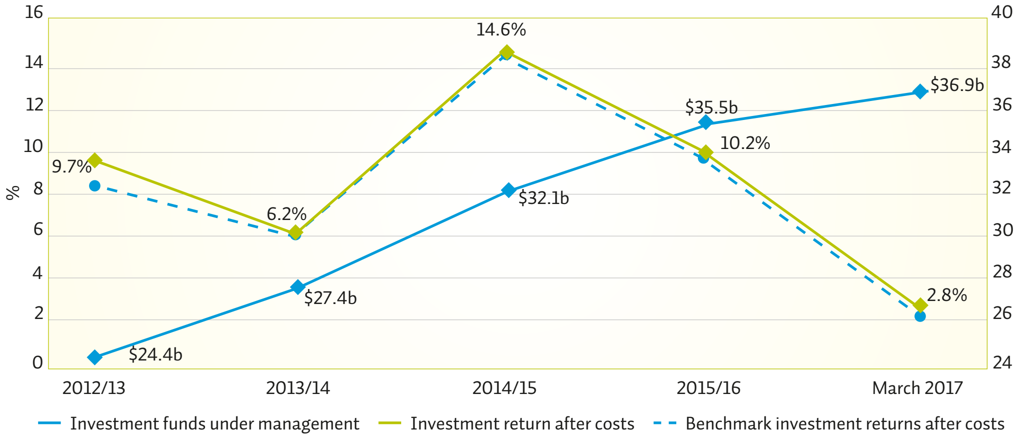
		Actual		Target			
Measure	**Rationale**	**2015/16**	**Mar 17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**
Investment performance after costs relative to benchmark.	The quality of our investment management can only be gauged by comparing our returns net of costs with that of a blended market average benchmark, which provides a comparison against the asset classes that we have invested in.	0.55%	1.08%	0.30%	0.30%	0.30%	0.30%
Investment management costs as a proportion of total funds under management.	The efficiency of our investment management is measured by expressing total investment management costs as a proportion of the total funds under management.	0.13%	0.11%	0.15%	0.15%	0.15%	0.15%

Activity information

Investments

ACC had $36.9 billion of investment funds at the end of March 2017 and has returned 2.81% in the 2016/17 financial year to date.

FUNDS UNDER MANAGEMENT AND INVESTMENT RETURNS



OUTPUT 4:

Claims management

What is intended to be achieved?

We help injured people covered by the Scheme 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

Output 4 – Claims management (key performance measures)

		Actual		Target			
Measure	**Rationale**	**2015/16**	**Mar 17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**
Customer satisfaction – clients.	The best measure of how well we are tracking in our efforts to improve the customer experience is by asking our clients.	76%	78%	77%	80%	80%	80%
Formal reviews as a percentage of entitlement claims.	If we make the right decisions and communicate effectively with our clients during the process, we can expect most of our decisions to be accepted and understood.	2.5%	2.7%	2.6%	2.3%	2.3%	2.3%
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.	67.6%	68.4%	69.0%	69.6%	70.4%	70.6%
Return to independence for those not in the workforce.		86.7%	85.6%	86%	86%	86%	86%
Number of long-term[7] clients returned to independence in the previous 12 months.	We continue to work with long-term clients so they can have as full a role in society as possible.	2,796	3,250	3,531	3,793	4,320	4,505

Assessing the cost effectiveness of our claims management operations

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

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

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

These measures are intended to enable our performance to be evaluated by the types of service provided, for example rehabilitation or elective surgery, in the areas that have the greatest impacts on Scheme costs.

Output 4 – Claims management (key cost effectiveness measures)

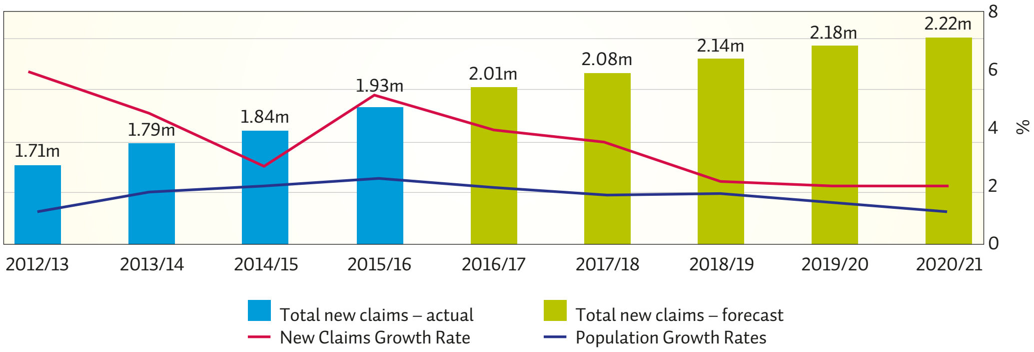
	Actual		Target			
Measure	2015/16	Mar 17	2017/18	2018/19	2019/20	2020/21
Growth in average care hours packages.	3.0%	5.7%	≤2.2%	≤2.1%	≤2.1%	≤2.1%
Net movement in the number of clients receiving weekly compensation for more than one year.	807	362	518	405	134	22
Growth in average elective surgery cost per claim.	3.6%	2.4%	≤3.9%	≤3.9%	≤3.9%	≤3.9%
Average cost per claim. Administration costs less investment management and injury prevention costs/active entitlement claims.	$2,370	$2,513	$2,277	$2,104	$1,924	$1,882

Activity information

Claims activity

Sustained growth in claim volumes has put pressure on rehabilitation performance.

TOTAL NEW REGISTERED CLAIMS BY YEAR vs. RATE OF NEW CLAIMS AND POPULATION GROWTH



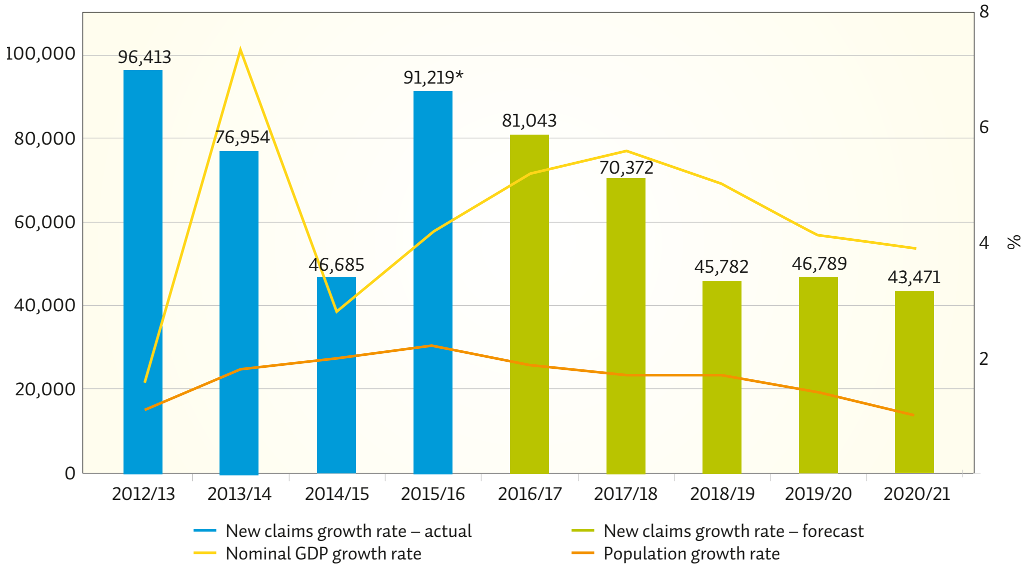
Our analysis has demonstrated a strong correlation between claim volume growth and four key drivers:

- **population** – as the population increases, the number of claims increases (assuming the rate of injury stays constant)
- **gross domestic production (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 have developed a model to help us to forecast claim volumes in order to ensure that we can respond to the anticipated demand for our services. If actual claim volumes differ significantly from our forecast claim volumes, this may affect our ability to achieve performance targets successfully.

Forecasts of the cost drivers show a general decline in the growth rates (and absolute rate in the case of unemployment) between June 2016 and June 2021. We expect this will result in a reducing rate of new claims growth over the next four years.

TOTAL NEW REGISTERED CLAIMS BY YEAR vs. SELECTED CLAIMS DRIVER RATES BY YEAR



* 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.

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

Measure	Definition	2013/14	2014/15	2015/16	Mar 17
Registered claims.	Total number of registered claims in the period.	1,791,684	1,838,369	1,929,588	1,966,883*
Medical-fees-only claims.	Total number of medical-fees-only claims in the period.	1,572,413	1,593,458	1,660,864	1,178,990
Other entitlement claims.	Total number of entitlement claims (all entitlement claims excluding weekly compensation) that receive payments in the period.	96,951	105,375	110,674	97,351
Weekly compensation claims.	Total number of weekly compensation claims that receive payments in the period.	89,616	100,727	106,975	91,228
Long-term weekly compensation claims.	Number of clients receiving weekly compensation for more than one year as at 30 June.	10,763	11,483	12,290	12,652
New serious injury claims.	Total number of new serious injury claims in the period.	267	287	263	109
Fatal claims.	Total number of fatal claims in the period.	1,170	1,262	1,222	748

* Total claims for the past 12 months. Other figures in this column are year-to-date.

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

EXPENDITURE AGAINST KEY COST DRIVERS

($million)	Actual 2015/16	Actual Mar 2017	Forecast 2017/18
Non-fatal weekly compensation	1,045	831	1,237
Social rehabilitation	590	476	758
Medical treatment	669	525	775
Hospital treatment (elective surgery)	322	247	361
Public health acute services	469	357	492

SECTION 3:

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. ACC will respond to the expectations applicable to all Crown Financial Institutions (CFI). These expectations are represented by eight themes:

- long-term performance – place emphasis on longer-term returns and review the appropriateness of investment strategies where the longer-term return is persistently lower than the performance objective. Deliver returns in excess of benchmarks after investment management fees and other operational costs where active management or other value-adding strategies are employed
- investment management expenses – ensure that the costs incurred in implementing the investment strategy are fully transparent and appropriate in the context of managing Crown assets
- risk profile – place a greater emphasis on the risk-adjusted performance of ACC in order to better reflect the differing investment strategies that are employed to deliver returns. Consult the Minister of Finance if we pursue any strategic changes that may materially alter the risk profile of ACC. Place appropriate emphasis on both quantifiable investment risk and the more qualitative non-market risks that are inherent in investment management activity
- flow of information – continue to engage with the Treasury in support of the Crown's broader information requirements
- complex products and activities – use derivatives judiciously and, where relevant, make strong cases for their use relative to physical exposure. Complete regular assessments of the use of derivative instruments and the extent to which other complex financial investment activity is undertaken to ensure alignment with ACC's legislative framework
- Board relationship – maintain an open and effective dialogue between the Board and the Treasury, spanning all areas of potential shareholder interest
- collaboration – continue to identify opportunities and implement strategies to achieve operational synergies, cost efficiencies and a consistent approach to managing the public scrutiny of Responsible Investing through the sharing of resources and intellectual capital, and engage as a group with other CFIs inclusive of the Treasury on such matters
- approvals process – ensure adherence to the process surrounding future Ministerial Approvals under section 276 of the AC Act as outlined in the Minister of Finance's letter of 26 October 2016.

ACC will also respond to the Minister of Finance's expectation specific to ACC:

- low yield environment – keep the Minister of Finance informed of any significant strategic changes that may be implemented in response to the pressures created by declining bond yields on the matching of investment income to long term liabilities' growth.

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 Government funding. The money is collected into one of the five ACC Accounts, with each Account covering a specific group of injuries.

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

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

As at 31 March 2017, ACC's investment portfolio was worth $36.9 billion.

Purpose

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

Governance

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

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

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

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

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

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

Risk management

We manage risk through our Investment Guidelines, and 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 way in which we invest and the way in which we measure and manage performance.

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

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

Ethical investment policy

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

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

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

We note that distinguishing between companies in legitimate businesses and those acting unethically is inherently subjective. By way of example, we believe that investing in supermarket companies 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
- 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
- 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 of our investment portfolios. The majority of our investments are actively managed by our own investment staff, while about 19% of our investments are managed by external fund managers. Changes in the proportion of funds managed internally versus externally would most likely be affected by any decisions to change the allocation of funds between Australasia and global markets as ACC manages most of its Australasian funds internally, and uses external fund managers for the majority of its global investments.

We intend to increase selectively the resourcing of the investment team during 2017/18. In particular, we will continue to expand the teams responsible for direct (unlisted) investments and the internally managed global equity portfolio.

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

We intend to hold our investment costs at a similarly low percentage of the portfolio value to that we achieved in 2016/17.

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 an annual and an interim basis. Setting these asset allocation benchmarks involves a trade-off between risk and expected long-term returns.

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

- the trade-off between risk and return means that we cannot just look at either return or risk in isolation
- the focus on long-term returns, and the fact that we only have a few key asset classes to choose from, 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.

SECTION 4:

Forecast financial information

Introduction

The information below sets out the 2017/18 budgets for ACC. Comparative information is based on the forecast financial results for the year to 30 June 2017, prepared as at 31 March 2017.

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

Result

The budget for 2017/18 is a deficit of $492 million compared with the forecast surplus of $798 million for 2016/17. The projected deficit for 2017/18 (in comparison with the 2016/17 forecast surplus) is mainly due to the forecast increase in the OCL driven predominantely by the expected increase in the number of claims being managed.

This impact of the projected increase in the OCL is only partially offset by the projected increases in levy income ($8 million) and investment income ($90 million).

The budget accumulated deficit (net liabilities) will therefore increase to $1,559 million at 30 June 2018.

Statement of comprehensive income

		Budget 2017/18					
($million)	Forecast 2016/17	Total ACC	Motor Vehicle Account	Non-Earners' Account	Earners' Account	Work Account	Treatment Injury Account
Total levy and other income	**4,096**	**4,104**	**424**	**1,191**	**1,440**	**742**	**307**
Investment income	1,372	1,462	418	161	373	349	161
Less investment costs	66	73	23	7	18	18	7
Net investment income	**1,306**	**1,389**	**395**	**154**	**355**	**331**	**154**
Claims paid	3,720	4,076	566	1,102	1,407	786	215
Change in unexpired risk liability	84	54	16		30	8	
Change in OCL	187	1,205	176	218	449	68	294
Total claims costs	**3,991**	**5,335**	**758**	**1,320**	**1,886**	**862**	**509**
Injury prevention costs	58	72	11	19	14	18	10
Operating costs	555	578	52	124	201	170	31
Surplus/(deficit)	**798**	**(492)**	**(2)**	**(118)**	**(306)**	**23**	**(89)**

Statement of changes in reserves (equity)

($million)	Forecast 2016/17	Budget 2017/18 Total ACC	Motor Vehicle Account	Non-Earners' Account	Earners' Account	Work Account	Treatment Injury Account
Reserve – opening balance (deficit)	(1,865)	(1,067)	979	(4,428)	1,075	2,909	(1,602)
Net surplus (deficit)	798	(492)	(2)	(118)	(306)	23	(89)
Reserve – closing balance (deficit)	**(1,067)**	**(1,559)**	**977**	**(4,546)**	**769**	**2,932**	**(1,691)**

Funding ratio[8]

	Forecast 2016/17	Budget 2017/18 Total ACC	Motor Vehicle Account	Non-Earners' Account	Earners' Account	Work Account	Treatment Injury Account
Assets less other liabilities/OCL	94.4%	93.3%	109.7%	43.3%	109.5%	124.6%	69.9%

Levy revenue

Rates

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

Account	2016/17	2017/18
Motor Vehicle	$131.00 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	$0.80 per $100 liable earnings	$0.72 per $100 liable earnings

Revenue

The $4,104 million levy revenue for 2017/18 is $8 million higher than forecast for 2016/17. The budgets for levy revenue incorporate:

- levy rates as approved for 2017/18 and 2018/19
- the current approved Non-Earners' Account appropriation increased by $45 million to account for the expected increase in funding required to meet the impact on the funding policy of pay equity costs
- earnings in employment derived from economic forecasts accounting for employment growth and earnings' growth. This results in an increase in liable earnings of 4.1% compared with the 2016/17 year's earnings

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

- *the budgeted Work Account funding ratio as at 30 June 2018 is 146.9%*
- *the total budgeted ACC funding ratio as at 30 June 2018 is 95.9%*
- *the total forecast ACC funding ratio as at 30 June 2017 is 97.1%.*

- changes in motor vehicle registrations and petrol consumption forecast for the 2017/18 year (number of vehicles forecast increase of 3.7% increase, petrol consumption forecast increase of 1.1%)
- the Non-Earners' appropriation, including the non-earners' portion of the Treatment Injury Account, which has increased from $1,231 million to $1,354 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). This includes the funding requirements of the Treatment Injury Account in respect of treatment injuries to non-earners. This funding is appropriated within Vote Labour Market.

Output expense ($million)	Budget 2017/18	Relevant ACC activity	Relevant ACC output class
Case management and supporting services.	130	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
Rehabilitation entitlements and services.	880	Payments to providers for services including social rehabilitation, medical treatment, and vocational rehabilitation. This includes the estimate of funding for pay equity.	4 – Claims management
Public heath acute services.	270	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.	74	Direct payments of entitlements to clients including weekly compensation, independence allowances, and lump sum payments.	4 – Claims management
Total	**1,354**		

Claims paid

($million)	Forecast 2016/17	Budget 2017/18	Variance F/(U)
Rehabilitation			
Treatment	1,670	1,781	(111)
Vocational rehabilitation	92	97	(5)
Social rehabilitation	642	758	(116)
Total	**2,404**	**2,636**	**(232)**
Compensation			
Income maintenance	1,122	1,237	(115)
Other compensation and benefits	194	203	(9)
Total	**1,316**	**1,440**	**(124)**
Total cash cost of claims	**3,720**	**4,076**	**(356)**

Rehabilitation costs are budgeted to increase by $232 million (9.7%) to $2,636 million, driven mainly by increasing claim numbers and inflation.

Income maintenance costs are budgeted to increase by $115 million (10.2%) to $1,237 million, reflecting an increase of 7.5% in entitlement claim volumes during the year, growth in the labour cost index of 1.99%, and an increase in average weekly earnings of 2.79%.

Other compensation and benefit costs are budgeted at $203 million, an increase of $9 million (4.6%). This increase is due to forecast claim volume increases and the impact of inflation.

Increase in 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 $36,850 million to $38,055 million during 2017/18, an increase of $1,205 million. This reflects the 31 December 2016 valuation, and a provision for the impact of pay equity costs with adjustments to reflect economic assumptions as at 31 March 2017.

OCL ($million)	Forecast 2016/17	Budget 2017/18	Variance F/(U)
Value at year open	36,663	36,850	
Value at year end	36,850	38,055	
Increase/(decrease) in claims liability	**187**	**1,205**	**(1,018)**

Increase in unexpired risk liability

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

Unexpired risk liability ($million)	Forecast 2016/17	Budget 2017/18	Variance F/(U)
Value at year open	570	654	
Value at year end	654	708	
Increase/(decrease) in claims liability	**84**	**54**	**30**

Operating costs

ACC's operating costs comprise claims handling, levy collection, and other operating costs. The 2017/18 operating costs budget of $578 million is $23 million higher than the forecast for 2016/17. This increase reflects the current estimate of the impact on operating costs of the Transformation Programme of $59 million for the 2017/18 year (2016/17 forecast $60 million), expected costs of the Strategic Change Portfolio, and growth in the size of the organisation in line with the forecast claim volume growth.

Expenditure by classification ($million)	Forecast 2016/17	Budget 2017/18	Variance F/(U)
Claims handling	441	459	(18)
Levy collection	39	39	
Other operating	75	80	(5)
Total operating costs	**555**	**578**	**(23)**

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 for the 2017/18 year has been calculated by Account. The projected rate of return range in 2017/18 is 3.78% to 4.71% per annum.

Statement of financial position

As at 30 June ($million)	Forecast 2016/17	Budget 2017/18	Variance F/(U)
Total reserves	**(1,067)**	**(1,559)**	**(492)**
Assets			
Investments	37,088	37,834	746
Other assets	2,572	2,662	90
Total assets	**39,660**	**40,496**	**836**
Liabilities			
Claims liability	36,850	38,055	(1,205)
Other liabilities	3,877	4,000	(123)
Total liabilities	**40,727**	**42,055**	**(1,328)**
Net assets	**(1,067)**	**(1,559)**	**(492)**

Capital expenditure

Category ($million)	Forecast 2016/17	Budget 2017/18	Variance F/(U)
Property, plant and equipment			
Maintenance – IT	3	1	2
Property	8	7	1
Motor vehicles, equipment		1	(1)
Total	**11**	**9**	**2**
Intangible assets			
Change initiatives	31	35	(4)
Maintenance – IT	11	9	2
Total	**42**	**44**	**(2)**
Total capital expenditure	**53**	**53**	

The proposed 2017/18 capital expenditure of up to $53 million is the same as the forecast for 2016/17. This reflects the inclusion of the current estimate of $35 million capital expenditure on the Transformation Programme in 2017/18 (compared with a 2016/17 forecast of $31 million) included in the change initiatives total. Maintenance – IT is the IT infrastructure expenditure on maintaining and implementing minor enhancements to existing core applications. Property spend is the necessary annual spend to ensure 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.

A major risk is the effects 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 projected OCL.

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

Statement of cash flows

($million)	Forecast 2016/17	Budget 2017/18
Cash flows from operating activities		
Cash was provided from:		
Levy revenue and other income	4,075	4,092
Investment income	1,300	1,274
Cash provided from operating activities	**5,375**	**5,366**
Cash applied to operating activities	4,395	4,756
Net cash movement from operating activities	**980**	**610**
Net cash movement from investing activities	**(1,062)**	**(610)**
Net cash movement from financing activities	**–**	**–**
Net increase in cash and cash equivalents	**(82)**	**–**
Cash and equivalents – opening balance	**282**	**200**
Cash and equivalents – closing balance	**200**	**200**

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.

	Indices (year to June)				
Index	**2017**	**2018**	**2019**	**2020**	**2021**
Claim volume growth	4.20%	3.50%	2.20%	2.20%	2.00%
Entitlements claim growth	8.70%	7.50%	4.20%	3.80%	3.10%
Population growth	1.83%	1.79%	1.64%	1.45%	1.26%
Consumer price index	1.65%	1.79%	1.79%	1.79%	1.79%
Labour cost index	1.99%	1.99%	1.99%	1.99%	1.99%
Average weekly earnings	2.65%	2.79%	2.79%	2.79%	2.79%

Summary of significant accounting policies

a) Levies

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

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

b) Levy revenue

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

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

c) Investment income

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

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

d) Unexpired risk liability

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

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

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

e) Outstanding claims liability (OCL)

The OCL consists of expected future payments associated with:

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

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

Future payments associated with gradual process claims that have not yet been reported are not included in the 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 the event giving rise to a claim occurred. Under 'claims made' policies, an insurer only has liability for reported claims.

f) Investments

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

Fair value for investments is determined as follows:

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

g) Changes to accounting policies

There have been no changes to accounting policies.

APPENDIX 1:

Letters of expectations

Office of Hon Nikki Kaye

MP for Auckland Central

Minister for ACC
Minister of Civil Defence
Minister for Youth

Associate Minister of Education

2 4 NOV 2016

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 executes its business planning process for the forthcoming year. I thank you and the rest of the Board for all of its work in the last year. A significant milestone has been reached with ACC's Transformation Programme progressing to the delivery phase.

I understand the Board's primary challenge will be to balance the long-term success of transformation whilst also implementing strategies to address the claims cost increases experienced in recent years, due to increased volume and duration of claims. In setting expectations, I acknowledge the amount of change required to modernise the organisation and improve services for all New Zealanders.

You will receive a letter form the Minister of Finance to set expectations for all Crown Financial Institutions, including specific expectations regarding ACC's investment function. This approach differs to previous years but reflects separate processes that each Minister is responsible for.

ACC developed a Statement of Intent (SoI) in 2015, covering the period 2015-2019, and it does not intend to develop a new SoI ahead of 2017/2018. The mid-term Performance Improvement Framework review in March 2017 will be core input to inform future strategic direction, and I invite ACC to engage early on its response to this review.

Government Priorities

The Government is increasingly trying to organise services around the citizen and find cross-agency solutions to difficult problems. ACC has a significant role to play in enabling cross-sector efficiency and effectiveness through the way it collaborates, particularly in a period of transformation. The Government is also asking agencies to take a social investment approach to drive long-term value for money in service delivery. Over and above these expectations, the Government's four key priorities remain unchanged:

- To responsibly manage the Government's finances
- To build a more competitive and productive economy
- To deliver better public services to New Zealanders, and
- To support the rebuilding of Christchurch.

Private Bag 18041, Parliament Buildings, Wellington 6160, New Zealand. Telephone 64 4 817 6837 Facsimile 64 4 817 6537

ACC's strategic intentions and outcomes, as set out in its most recent SoI, are aligned with the first three priorities and I am pleased to see ACC's commitment to supporting the rebuilding of Christchurch through its relocation into the BNZ Centre in early 2017.

The enduring letter of expectations can be found on the State Service Commission's website, stating the Government's commitment to Better Public Services (BPS). While some of the BPS target6s are currently being refreshed, ACC should continue to deliver on its commitment to results nine and ten, in particular.

Value for Money and Reporting

It is crucial that ACC is able to exercise control of cost pressures. I expect ACC to continue to develop its reporting, to better communicate its performance story and ensure the critical performance messages can be seen amongst the wide range of work that the organisation executes. I would like to better understand, through ACC's reporting, what control management has over cost inflation and where these controls are being utilised.

Expectations for All Crown Entities

- All Crown Entities should be able to demonstrate the difference they are making for their customers and should be constantly looking for ways to improve how they do business to deliver value to tax payers' investment in them.
- Investments into the business should be value enhancing and based on robust business cases which evaluate options thoroughly, are based on reasonable assumptions, and take into consideration all risks.

Expectations specific to ACC

Claim volumes and costs have increased beyond expectations in recent years, with this recent experience now showing as a growth in liability. Decreased rehabilitation rates across all durations show that New Zealanders are out of work for longer, which negatively impacts both the customers and ACC.

- ACC should report clearly where it is taking a social investment approach to control cost inflation and improve outcomes for New Zealanders, stating the long-term goals that would define success and how it is monitoring progress towards these outcomes.
- Momentum for ACC's refreshed strategy on Injury Prevention has been built over the last year. I expect ACC to continue to build on its early successes and ensure value is delivered back to the Scheme and to the wellbeing of New Zealanders.
- The benefit profile from approved business cases, including Injury Prevention, should be incorporated into financial forecasts and funding recommendations as a matter of course, to ensure accountability for those investments is maintained.

Incorporating the decisions for the funding of the Non-Earners' Account more fully into the budget process in 2017 will likely provide better transparency of cost drivers to Ministers, allowing for more informed choices about trade-offs across Government.

All funding recommendations should be supported by a strong performance story and visibility of the essential risks and opportunities to each account. These would illustrate the underlying assumptions and different plausible scenarios to better contextualise the choices made in providing a central recommendation.

- I invite ACC to think about how it could better demonstrate the critical indicators of short and medium term performance amongst its range of operational and financial information. An identified 'top tier' of indicators would:
    - enable a simple and explicit interpretation of Scheme Performance
    - allow for a sharp focus on the risks, levers and drivers of future performance, including in the annual Service Agreement, and
    - demonstrate the critical drivers of short and medium term performance that aim to positively impact the long-term sustainability of the Scheme as identified by the liability valuation.
- I welcome ACC's feedback on how these top level indicators may provide for and support performance based on financial and operational outcomes.
- ACC improved its reporting of operational risks in the last year. I expect ACC to continue on this path of improvement to demonstrate its proactive consideration and mitigation of possible impacts to the Scheme.

Collaboration

ACC is an integral part of the social sector. It should endeavour to maximise cross-sector efficiency and effectiveness wherever possible and deliver joint initiatives as a good partner that is committed to the overall benefits of each initiative, even when those benefits are less tangible for ACC.

Expectations for All Crown Entities

- Entities should be clear how they are working with other agencies, owning the sector results and putting the client not agency boundaries first in service design.

Expectations specific to ACC

ACC's views are invited on whether Government assistance would be beneficial in smoothing engagement across organisations. Effective collaboration with other agencies is essential to capturing opportunities for new ways of delivering front line treatment and improve rehabilitation. This is particularity true with the Health sector and ACC should remain aware of the indirect impacts it can have in the sector where scarce resources are in high demand.

- ACC should look to examples where social investment approaches have been successfully implemented in the social or justice sector and should proactively share its own successes with organisations that deliver similar services.

- The joint workplace injury prevention action plan with WorkSafe sets out a strategy to realise the Government's target for reducing fatalities and serious injuries in the workplace 25% by 2020. I expect ACC's full commitment to delivering on the action plan.

- ACC should continue the good engagement and open dialogue with the Government's functional leads for Information, Property and Procurement. This includes supporting the Government Chief Information Officer (GCIO) to achieve its goals in developing the ICT Cloud Marketplace and contributing to other cross-sector opportunities such as digital-enabled identity.

- ACC should remain aware of contracting behaviours that can drive up prices in other sectors, being mindful of the constraints that the Government is under.

I expect the on-going commitment of ACC constructively and collaboratively with advisors from my office, the Ministry of Business, Innovation & Employment, and the Treasury. This includes contributing to the Regulatory Systems Bill and also to:

Support work to identify regulatory and administrative opportunities to improve the Motor Vehicle levy framework, including for vehicles using emerging power and safety technologies, in order to future proof the regulatory framework, and

Implement proposed improvements of the ACC dispute resolution process, identified in the Government response to the Miriam Dean QC report.

Transformation

Transparency on the on-going status of the Transformation Programme is essential to the Government's confidence in ACC to deliver the complex programme of work. Central agencies remain available to support ACC's transformation through its assurance and monitoring partners, GCIO and Treasury.

- ACC should support my report back on progress to Cabinet by February 2017.
    - I expect ACC to deliver on the benefits identified in the Transformation Programme for 2017 and 2018, reporting to me should be clear on ACC's confidence in its costs and benefit profiles.
    - Reporting to me should identify the key decisions points where constraints or dependencies with other Government Transformation Programmes exist.

I thank ACC for its proactive engagement in the Investor Confidence Rating (ICR) process over the last year. It is noted that ACC made significant, positive contributions to this new initiative.

Investment Ministers will expect a progress update from Tranche 1 agencies at the approximate mid point between ICR cycles, April to June 2017. The progress update is targeted on those areas of improvement that are identified in the original review.

General

Our communications should be straightforward, and if you need to make contact on 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.

MBIE and the Treasury will collaborate with you to refine the strategic priorities and agree performance targets. ACC should provide its draft Service Agreement to me by 28 April 2017.

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

Yours sincerely

Nathan Guy

Hon Nathan Guy
Acting Minister for ACC

Office of Hon Bill English

Deputy Prime Minister
Minister of Finance
Minister Responsible for HNZC

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 investments function of Accident Compensation Corporation (ACC) as it executes its business planning process for the forthcoming year. I note you will also be receiving a Letter of Expectations relating to ACC's insurance function from the Acting 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

- *Long-Term Performance*: A prime focus for Ministers is that the Crown Financial Institutions (CFIs) achieve their long term performance objectives. The Crown has a long term perspective on returns, and acknowledges that returns will vary from year to year, sometimes due to temporary or non-controllable factors. Emphasis will continue to be placed on longer term returns. In circumstances where the longer term return is persistently below the performance objective, I expect the CFI to review the appropriateness of its investment strategy. Furthermore, where active management or other value adding strategies are employed, achieving returns in excess of benchmarks after investment management fees and other operational costs is expected.

- *Investment Management Expenses*: Notwithstanding the expectation for CFIs to outperform investment objectives after investment management costs, each CFI should also ensure that the costs incurred in implementing its investment strategy are fully transparent and appropriate in the context of managing Crown assets.

Private Bag 18041, Parliament Buildings, Wellington 6160, New Zealand. Telephone 64 4 817 6801 Facsimile 64 4 817 6501

- *Risk Profile:* In the past, particular emphasis has been placed on the CFI's financial returns performance. I expect to see a greater emphasis on the risk-adjusted performance of ACC in order to better reflect the differing investment strategies that are employed to deliver these returns. Furthermore, I expect to be consulted if you are pursuing any strategic changes that may materially alter the risk profile of your entity. I also ask that you ensure that appropriate emphasis is placed both on quantifiable investment risk as well as the more qualitative non-market risks that are inherent in investment management activity.

- *Flow of Information:* Of growing importance for the Crown is the need for adequate independent analysis of financial and other investment risks at an aggregate level across the CFI portfolio and, to a certain extent, across the broader Crown balance sheet. As such, the Crown is focused on establishing a deeper and more frequent flow of information from the CFIs to the Treasury, which will then be aggregated and independently analysed by the Treasury. Some of the information obtained will also be utilised to progress the Crown Asset and Liability Management (CALM) project. Your assistance to date with the CALM project has been appreciated. I ask that you continue to engage with the Treasury in support of the Crown's broader information requirements (which will undoubtedly necessitate some dedication of additional resources).

- *Complex Products and Activities*: The aggregate funds managed within the CFI portfolio continue to grow as a percentage of the overall Crown's balance sheet. Within this portfolio there has been an increase in the complexity of the investment activity being undertaken, including an increase in the use of derivative instruments. Consistent with last year's expectations, it is my expectation that CFIs should use derivatives judiciously and that, where relevant, a strong case is made for their use relative to physical exposures. Furthermore, I expect that the CFIs will regularly assess the use of derivative instruments and the extent to which other complex investment activity is undertaken to ensure alignment with your legislative framework, including any specific approvals that have previously been issued from my Office.

- *Board Relationship:* I consider it to be critical for the good stewardship of the CFIs that an open and effective dialogue is maintained between each CFI's Board and the Treasury. This should span all areas of potential shareholder interest, from strategic direction through to material operational matters, and it is my expectation that the relationships extend across the whole of the Board and with the Investment Committee.

- *Collaboration*: While the individual objectives and investment strategies differ across the CFI portfolio, there is a material level of crossover in terms of operational investment activities. There is also a shared level of public scrutiny on certain investment policies, most notably relating to Responsible Investing (RI). I note that the Treasury is uniquely positioned as the Crown's agent, with oversight of each of the CFIs, to give some portfolio-level consideration to such matters. My expectation is that the CFIs will continue to identify opportunities and implement strategies to achieve operational synergies, cost efficiencies and a consistent approach to managing the public scrutiny of RI through the sharing of resources and intellectual capital, and will engage as a group inclusive of the Treasury on such matters.

- *Approvals Process:* I refer to my recent letter dated 26 October 2016 outlining the process surrounding future Ministerial Approvals under section 276 of the Accident Compensation Act. I ask that you adhere to the procedures laid out in that letter for any new approval requests and that you aid officials as required to the extent that any existing approvals are deemed to be in need of review over time.

Expectations specific to ACC

- *Low Yield Environment*: I recognise that declining bond yields pose a significant risk to ACC in terms of its ability to match future investment income to the long term growth in claims liabilities and that consideration continues to be given as to how ACC might respond if yields should decline further. I ask that you keep me informed of any significant strategic changes which may be implemented as a result of these pressures, particularly to the extent that such changes may materially alter ACC's risk and return profile.

Engagement

To the extent that matters arise which relate to the investment function, please engage with me and / or the Treasury in the first instance, with an inform to the Minister for ACC. The Treasury is working to engage more closely with entities to gain a better understanding of the strategic issues, risks and influences on entities' financial performance. In light of this closer engagement, I would like the Board to meet with you to discuss this Letter of Expectations at an appropriate time in the New Year.

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

Bill English

Hon Bill English
Minister of Finance

APPENDIX 2:

Conditions of the Service Agreement

Roles and responsibilities

The ACC Minister is 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 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 AC Act, relates to a one-year period from 1 July 2017 to 30 June 2018. This Agreement revokes the Service Agreement for the period 1 July 2016 to 30 June 2017.

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 reduction in levy rates
- rehabilitation – we aim to restore an injured person's independence to the maximum extent practicable. Specific provisions in the AC Act prescribe the entitlements that clients can access
- compensation – the Scheme provides financial compensation to clients for losses owing to personal injury.

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

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

Amendments to this Agreement

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

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

Payment

The Minister, on behalf of the Crown, will pay ACC up to the amount authorised by Parliamentary Appropriations for 2017/18. The Ministry of Business, Innovation and Employment (the Ministry, acting as the administering agency responsible for Vote Labour Market) will action payments to ACC in accordance with the Public Finance Act 1989. Payments will be made monthly by direct credit from the Ministry to ACC, coinciding with the Ministry's receipt of funding from the Treasury.

Interpretation

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

Quarterly reporting

We will provide quarterly reports on our performance against this Agreement. Quarterly reports are to be read in conjunction with this Agreement and the reports of any preceding quarters to provide a context for the reporting of our ongoing performance for the financial year 2017/18.

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

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

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

As necessary we will provide the Minister with:

- any proposals to amend this Agreement due to changed circumstances
- timely advice of any risks that may create a significant exposure for the Crown
- 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 are:

Quarterly performance report	Timeframe
Quarter 1 report	By 31 October 2017
Quarter 2 report	By 31 January 2018
Quarter 3 report	By 30 April 2018
Quarter 4 report	By 31 July 2018

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

APPENDIX 3:

Our performance measures

Section 2: ACC's statement of performance expectations by output presents our key performance measures. Those key measures are part of a comprehensive range of measures set out in more detail below, including our targets for the next four years.

In developing this full set of measures to monitor the performance of the Scheme, we consider the financial and non-financial measures that represent many aspects of overall Scheme performance.

Our output performance measures

Output 1 – Injury prevention

Measure	Rationale	Actual 2015/16	Actual Mar 17	Target 2017/18	Target 2018/19	Target 2019/20	Target 2020/21
The portfolio of injury prevention investments will have an assessed positive return on investment.	We take a portfolio approach. This means that overall we expect our injury prevention programmes to deliver positive returns on investment. Taking a portfolio approach means we are able to invest in a wide range of injury prevention activities with a mixture of higher and lower expected returns across the individual activities.	$1.60:$1	$1.87:$1	$1.7:$1	$2:$1	$2:$1	$2:$1
Total direct reach for planned injury prevention programmes.	The success of our injury prevention programmes relies on our ability to connect with a large number of New Zealanders through a range of programmes.	New measure	468,472	375,000	400,000	425,000	450,000
Total investment across all injury prevention programmes.		New measure	New measure	$71.6m	$80.0m	$80.0m	$80.0m
Work portfolio.		New measures	New measures	16 programmes 21,300 direct reach $12.9m investment	17 programmes 22,800 direct reach $14.6m investment	18 programmes 24,200 direct reach $14.0m investment	19 programmes 25,600 direct reach $14.0m investment
Falls portfolio.		New measures	New measures	4 programmes 25,400 direct reach $12.2m investment	4 programmes 27,100 direct reach $13.5m investment	5 programmes 28,800 direct reach $14.0m investment	5 programmes 30,500 direct reach $14.0m investment
Road portfolio.		New measures	New measures	12 programmes 26,500 direct reach $10.8m investment	13 programmes 28,300 direct reach $12.1m investment	14 programmes 30,000 direct reach $12.0m investment	14 programmes 31,800 direct reach $12.0m investment

Measure	Rationale	Actual 2015/16	Actual Mar 17	Target 2017/18	Target 2018/19	Target 2019/20	Target 2020/21
Sport and recreation portfolio.		New measures	New measures	14 programmes 185,400 direct reach $10.6m investment	16 programmes 197,600 direct reach $11.8m investment	18 programmes 210,100 direct reach $12.0m investment	18 programmes 222,400 direct reach $12.0m investment
Treatment injury portfolio.		New measures	New measures	9 programmes 800 direct reach $10.6m investment	10 programmes 900 direct reach $12.0m investment	11 programmes 900 direct reach $12.0m investment	12 programmes 1,000 direct reach $12.0m investment
Community portfolio.		New measures	New measures	8 programmes 99,100 direct reach $7.1m investment	8 programmes 105,700 direct reach $7.7m investment	9 programmes 112,300 direct reach $8.0m investment	9 programmes 118,900 direct reach $8.0m investment
Violence portfolio.		New measures	New measures	15 programmes 16,500 direct reach $7.4m investment	16 programmes 17,600 direct reach $8.3m investment	17 programmes 18,700 direct reach $8.0m investment	18 programmes 19,800 direct reach $8.0m investment

Output 2 – Levy setting and collection

Measure	Rationale	Actual 2015/16	Actual Mar 17	Target 2017/18	Target 2018/19	Target 2019/20	Target 2020/21
Customer satisfaction – levy payers.	The best measure of how well we are tracking in our efforts to improve the customer experience is by asking our clients and levy payers.	69%	70%	71%	75%	77%	80%
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.	0.8	Annual measure	0.7-0.8	0.7-0.8	0.7-0.8	0.7-0.8
Total levies and appropriations as a percentage of gross domestic product.	This measure indicates whether the Scheme is becoming more or less affordable and sustainable for New Zealand.	1.6%	Annual measure	1.5%	1.5%	1.5%	1.5%

Output 3 – Investment management

		Actual		Target			
Measure	**Rationale**	**2015/16**	**Mar 17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**
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 against the asset classes that we have invested in.	0.55%	1.08%	0.30%	0.30%	0.30%	0.30%
Investment management costs as a proportion of total funds under management.	The efficiency of our investment management is measured by expressing total investment management costs as a proportion of the total funds under management.	0.13%	0.11%	0.15%	0.15%	0.15%	0.15%

Output 4 – Claims management

		Actual		Target			
Measure	**Rationale**	**2015/16**	**Mar 17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**
Customer satisfaction – clients.	The best measure of how well we are tracking in our efforts to improve the customer experience is by asking our clients.	76%	78%	77%	80%	80%	80%
Cover decision timeliness.	We try to make cover decisions and payments as quickly as possible in order to reduce uncertainty for our clients.	1.1 days	1.2 days	1.1 days	1.1 days	1.1 days	1.1 days
Average time to commence weekly compensation payments.		8.3 days	7.3 days	<7.5 days	<7.5 days	<7.5 days	<7.5 days
Formal reviews as a percentage of entitlement claims.	If we make the right decisions and communicate effectively with our clients during the process, we can expect most of our decisions to be accepted and understood.	2.5%	2.7%	2.6%	2.3%	2.3%	2.3%
Percentage of ACC reviews upheld.[9]	If most independent reviews find in our favour, this suggests that we are usually making correct and fair decisions the first time around.	84.2%	81.7%	≥84%	≥84%	≥84%	≥84%
Average time to resolution for claims with reviews.	When a client asks for a review of an ACC decision, early resolution is important as this is likely to be a stressful time for them.	88 days	91.9 days	<90 days	<89 days	<89 days	<89 days
Return to work within 10 weeks.	Research confirms that when people make rapid returns to independence or work after injury, their overall health and wellbeing is significantly improved. These measures evaluate how effectively we are supporting our clients to return to work or independence, and whether their returns are sustained.	67.6%	68.4%	69.0%	69.6%	70.4%	70.6%
Durable return to work rate.		79%	Annual measure	1% higher than Australia	1% above previous year Australian average	1% higher than Australia	1% above previous year Australian average
Return to independence for those not in the workforce.		86.7%	85.6%	86%	86%	86%	86%
Number of long-term clients returned to independence in the previous 12 months.	We continue to work with long-term clients so they can have as full a role in society as possible.	2,796	3,250	3,531	3,793	4,320	4,505

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

Output 4 – Claims management (cost-effectiveness)

	Measure	Actual 2015/16	Actual Mar 17	Target 2017/18	Target 2018/19	Target 2019/20	Target 2020/21
Social rehabilitation for serious injury	Growth in average care hours packages.	3.0%	5.7%	≤2.2%	≤2.1%	≤2.1%	≤2.1%
	Proportion of clients with care hours significantly above or below benchmarks.	47%	47%	45%	45%	45%	45%
Rehabilitation	Return to work within six months (182 days).	88.3%	88.8%	88.9%	89.3%	89.6%	89.7%
	Return to work within nine months.	92.8%	93.0%	93.2%	93.5%	93.8%	93.9%
	Net movement in the number of clients receiving weekly compensation for more than one year.	807	362	518	405	134	22
	Abatement rate for long-term clients.	12%	12.1%	12%	12%	12%	12%
Effective surgery outcomes	Average time taken by ACC to make surgery decisions – declined requests.	32.1 days	32.1 days	<32 days	<32 days	<32 days	<32 days
	Growth in average elective surgery cost per claim.	3.6%	2.4%	≤3.9%	≤3.9%	≤3.9%	≤3.9%
	Proportion of clients who go ahead with surgery who are successfully rehabilitated 12 months after being approved for surgery. Note: successfully rehabilitated is defined as no longer receiving ACC support.	85.2%	84.7%	85.0%	85.0%	85.0%	85.0%
Efficiency	Average cost per claim. Administration costs less investment management and injury prevention costs/active entitlement claims.	$2,370	$2,513	$2,277	$2,104	$1,924	$1,882

Other outcome performance measures

In addition to our output performance measures, we track a small set of additional performance measures associated with our strategic intentions:

Improving our customers' outcomes and experiences

Measure	Rationale	Actual 2015/16	Actual Mar 17	Target 2017/18	Target 2018/19	Target 2019/20	Target 2020/21
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.	62%	63%	65%	70%	75%	80%

Improve the way we protect out customer's personal information

Measure	Rationale	Actual 2015/16	Actual Mar 17	Target 2017/18	Target 2018/19	Target 2019/20	Target 2020/21
The number of category 3, 4 and 5 privacy breaches and near misses (as defined by the Government Chief Privacy Officer's privacy matrix).	We deal with confidential and sensitive information for a large number of people and entities. Our customers expect us to protect this information and maintain our progress in reducing privacy breaches.	New measure	1	<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

Maintain the financial sustainability and governance of the Scheme

Measure	Rationale	Actual 2015/16	Actual Mar 17	Target 2017/18	Target 2018/19	Target 2019/20	Target 2020/21
Percentage of total expenditure paid directly to clients, or for services to clients.	Key cost drivers are influenced by underlying new claim numbers, entitlement claim numbers and the average cost of claims. We focus on controllable costs, ensuring that all services are delivered cost effectively. These measures indicate whether the Scheme is becoming more or less affordable and sustainable for New Zealand.	86.0%	86.1%	86.2%	87.2%	88.2%	88.7%
Change in average treatment cost per injury.	We need to manage rising health care costs that also affect future liabilities and levy rates. This provides an indicator of how well levies are matched to the costs incurred each year as a result of accidents, ensuring intergenerational fairness.	1.7%	1.9%	≤2.9%	≤2.9%	≤2.9%	≤2.9%
Return from insurance operations.	This measures our internal operational performance, excluding gains and losses driven by external economic factors.	($518) million	($330) million	($492) million	$77 million	($284) million	($451) million

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

		Actual		Target			
Measure	**Rationale**	**2015/16**	**Mar 17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**
Staff turnover.	Overall staff turnover is an important measure of ACC as an employer. Low turnover supports the delivery of improved customer services.	12.1%	11.6%	≤15%	≤15%	≤15%	≤15%
High achiever turnover.	A 'high achiever' is someone who has scored a 5/5 in their annual performance review. Turnover of high achievers leads to costs due to lost productivity, recruiting and training, and also to losses of overall organisational knowledge and leadership.	7.5%	6.6%	≤10%	≤10%	≤10%	≤10%
Ratio of engaged staff to actively disengaged staff.	Organisations with highly engaged staff have high levels of performance and productivity.	6.0:1	Annual measure	6.0:1	6.5:1	7.0:1	7.5:1

ACC is powered by current, reliable and secure information technology

		Actual		Target			
Measure	**Rationale**	**2015/16**	**Mar 17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**
Overall operational system availability.	Our systems need to be available so that we can deliver the services our customers expect.	99.6%	99.9%	99.5%	99.5%	99.5%	99.5%

APPENDIX 4:

Asset performance

Cabinet Office Circular CO(15)5 introduced expectations for agencies to report on investment performance. In particular, it noted:

- Paragraph 61: Agencies must report on relevant asset performance indicators in their Annual Reports
- Paragraph 62: Agencies must capture and use in internal management and decision-making processes, relevant indicators of past and projected asset performance, such as asset utilisation, condition and fitness for purpose.

In May 2016, the Treasury published the Annual Report Guidance for Crown Entities. The Guidance is the Treasury's interpretation of CO(15)5. It establishes new, mandatory requirements for the reporting of asset performance.

To address this requirement we selected the following asset performance measures aligned to our two largest asset portfolios: property and information and communication technology (ICT). We are required to report our performance targets for the next four years in our Service Agreement and actual performance results in our future Annual Reports.

How we will know we are on track

	Measure	Rationale	Actual 2015/16	Actual Mar 17	Target 2017/18	Target 2018/19	Target 2019/20	Target 2020/21
ICT	Utilisation: Average claims management system transaction time (milliseconds).	Measuring the time that it takes to complete a claims management transaction is a good indicator of whether our ICT asset portfolio is reaching maximum capacity.	538ms	325ms	<=525ms	<=500ms	<=475ms	<=450ms
	Condition: Percentage of time key applications and network were able to perform required functions.	This measure demonstrates the reliability, and therefore condition, of the underlying assets.	99.6%	99.9%	99.5%	99.5%	99.5%	99.5%
	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 against peer groups to ensure that it is appropriate.	$19,120	$18,223	$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.	15.1m^2 per FTE	15.7m^2	12-16m^2 per FTE	12-16m^2 per FTE	12-16m^2 per FTE	12-16m^2 per FTE
	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 across the entire leased property portfolio.	100%	97%	100%	100%	100%	100%
	Functionality: Percentage of total leased area that meets or exceeds the ACC security standards.	We have ACC security standards in line with the WorkSafe Building Security Policy October 2014 and regularly assess our total leased property portfolio against these standards.	100%	100%	100%	100%	100%	100%

PREVENTION. CARE. RECOVERY.

Te Kaporeihana Āwhina Hunga Whara

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