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STATEMENT OF SERVICE PERFORMANCE

CONTENTS

This report covers ACC's performance for the year against the objectives set out in the 2003-2004 Statement of Intent. ACC's performance framework is summarised below.

ACC is a Crown entity existing under the provisions of the Injury Prevention, Rehabilitation, and Compensation Act 2001 ('the Act') to provide comprehensive, 24-hour, no-fault personal injury cover for all New Zealand residents. Cover is managed under seven Accounts:

- the Employers' Account for personal injuries in the workplace affecting employees
- the Residual Claims Account for personal injuries in the workplace before 1 July 1999, or involving earners outside the workplace before 1 July 1992
- the Self-Employed Work Account for personal injuries in the workplace affecting the self-employed
- the Motor Vehicle Account for personal injuries involving motor vehicles
- the Earners' Account for personal injuries outside the workplace for those in paid work
- the Non-Earners' Account for personal injuries outside the workplace for those not in paid work
- the Medical Misadventure Account for injuries from rare medical mishaps or medical error.

The Act specifies ACC's role and functions to include:

- promoting measures to reduce the incidence and severity of personal injury
- determining cover
- providing statutory and other entitlements
- collecting levies
- managing the Accounts
- administering a disputes resolution process.

ACC's basic strapline of Prevention – Care – Recovery is firmly grounded in the principles of the Royal Commission of Inquiry into Compensation for Personal Injuries in New Zealand, 1967 (the 'Woodhouse Report'). These principles have stood the test of time and still apply today.

ACC's vision for where it wants to be by 2005 provides a basis for its strategic direction:

> *ACC will contribute to a nation where there are fewer injuries and those injured return quickly to wellbeing.*

ACC's mission sets out ACC's commitment to deliver an effective and efficient scheme to levy payers and claimants:

> *To foster a safe New Zealand becoming injury free through the implementation of the New Zealand Injury Prevention Strategy. To ensure that when injury does occur, people are provided with the correct entitlements and rehabilitated with respect and dignity.*

To achieve this mission via the operation of a successful scheme, ACC's 2003-2004 strategic directions for the medium term to 2005 ('The 5 Drivers') were:

- **Injury prevention –** Reduce the rate of injuries and claims by at least 10% over the next five years.
- **Claimant satisfaction –** Increase claimant and stakeholder satisfaction to 80-85% by 2005.
- **Staff satisfaction –** Increase staff satisfaction to 80-85% by 2005.
- **Rehabilitation –** Improve effective rehabilitation outcomes (measured by improvements in rehabilitation rates for three, six and 12 months' duration).
- **Fair levies –** Maintain fair levy rates.

To achieve its vision by 2005, ACC focused on the following eight key objectives, with associated goals and performance measures, in 2003-2004:

1. reducing the incidence and severity of injury in New Zealand
2. satisfied stakeholders, especially claimants
3. maximising the utility of providers
4. optimising case management practices and processes
5. informed decision-making and intervention development
6. all staff are provided with the right tools and systems to deliver outcomes
7. partnerships with Māori
8. improved relationships with Pacific peoples.

In addition, ACC set goals for financial management, which are grouped as key objective 9.

KEY OBJECTIVE 1: REDUCING THE INCIDENCE AND SEVERITY OF INJURY IN NEW ZEALAND

ACC aims to be New Zealand's premier safety organisation and a leader in community-based injury prevention programmes. To achieve this, ACC will increase resources and capability in cost-effective injury prevention activity focusing on local and targeted programmes. ACC will use the injury prevention framework outlined in the New Zealand Injury Prevention Strategy released in June 2003.

In 2003-2004, ACC aimed to reverse the recent growth in claims and progress towards its long-term goal of a 10% reduction in claims by 2008 through continuing to monitor injuries and progress with programmes to prevent injuries in sport and in the home, the workplace and on the road.

The existing effective injury prevention programmes were maintained (eg ACC SportSmart and ACC Stop Bus), new programmes developed (eg Workplace Safety Evaluations, Driver Fatigue) and innovative opportunities identified (eg a brief intervention model to prevent suicide, family violence prevention). Excellent progress was also made in establishing key community relationships with local government, District health boards and employers, as reflected in high satisfaction ratings for client groups such as large employers and ACC Partnership Programme employers.

Goal 1.1: Community initiatives

ACC established 23 ThinkSafe communities throughout the country in 2001-2002. Each community focuses on local injury prevention priorities aimed at reducing injury issues according to local needs.

Areas of focus in 2003-2004 were preventing falls in older adults, falls in children and child playground falls, road-related injuries, sports injuries and the safer industry programmes where they affect local employers.

Key outputs in the ThinkSafe communities this year are detailed on pages 28-39.

An evaluation of the ThinkSafe community initiative in September 2003 by the University of Auckland Injury Prevention Research Centre praised its approach including:

- the levels of community and employer participation
- the potential for future sustainable partnerships
- its value in reinforcing a safety culture and safety environment, both locally and nationally.

Goal 1.2: Reducing work injuries

ACC continued to increase its injury prevention initiatives in the workplace this year.

The Safer Industries programme facilitates injury prevention initiatives in high-risk industries through collaborative partnerships between industry groups, employers, union and other worker representatives, ACC and relevant government agencies. ACC has intervention plans in place for all nine Safer Industries and during 2003-2004 co-ordinated and assisted the delivery of a wide range of programmes and training targeted at achieving significant injury reduction benefits. Highlights include:

- Over 9,200 have attended FarmSafe workshops and it is anticipated that 3,000 farmers will attend the recently developed FarmSafe 2 course.
- 4,000 people have completed the passport training for supermarkets since June 2003.
- Patient handling guidelines were distributed to over 2,000 health sector employers in late October 2003.

ACC has supported the development and delivery of approved training courses in conjunction with the New Zealand Council of Trade Unions and Business New Zealand through employers and manufacturers associations. More than 6,000 health and safety representatives, supervisors and others attended programmes and courses during the year.

ACC's Partnership Programme, under which employers manage their employees' work-related injury claims in return for significant levy discounts, now includes 182 employer groups, representing 26% of the workforce. Injury rates have decreased in almost 90% of these groups.

Over 350 employers joined the Workplace Safety Management Practices programme this year, taking the total to 1,861.

ACC identified 200 new employers with high injury rates for the Employer Early Intervention programme, which provides resources to improve the health and safety practices of high-risk workplaces. Work continued with 92 companies who joined in 2002-2003 – they averaged a 29% reduction in ACC claims as at 30 September 2003.

ACC's Workplace Safety Evaluation programme began in late 2003 and provides intensive workplace safety advice and assistance to employers with poor accident histories, to target the underlying causes of serious and/or prevalent injuries in their workplaces. Failure to take appropriate action can result in a 50% increase in the employer's standard ACC Workplace Cover levy as provided for by the Act. Over 150 employers were helped through this programme and are on track to achieve 25% reductions in workplace injury. No penalties have yet been imposed.

Goal 1.3: Preventing and reducing sporting injuries

SportSmart is ACC's 10-point action plan for preventing sports injuries. ACC continues to focus its activity on the sports that have the most injuries – rugby, netball, soccer, touch, rugby league, snow sports and water sports.

During 2003-2004 ACC achieved that focus through promoting and developing:

- Sideline Management of Strains and Sprains courses
- RugbySmart 2004 workshops
- the Sideline Concussion Check card
- SportSmart courses for Future Ferns coaches
- other SportSmart training for coaches
- the Snow Responsibility Code and wristguard wearing for snowboarders.

Further details are provided on pages 33-34.

Goal 1.4: Preventing and reducing road traffic injuries

ACC's road safety portfolio focused on both key injury risk factors (speed, alcohol, safety belt wearing and fatigue) and on key risk groups in the population (motorcyclists and young drivers).

Details of particular initiatives during 2003-2004 are provided on pages 31-33.

An evaluation of ACC's Stop Bus programme showed very positive results including a decrease in alcohol-related crashes within the intervention districts compared with the other districts.

Goal 1.5: Preventing and reducing injuries in and around the home

The prevention of injuries occurring in and around the home is focused on three age groups:

- ACC has significantly increased its ThinkSafe community programmes in fall prevention for older adults.
- Reducing falls, particularly in playgrounds, and reducing injuries to children who are not restrained in cars continues to be the main focus of ACC's child safety work. This activity is delivered via the ThinkSafe communities.
- ACC continues to expand the Slips, Trips and Falls programme targeting 25 to 55-year-olds. The mass media campaign was extended, including a new advertisement. Surveys showed a high awareness of the campaign and its messages among the target audience, but further work is required to increase awareness of the severity of potential injuries.

Further details are provided on pages 35-36.

Goal 1.6: Addressing intentional injury

ACC has progressed the establishment of its role in preventing intentional injury (violence and suicide), including:

- the development of a framework for injury prevention work in the area of alcohol and other drugs
- undertaking work with the Alcohol Advisory Council of New Zealand (ALAC) and the New Zealand Police to qualify and quantify the relationships between alcohol and injury and on the types of enforcement that reduce alcohol-related injury in public settings.

Preliminary work has begun on identifying ACC claims arising out of a drug overdose or suicide event. In partnership with the University of Auckland Injury Prevention Research Centre and the Auckland District Health Board, ACC is developing a programme to provide a brief intervention to people who have attempted suicide.

Goal 1.7: Implementing the New Zealand Injury Prevention Strategy (NZIPS)

Launched in June 2003, the NZIPS provides a strategic framework for the injury prevention activities of government and non-government organisations and communities to improve injury prevention performance.

ACC is responsible for leading and co-ordinating implementation of the Strategy and established a Secretariat to ensure an effective shift from strategy development to implementation reality.

Key actions during the year:

- After extensive consultation, the 2004-2005 Implementation Plan was launched in October 2003.
- A redeveloped website to support implementation activities went live in March 2004.
- The first issue of a quarterly newsletter was distributed in May 2004 to over 650 injury prevention practitioners in government, non-government and community organisations.
- The Secretariat convened meetings and supported the work of the Strategy's three advisory bodies – the Stakeholder Reference Group, the Government Interagency Steering Group and the Expert Advisory Panel.
- The Secretariat worked with lead government agencies such as the Department of Labour (OSH) and the Ministries of Health and Youth Development in developing new strategies for workplace injuries and suicide.
- ACC is development leader of two of the six national priority strategies – drowning/near-drowning and falls. Preparatory work including literature reviews and identifying interested parties began in 2004. A baseline stocktake of drowning and near-drowning prevention activity has begun.
- An evaluation framework for the Strategy was developed in accordance with the 2004-2005 Implementation Plan.
- Surveys of safety-related law and injury prevention research providers were completed in May and June 2004.
- A stocktake of 143 government and 55 non-government organisations involved in injury prevention to establish baselines of injury prevention activity was commenced in May 2004.
- The Secretariat has established working relationships with non-government and community organisations. It also attended community-based injury prevention forums to explain the Strategy's role and how implementation will assist community-based initiatives.

New claims numbers

New claims are monitored in three main categories: total claims registered, new 'weekly compensation' claims, and new 'other entitlement' claims (claims receiving entitlements other than medical fees payment but not weekly compensation).

ACC monitors claim rates relative to appropriate exposure bases (population and motor vehicle numbers). Target claim rates for 2003-2004 reflected historic trends, injury prevention programmes and ACC's activities in respect of scheme access and awareness.

New claims registered

The following tables show the number of new claims registered in 2003-2004, and claim rates, in total and by Account. The charts show a 12-month moving average of the number of new claims registered by month since 1999, in total and by Account.

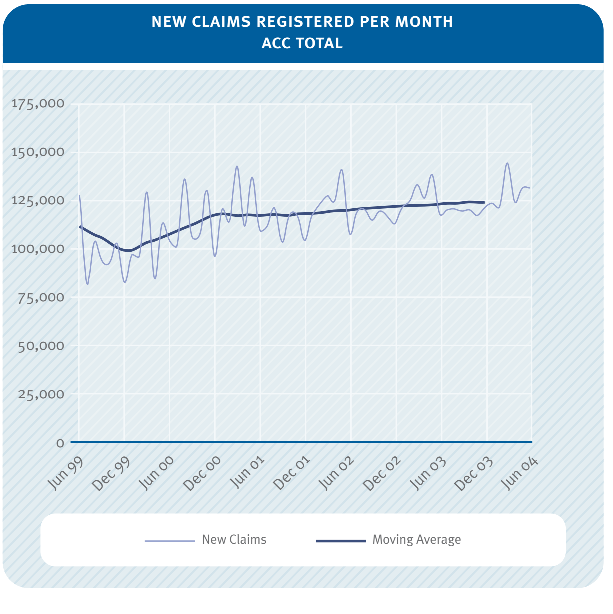
Overall new claim rates increased slightly. Rates increased significantly in the Motor Vehicle Account and to a lesser extent, the Earners' Account. Rates decreased in the Employers' and Self-Employed Work Accounts.

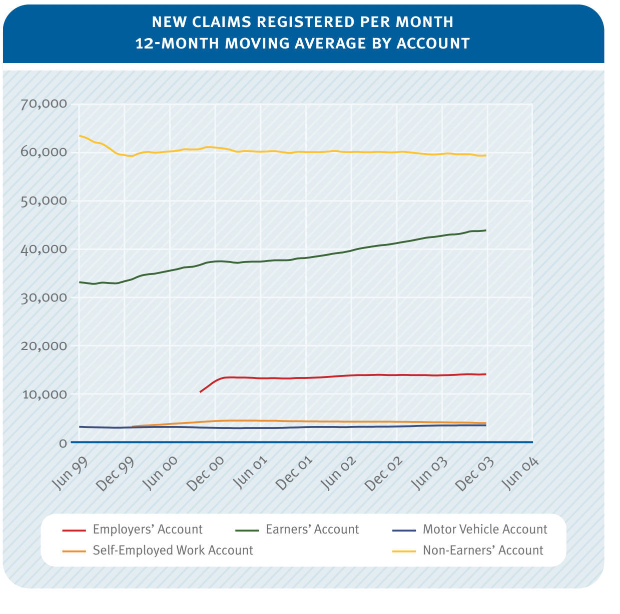
Higher claim numbers in the Earners' Account also reflect a greater proportion of the population being in employment. There has been a corresponding opposite impact in the Self-Employed Work and Non-Earners' Accounts.

Increased claim numbers in the Motor Vehicle Account also reflect increases in vehicle numbers and vehicle kilometres travelled.

NEW CLAIMS REGISTERED	2003-2004 ACTUAL	2002-2003 ACTUAL
ACC Total	1,504,732	1,474,945
Employers' Account	168,266	165,390
Self-Employed Work Account	45,129	48,300
Residual Claims Account	1,671	599
Motor Vehicle Account	39,583	36,708
Non-Earners' Account	718,758	725,503
Earners' Account	530,075	497,763
Medical Misadventure Account	1,250	682

NEW CLAIMS REGISTERED PER 100 POPULATION	2003-2004 ACTUAL	2003-2004 FORECAST	2002-2003 ACTUAL
ACC Total	36.98	37.93	36.79
Employers' Account	10.53	10.72	10.80
Self-Employed Work Account	12.37	17.25	13.61
Non-Earners' Account	34.13	35.35	34.16
Earners' Account	27.00	27.01	26.40
Motor Vehicle Account (per million km)	108.09	102.06	101.55





New weekly compensation claims

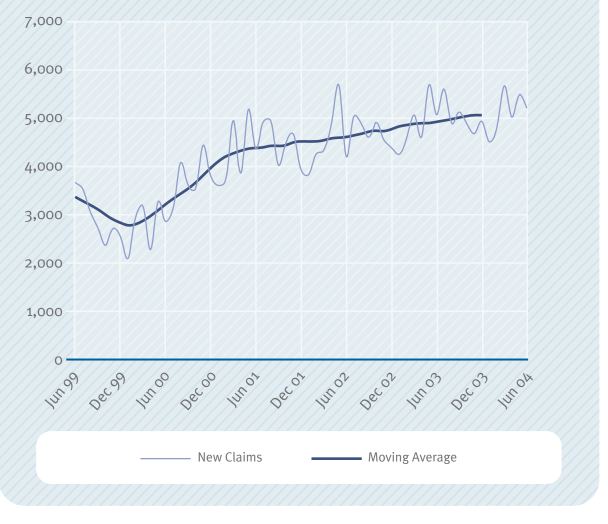
The following tables show new weekly compensation claims in 2003-2004, and claim rates, in total and by Account. The charts show a 12-month moving average of the number of new weekly compensation claims by month since 1999, in total and by Account.

Total new weekly compensation claims increased by 5.5% with the rate per 100 population increasing by 4%. The increased numbers in the Motor Vehicle and Earners' Accounts are consistent with the increase in new claims registered. The increased numbers in the Self-Employed Work Account reflect an increasing 'conversion' rate relative to the number of new claims registered. The increased conversion rate in the Employers' and Self-Employed Work Accounts is consistent with the newness of the Accounts and the time-lags with some claims between registration and initial access to weekly compensation.

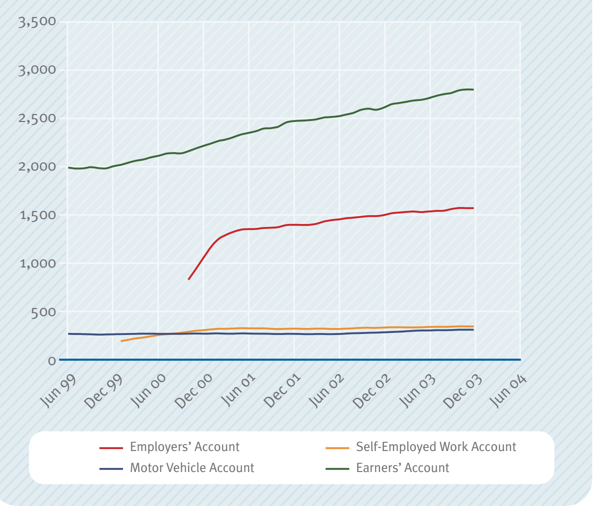
NEW WEEKLY COMPENSATION CLAIMS	2003-2004 ACTUAL	2002-2003 ACTUAL
ACC Total	60,828	57,680
Employers' Account	18,688	17,943
Self-Employed Work Account	3,943	3,841
Residual Claims Account	541	586
Motor Vehicle Account	3,548	3,235
Non-Earners' Account	481	446
Earners' Account	33,456	31,452
Medical Misadventure Account	171	177

NEW WEEKLY COMPENSATION CLAIMS PER 100 POPULATION	2003-2004 ACTUAL	2003-2004 FORECAST	2002-2003 ACTUAL
ACC Total	1.49	1.49	1.44
Employers' Account	1.17	1.15	1.17
Self-Employed Work Account	1.08	1.35	1.08
Earners' Account	1.70	1.72	1.67
Motor Vehicle Account (per million km)	9.69	8.66	8.96

NEW WEEKLY COMPENSATION CLAIMS PER MONTH
ACC TOTAL



NEW WEEKLY COMPENSATION CLAIMS PER MONTH
12-MONTH MOVING AVERAGE BY ACCOUNT



New other entitlement claims

The following tables show the number of new other entitlement claims in 2003-2004, and claim rates, in total and by Account. The charts show a 12-month moving average of the number of new other entitlement claims by month since 1999, in total and by Account.

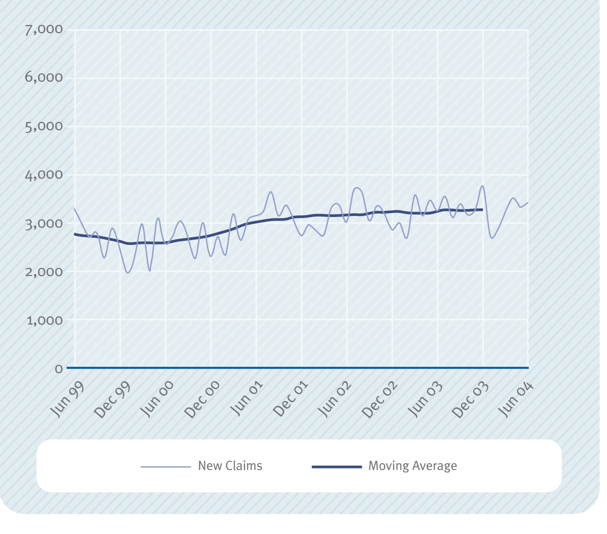
Total new other entitlement claims increased by 1% with the rate per 100 population decreasing slightly.

The increased numbers in the Motor Vehicle Account are consistent with the increase in new claims registered. The increased numbers in the Employers' Account reflect an increasing 'conversion' rate as with new weekly compensation claims above.

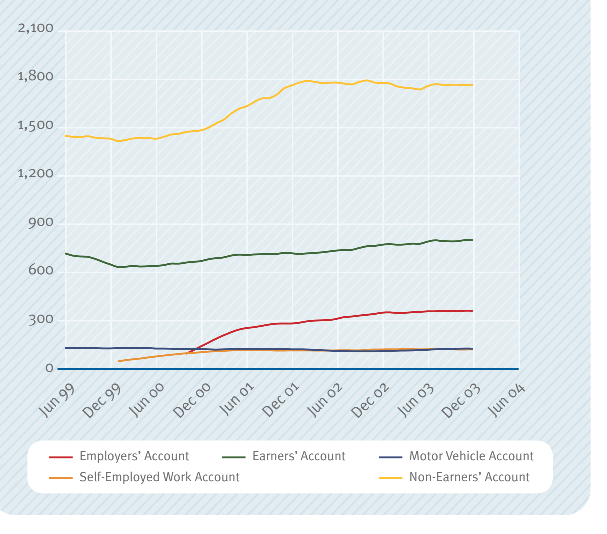
NEW OTHER ENTITLEMENT CLAIMS	2003-2004 ACTUAL	2002-2003 ACTUAL
ACC Total	39,571	39,195
Employers' Account	4,245	3,801
Self-Employed Work Account	1,368	1,350
Residual Claims Account	1,532	1,595
Motor Vehicle Account	1,420	1,249
Non-Earners' Account	21,237	21,531
Earners' Account	9,569	9,473
Medical Misadventure Account	200	196

NEW OTHER ENTITLEMENT CLAIMS PER 100 POPULATION	2003-2004 ACTUAL	2003-2004 FORECAST	2002-2003 ACTUAL
ACC Total	0.97	0.99	0.98
Employers' Account	0.27	0.25	0.27
Self-Employed Work Account	0.37	0.47	0.38
Non-Earners' Account	1.01	1.05	1.00
Earners' Account	0.49	0.50	0.49
Motor Vehicle Account (per million km)	3.88	3.27	3.44

NEW OTHER ENTITLEMENT CLAIMS PER MONTH
ACC TOTAL



NEW OTHER ENTITLEMENT CLAIMS PER MONTH
12-MONTH MOVING AVERAGE BY ACCOUNT



KEY OBJECTIVE 2: SATISFIED STAKEHOLDERS, ESPECIALLY CLAIMANTS

ACC aims for all New Zealanders to recognise the social and economic value of the ACC Scheme, the benefits of a 24-hour, no-fault system and the development of a stakeholder-centred culture in ACC.

In April 2004, the Controller and Auditor-General released his report on ACC's case management of rehabilitation and compensation, assessing that ACC's case management practices are thorough and work well, and that ACC staff are professional in their approach.

Goal 2.1: Timely and accurate payment of entitlements

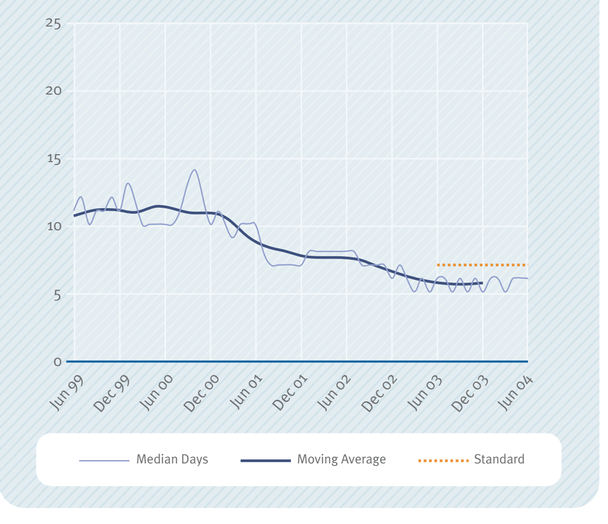
ACC is committed to continually improving the timeliness and accuracy of entitlement payments to claimants.

Payment timeliness

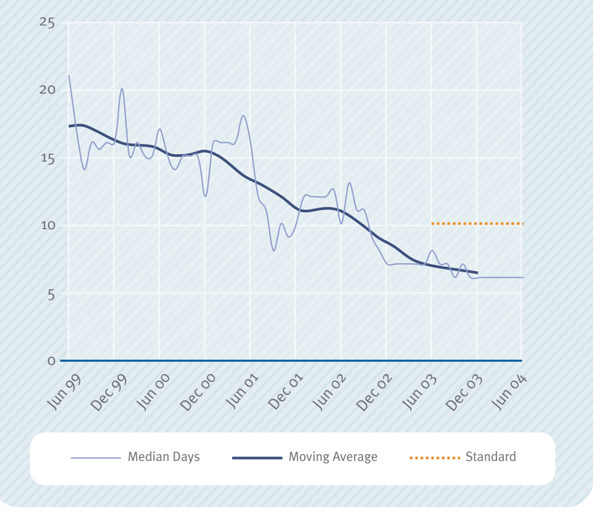
Payment timeliness is measured using the time taken to make the initial payment of weekly compensation. Payment timeliness during 2003-2004 to both employee and self-employed claimants is superior to the target level and continues the improvements from previous years.

PAYMENT TIMELINESS (% WITHIN STANDARD TIME)	STANDARD TIME (CALENDAR DAYS)	2003-2004 RESULT	2003-2004 TARGET	2002-2003 RESULT
Employees	7 days	67%	60%	56%
Self-employed	10 days	68%	60%	61%

PAYMENT TIMELINESS FOR CLAIMS FROM EMPLOYEES (MEDIAN DAYS)



PAYMENT TIMELINESS FOR CLAIMS FROM SELF-EMPLOYED (MEDIAN DAYS)



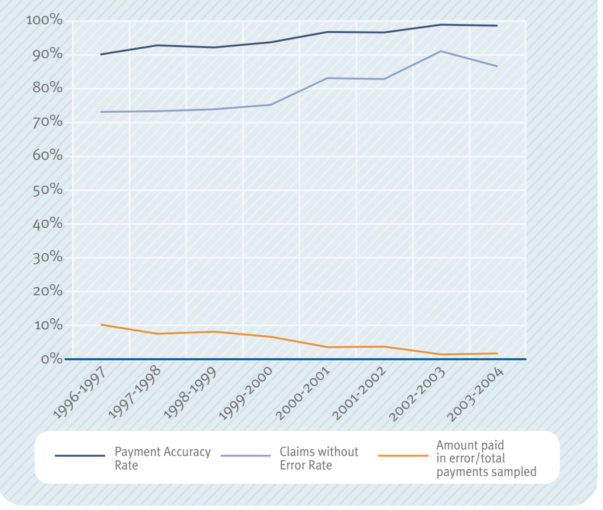
Payment accuracy

The accuracy of payments to claimants in 2003-2004 is determined from monthly samples of claims on the same basis as 2002-2003. There has been a slight decrease in accuracy due mainly to insufficient documentation on claim files and unavailability of files for review.

The Payment Accuracy rate measures the percentage of the total amounts paid on the claims reviewed that were correct. The result for 2003-2004 of 98.5% represents a slight reduction from the 2002-2003 result of 98.8% – the change being within the margin of error.

The Claims Without Error rate measures the percentage of claims reviewed that had no error and has decreased from 91.0% in 2002-2003 to 86.5% in 2003-2004.

PAYMENT ACCURACY RESULTS



Goal 2.2: Service consistent with the Code of ACC Claimants' Rights

ACC is committed to meeting the obligations of the Code of ACC Claimants' Rights introduced on 1 February 2003.

From then to 30 June 2004, 2,186 complaints alleging breaches of the Code were received, almost half relating to Right 5 (the right to effective communication) and Right 6 (the right to be fully informed). On average, complainants register 2.1 issues per complaint.

At 30 June 2004, decisions had been issued for 2,039 alleged breaches. Of these alleged breaches, 1,380 (68%) were found not breached and 659 (32%) were found breached. Of the rights breached, 35% relate to Right 5 and 28% to Right 6.

Of the remedies given, 83% were written apologies, 5% were written explanations and 3% were arranged meetings.

Since the implementation of the Code, ACC has instigated a number of initiatives to monitor and analyse Code complaints, including employing a dedicated data analyst, a Quarterly Feedback Report to all staff detailing complaint information, and a complaint database to analyse data collected since 1994.

Other initiatives include streamlining 0800 complaint line call-handling, focusing on complaint resolution, and regular branch visits by complaint investigators to discuss trends and issues.

ACC completed an evaluation covering the first 12 months' operation of the Code in May 2004. The review showed that introducing the Code has been a positive step and well received by claimants and ACC staff.

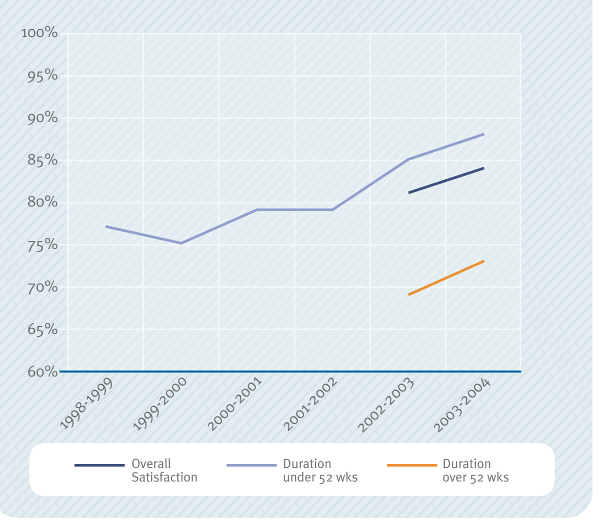
CODE RIGHTS	NUMBER OF COMPLAINTS RECEIVED	NUMBER CLOSED	NUMBER OF BREACHES FOUND	% FOUND BREACHED
RIGHT 1 – the right to be treated with dignity and respect	376	354	101	29%
RIGHT 2 – the right to be treated fairly and to have views considered	422	388	101	26%
RIGHT 3 – the right to have culture, values, and beliefs respected	46	43	2	5%
RIGHT 4 – the right to a support person or persons	49	44	2	5%
RIGHT 5 – the right to effective communication	583	549	229	42%
RIGHT 6 – the right to be fully informed	503	473	185	39%
RIGHT 7 – the right to have privacy respected	127	118	29	25%
RIGHT 8 – the right to complain	80	70	10	14%
TOTAL	**2,186**	**2,039**	**659**	**32%**

Goal 2.3: Claimant satisfaction

ACC surveys the level of claimant satisfaction monthly.

Overall claimant satisfaction (in respect of claims managed by ACC's branch network) continues the improvement seen since the survey was extended to include long-term claimants in September 2001. The result for 2003-2004 of 84% exceeds the target of 80% and the 2002-2003 level of 81%.

ACC CLAIMANT SATISFACTION



CLAIMANT SATISFACTION (IN RESPECT OF CLAIMS MANAGED BY ACC'S BRANCH NETWORK)	2003-2004 RESULT	TARGET	2002-2003 RESULT	SAMPLE SIZE	MARGIN OF ERROR (+/-)
Overall claimant satisfaction	84%	80%	81%	6,727	1.2%
Claimant satisfaction (duration under 52 weeks)	88%	N/A	85%	5,073	1.4%
Claimant satisfaction (duration over 52 weeks)	73%	N/A	69%	1,654	2.4%

Claimant reviews and appeals

ACC targets 70% of reviews and appeals to be favourable to ACC, or for the application to be withdrawn. That target was exceeded.

THE OUTCOMES OF CLAIMANT REVIEWS FOR 2003-2004	RESULT
Review dismissed	2,703
Decision modified	105
Decision quashed	1,057
Review withdrawn	1,163
Total	**5,028**
Percentage favourable to ACC or withdrawn – 2003-2004	*77%*
Target	**70%**
Percentage favourable to ACC or withdrawn – 2002-2003	*79%*

DISTRICT COURT CLAIMANT APPEALS FOR 2003-2004	RESULT
Appeal dismissed	258
Appeal allowed	106
Interim order made	8
Appeal withdrawn	390
Total	**762**
Percentage favourable to ACC or withdrawn – 2003-2004	*85%*
Target	**70%**
Percentage favourable to ACC or withdrawn – 2002-2003	*79%*

Goal 2.4: Levy payer satisfaction

Levy rates

The 2004-2005 levies for employers, self-employed, earners and motor vehicles were announced in December 2003. The average levies are set out below.

ACCOUNT	2004-2005	2003-2004
Employers'	91 cents per $100 of liable earnings	90 cents per $100 of liable earnings
Self-Employed Work	$1.73 per $100 of liable earnings	$1.79 per $100 of liable earnings
Earners'	$1.20 per $100 of liable earnings (including GST)	$1.20 per $100 of liable earnings (including GST)
Motor Vehicle	$126.01 per annual petrol-driven motor car licence; plus 5.08 cents per litre petrol excise	$141.10 per annual petrol-driven motor car licence; plus 5.08 cents per litre petrol excise
Residual Claims	30 cents per $100 of liable earnings	31 cents per $100 of liable earnings

Levies remained relatively stable, with a slight reduction in the Self-Employed Work Account and a 7% decrease in the Motor Vehicle Account.

The decrease in motor vehicle levies reflects lower than expected injury claim costs and a larger number of registered vehicles.

Levy payer satisfaction

ACC measures the level of employer levy payer satisfaction by survey.

Overall satisfaction with the level of service the largest 2,500 employer levy payers received from ACC at 84% exceeded ACC's target of 80% and is unchanged from the 2002-2003 result.

LEVY PAYER SATISFACTION	2003-2004 RESULT	TARGET	2002-2003 RESULT	SAMPLE SIZE	MARGIN OF ERROR (+/-)
Top 2,500	84%	80%	84%	808	3.4%
Top 500	81%	N/A	81%	368	5.1%
Next 2,000	87%	N/A	85%	440	4.7%

Satisfaction levels for small and medium-sized employers (69%) and self-employed (63%) are lower than for the larger employers. ACC launched ThinkSmall in June 2004 to those staff directly involved in dealing with small to medium employers and self-employed levy payers. ThinkSmall is a group of projects aimed at increasing the satisfaction of that group of customers.

KEY OBJECTIVE 3: MAXIMISING THE UTILITY OF PROVIDERS

ACC actively manages its relationship with providers, aiming to achieve the best possible rehabilitation outcomes for claimants.

Goal 3.1: Positive relationships with treatment providers

ACC continued to focus on establishing and maintaining a positive relationship with providers.

ACC's Provider Relationship Team was set up in late 2002 to promote better interaction between ACC and health providers, and has proved a great success. This year the team averaged 450 visits per month to providers throughout New Zealand. Particular support was provided for the changes to the Cost of Treatment Regulations, and the rollout of the Endorsed Provider Network and Rural Contracts.

ACC also organised:

- regular meetings with provider organisations to consult on directions, communicate developments and share concerns
- provider evenings that continued to prove popular – this year dealing with Best Practice Evidence-based Guidelines and the *New Zealand Acute Low Back Pain Guide*
- training sessions for practice staff nationwide on the changes to the Cost of Treatment Regulations, the Endorsed Provider Network contract and the Rural Contract.

The 2003 Provider Survey showed an increase in the general practitioner satisfaction rate from 43% in 2002 to 59% in 2003.

Goal 3.2: Develop quality frameworks and promote best practice

ACC works to ensure that providers understand the important role that they play in the provision of quality outcomes to ACC claimants.

ACC aimed to develop best practice guidelines for at least three major injury groups in 2003-2004, and to foster at least six projects with provider groups by December 2003 that encourage best practice.

Those targets were achieved and details are provided on page 45.

Best practice is also promoted through the issuing of treatment vignettes, the continuing development of treatment profiles and the production of videos providing practical training on the treatment of common injuries.

ACC completed an engagement strategy in February 2004 covering the purchase of health services. The strategy incorporates quality frameworks for providers.

Goal 3.3: Effective use of technology

Technology is being used to speed up transactions between ACC and providers, reduce paper-based transactions and promote best practice. The percentage of claims lodged electronically increased from 38% for 2002-2003 to 47% for 2003-2004 (54% during June 2004). Similarly, electronic lodgement of treatment fees schedules increased from 47% for 2002-2003 to 50% for 2003-2004.

The Providers section of the ACC website provides a comprehensive resource for providers, including advice on current scheme issues, support for the provider services process such as for claims and fees for services, and the extensive range of ACC's best practice material.

ACC is significantly involved in projects to develop technology for secure email communication between ACC and providers, employers and claimants, and between providers.

KEY OBJECTIVE 4: OPTIMISING CASE MANAGEMENT PRACTICES AND PROCESSES

Over the past four years, ACC has improved early effective rehabilitation processes to ensure claimants are returned to independence within the recommended duration for their injury, based on international best practice, measured through Medical Disability Advisor (MDA) guidelines. In most areas this has halved the time claimants spend waiting for services and ensured more effective and permanent rehabilitation. This work has increased claimant satisfaction, significantly reduced average claim durations, and reduced scheme costs.

ACC's goal is to increase the proportion of claimants who return to work readiness or independence within an optimum period of time, determined by the ACC legislation, and the nature and extent of their injury.

Goal 4.1: Early and appropriate intervention

The faster receipt of new claims through increased electronic lodgement and ACC-funded 'FastPost', and same-day registration of most claims on receipt, enables ACC to provide services to claimants earlier. The median time-span between an injured person visiting their provider and ACC's receipt of the claim reduced from four days in 2000-2001, to three days in 2001-2002, and to two days in 2003-2004 in respect of entitlement claims.

ACC's Contact Centres make early contact with claimants whose claim details or inbound contact indicate that further assistance beyond initial treatment is required. This contact clarifies the claimants' needs and identifies appropriate ACC responses, eg Packages of Care to meet home-based rehabilitation needs, and referral to branch-based case managers.

The Contact Centres handle low- to-medium-duration claims that do not involve extensive or complex interventions. The Centres aim to maximise the number of claims they handle in order to reduce the workload in branches – which focus on more complex, longer-duration claims.

Goal 4.2: Standard operating procedures

ACC reviewed the different case management processes used in branches. The aim was to develop a set of standard processes to reduce variations in rehabilitation timeframes.

The new standardised processes include:

- the way branches deal with mail
- the way a new file is allocated
- the way invoices resulting from case management are approved for payment
- case management – initial case management and vocational independence.

ACC has set standards requiring appointments for medical assessments to be conducted within two weeks of the need for the assessment being established, and that reports be provided to ACC within one week. This initiative resulted in appointments being arranged and reports being received in a more timely fashion.

Goal 4.3: Proactive management

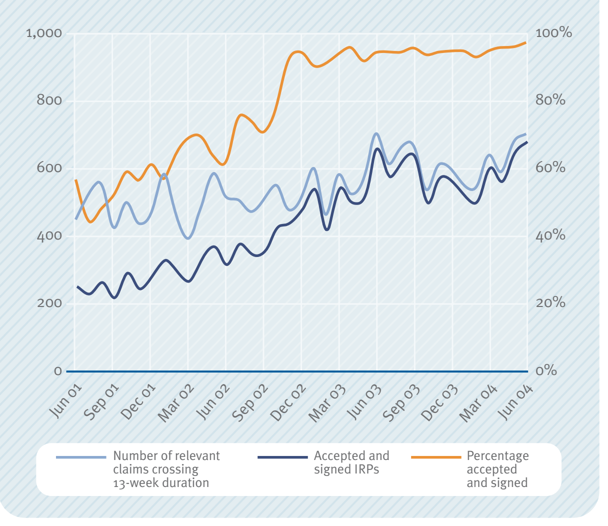
ACC continues to develop tools to improve rehabilitation outcomes for claimants including:

- a successful drug and alcohol programme pilot (subsequently extended), providing case managers with actions to take with claimants whose rehabilitation is affected by suspected drug and/or alcohol problems
- the implementation of an Endorsed Psychiatric Provider Programme, which gives ACC the ability to effectively manage psychiatric treatment of claimants against agreed performance measures
- elective surgery – ACC spent $85 million during 2003-2004 purchasing surgery direct from public and private providers, aiming to speed up the rehabilitation process for claimants
- approval of over 200 lifetime rehabilitation plans addressing the rehabilitation and support needs of the seriously injured
- the 14-Day Medical Certificate pilot, which asks medical providers to reassess claimants at 14 days if they are still off work. The reassessment validates the initial diagnosis, checks the reasonableness of the indicated duration of the incapacity and identifies potential barriers to rehabilitation and has provided ACC with better knowledge of a claimant's condition
- the introduction of Contact Centre Scripts to enable staff to explore more fully a claimant's diagnosis and their support requirements in order to enhance rehabilitation planning
- the Employment Maintenance Programme, which addresses treatment needs and vocational issues while a claimant is recovering from an injury and has resulted in more than 50% of participants returning to work
- the Work Preparation Programme, which provides physiotherapy, life skills and job search training for long-term claimants and has achieved direct return to work outcomes for a number of claimants and readied a significant number for further vocational rehabilitation.

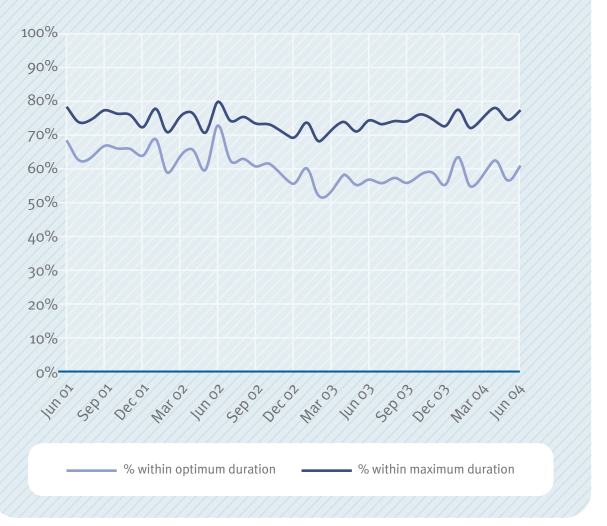
Goal 4.4: Timely Individual Rehabilitation Plans

An Individual Rehabilitation Plan (IRP) documents the steps that ACC, the claimant and treatment providers will take to achieve effective rehabilitation. ACC has further improved the level of IRP completion and is consistently achieving a signed IRP for more than 95% of the claims where the IRP is required at 13 weeks' duration.

INDIVIDUAL REHABILITATION PLANS FOR CLAIMS AT 13 WEEKS' DURATION



% OF CLAIM DURATIONS WITHIN MDA GUIDELINES



Goal 4.5: Improved rehabilitation outcomes

Best practice standards

The Medical Disability Advisor (MDA) provides international guidelines for the length of the recovery process consistent with the claimant's injury and occupation.

ACC monitors claim duration relative to optimum and maximum duration guidelines. During 2003-2004, 58% (2002-2003 – 58%) of claims achieved their optimum MDA duration and 75% (2002-2003 – 72%) their maximum MDA duration, compared with targets of 60% and 70%.

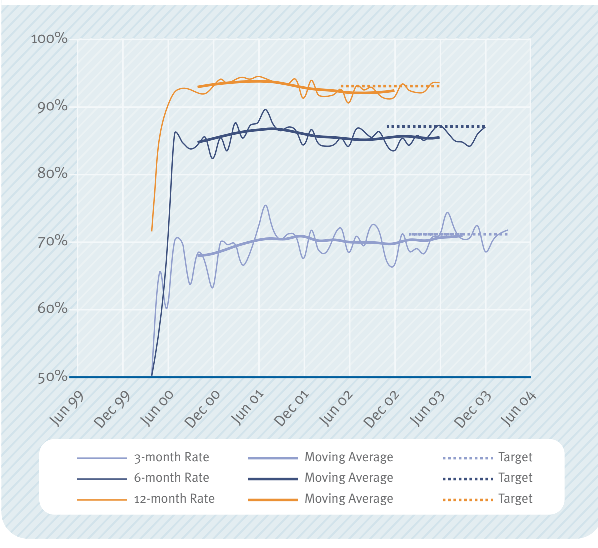
Rehabilitation rates

Rehabilitation rates show the percentages of claimants who return to work or independence within three-month, six-month and 12-month periods from date of injury, for the major weekly compensation accounts. The 12-month rate is particularly important, as it determines the number of claims that become long-term.

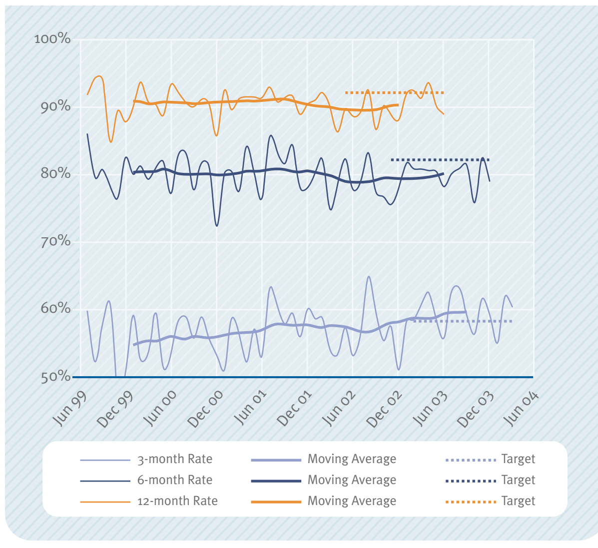
Rehabilitation rates are generally improving at three months, reflecting ACC's increased focus on early intervention including earlier commencement of vocational independence processes and follow-up of initial occupational and medical assessments. Although rates are steady at six and 12 months, these should improve as the improvements at three months flow through.

3-MONTH REHABILITATION RATES	2003-2004 RESULT	2003-2004 TARGET	2002-2003 RESULT
Employers' Account	71%	71%	70%
Self-Employed Work Account	59%	58%	57%
Motor Vehicle Account	60%	61%	60%
Earners' Account	70%	70%	70%
6-MONTH REHABILITATION RATES			
Employers' Account	86%	87%	85%
Self-Employed Work Account	80%	82%	79%
Motor Vehicle Account	80%	81%	80%
Earners' Account	87%	88%	87%
12-MONTH REHABILITATION RATES			
Employers' Account	92%	93%	93%
Self-Employed Work Account	90%	92%	90%
Motor Vehicle Account	89%	89%	89%
Earners' Account	94%	95%	95%

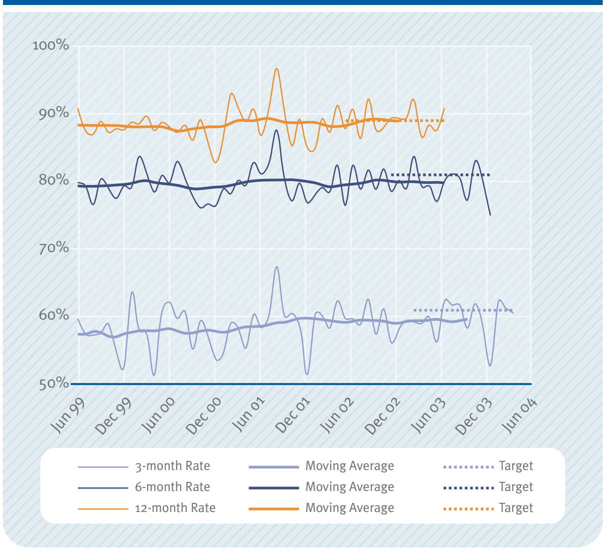
REHABILITATION RATES
EMPLOYERS' ACCOUNT



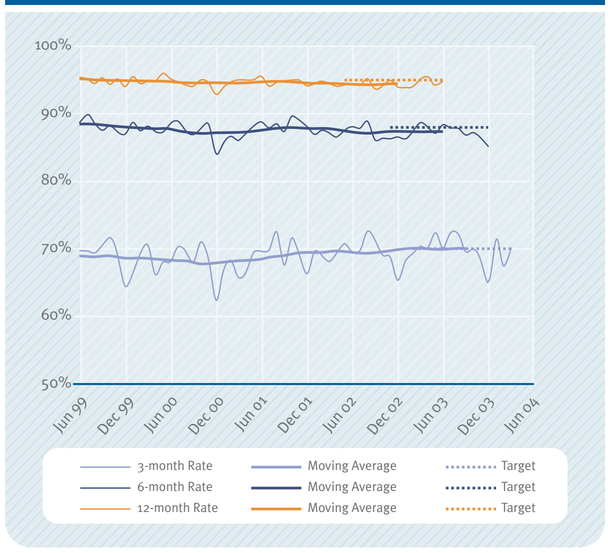
REHABILITATION RATES
SELF-EMPLOYED WORK ACCOUNT



REHABILITATION RATES
MOTOR VEHICLE ACCOUNT



REHABILITATION RATES
EARNERS' ACCOUNT

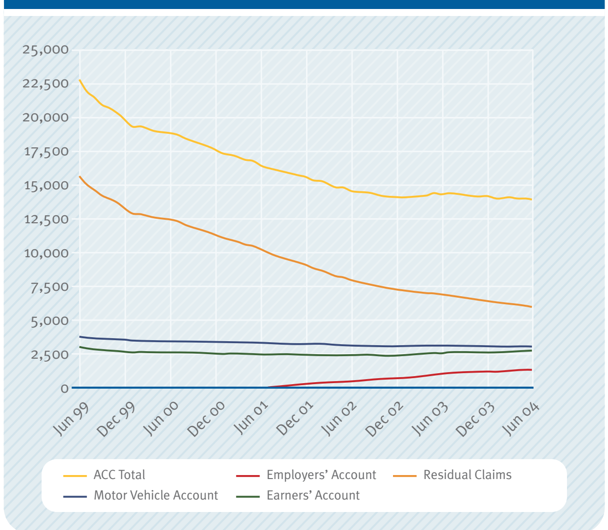


Numbers of long-term claims

ACC forecast that the number of long-term weekly compensation claims would reduce by 500 during 2003-2004. The reduction for the year to 30 June 2004 was 380.

The overall reduction in 2003-2004 was slightly higher than the 256 during 2002-2003. The 10% increase in weekly compensation claimants reaching 12 months' duration on the scheme as a result of increased new claims in 2002-2003 has been offset by a significant increase in the number of long-term claimants ceasing to receive weekly compensation.

LONG-TERM WEEKLY COMPENSATION CLAIM NUMBERS



ACCOUNT	NUMBER OF LONG-TERM CLAIMS AT 30 JUNE 2004	NUMBER OF LONG-TERM CLAIMS AT 30 JUNE 2003	DECREASE/ (INCREASE)
ACC Total	13,890	14,270	380
Employers' Account	1,325	1,005	(320)
Self-Employed Work Account	326	295	(31)
Residual Claims Account	5,958	6,862	904
Motor Vehicle Account	3,036	3,093	57
Non-Earners' Account	243	225	(18)
Earners' Account	2,741	2,553	(188)
Medical Misadventure Account	261	237	(24)

KEY OBJECTIVE 5: INFORMED DECISION-MAKING AND INTERVENTION DEVELOPMENT

ACC is increasing its focus on research and evaluation to facilitate the application of new knowledge. This will provide increased efficiency and cost-effectiveness of ACC's activities through more informed decision-making, purchasing, development and continual improvement.

Goal 5.1: Relevant, quality research

ACC significantly increased its investment in research activity in 2003-2004. A key feature is the use of research agencies and third party providers, and working collaboratively with other government agencies. Initiatives begun this year include:

- a collaborative work programme in partnership with the Ministry of Social Development to enable the development of complementary programmes and services across the two organisations, to assist claimants and clients to improve outcomes and overcome barriers preventing their return to work. A literature review and the development of claimant/client profiles have started
- an important three-year cross-departmental research project involving the Ministry of Health, the Health Research Council and ACC into the attitudes, perceptions and behaviour of Māori concerning injury treatment, rehabilitation and prevention
- research to investigate the effects of capitation in primary care, including claim rates, the ratio of ACC to non-ACC claim visits, co-payment charges in relation to practice pricing, migration to cheaper care, and funding models
- separate research projects to identify the reasons for Māori and Pacific peoples having lower claim rates than the general population, to help identify ways to improve Māori and Pacific peoples' injury rehabilitation outcomes. The Pacific research will focus on three key issues – access, equity and appropriateness. The Māori-focused research will concentrate on the issue of access.

Goal 5.2: Relevant, quality evaluation

ACC and the Department of Labour finalised their Joint Evaluation Work Programme including key areas and timeframes for evaluations in July 2003. Progress this year includes the following activities:

- The first evaluation of lump sum entitlements was completed in March 2004, using information to 31 December 2003. The programme is still immature and, while the numbers are increasing steadily, they remain too small to draw conclusions about the programme's impact.
- An evaluation of the Partnership Programme completed in December 2003 concluded the programme framework was sound. However, it was too early to judge its full effectiveness in achieving positive improvements to injury prevention, and injury and rehabilitation management.
- An evaluation framework for the New Zealand Injury Prevention Strategy was developed.

- An evaluation has begun on the quality and management of rehabilitation, with a focus on achievement of government objectives underpinning the rehabilitation framework contained in the Act.
- An evaluation has begun on ACC's Quality Framework and Health Services Purchasing Plan and new health services purchasing initiatives (such as Rural General Practitioners and the extension of the Endorsed Provider Network).

KEY OBJECTIVE 6: ALL STAFF ARE PROVIDED WITH THE RIGHT TOOLS AND SYSTEMS TO DELIVER OUTCOMES

ACC aims to continue to be an employer of choice with satisfied staff working in a supportive environment.

Goal 6.1: High staff satisfaction

ACC is committed to improving staff satisfaction as it strives to be an 'Employer of Choice'. Since June 2002, there has been a steady increase in overall staff satisfaction as measured by staff census.

ACC's overall staff satisfaction rating at June 2004 of 73% compares with 72% at June 2003 and 69% at June 2002, and exceeds the 70% target. Key results from the June 2004 census are:

CENSUS FACTOR	JUNE 2004 RESULT	JUNE 2003 RESULT
Satisfaction with job	72%	71%
Satisfaction with manager	75%	74%
Being part of the future of ACC	74%	73%
Satisfaction with ACC	72%	72%

Staff turnover

Annual staff turnover for all ACC staff at June 2004 was 13.3%. This is within the target range of 10-15% and compares with turnover of 12.5% at June 2003.

The achievement of the targeted turnover rate reflects ACC's commitment to:

- implementing new recruitment processes, including using a range of techniques to ensure the best potential employees are recruited, enabling ACC to meet its business goals
- continuing to implement 'Employer of Choice' brand strategies, through providing human resources policies and programmes which support ACC's staff – including a remuneration framework to attract and retain talented staff, implementing a performance management programme to encourage high performance, and professional and personal support programmes
- ensuring relevant training and development opportunities for staff, including a range of management and leadership development opportunities for people managers
- conducting formal exit interviews with all departing employees to understand why they are leaving and what ACC might be able to do to retain employees.

Goal 6.2: Maximise use of technology

Systems availability

ACC monitors the availability of corporate systems and databases to users. Availability was rated as 'high' throughout 2003-2004.

There were no security breaches of the corporate systems. A persistent level of attempted breaches was monitored but none penetrated the ACC firewalls.

ACC's computers were relocated from office-type space into purpose-built computer centres with no interruption to services provided.

Technology upgrade

The Corporate Campus computing platform to support business unit applications was replaced, providing much needed additional storage capacity, and a basis for further rationalising and improving ACC's mid-range computing needs, including its email system.

ACC completed a global search for a replacement for the core claims management system. Work has begun with the preferred vendor on a proof-of-concept pilot. This initiative forms the most significant element in enabling ACC to meet its strategic objectives.

ACC selected a Content, Document and Record Management application and work began on deploying the infrastructure necessary to host the various applications that this capability will enable.

A replacement financial management information system was selected. Implementation has commenced and is scheduled for completion in late 2004.

A major upgrade of ACC's personal computer software (the desktop environment) began this year.

Goal 6.3: Business excellence

ACC operates a business excellence programme based on the international Baldrige best business practice framework. In July 2003, ACC was assessed by authorised evaluators aligned to the New Zealand Business Excellence Foundation (NZBEF) at 332 points against the Baldrige framework (the target was 300 points). This third assessment of ACC's business maturity showed a significant increase from the 291 points recorded in the August 2002 evaluation.

The results of the next formal evaluation by NZBEF are due in November 2004. An interim evaluation in February 2004 assessed ACC at 420 points.

Goal 6.4: A safe workplace

ACC's WorkSafe health and safety programme is fully implemented in all workplaces to support the physical, psychological and emotional safety of staff.

As part of ACC's WorkSafe programme, all staff who work closely with claimants have professional supervision to provide support and ensure that case management and other work practices are safe, effective and ethical.

ACC continues to be a leader in managing health and safety at work, reflected in its attainment of tertiary-level criteria of the ACC Partnership Programme again this year. Initiatives this year include:

- sponsoring work-life balance initiatives in workplaces
- sponsoring national and regional health and safety committee meetings.

KEY OBJECTIVE 7: PARTNERSHIPS WITH MĀORI

ACC is committed to developing a coherent set of principles, policies and practices that contribute to enhanced relationships and outcomes for Māori claimants and their communities.

Goal 7.1: A co-ordinated approach to Māori

In August 2003, ACC completed its Māori Development Policy, which provides a common direction and a framework to focus and co-ordinate ACC activity.

The policy outlines the key elements for strategic and operational activity across ACC relating to Māori claimants and communities, ACC internal capacity and culture, resourcing, provider services and strategic relationships.

Goal 7.2: Improved internal capacity for Māori responsiveness

The number of ACC staff identifying as Māori increased from 169 at 30 June 2003 to 205 at 30 June 2004.

ACC's Māori workforce recruitment strategy has been successful in increasing the numbers of Māori staff working in geographic areas with a high Māori population or a large proportion of Māori claimants.

Māori staff satisfaction was measured at 76% in June 2004 (75% in June 2003).

Annual staff turnover for Māori staff was 13.6% as at June 2004. This is within the target range of 10-15% and a slight reduction from 15.3% as at June 2003.

Goal 7.3: Culturally appropriate and targeted service delivery

Significant work was done this year to identify areas where the needs of Māori claimants were not being met by the available Māori service providers. Service provision gaps were resolved in medical assessment, home-based rehabilitation, community nursing and vocational rehabilitation services.

Access to traditional healing services is being piloted in three branches.

Culturally-based injury prevention programmes were developed for delivery in geographical regions where Māori are over-represented in claim numbers. These are generally managed at community level, and cover such areas as fall prevention initiatives, workplace safety projects, distribution of sports resources, delivery of Street Talk (road safety) courses and distribution of child restraints.

Goal 7.4: Increased Māori awareness of, and access to, ACC

The percentage of new entitlement claims relating to Māori has remained at about 11% over recent years.

Recent claims data analysis confirms that Māori claim rates remain significantly lower than non-Māori, and supports concerns that injured Māori are not fully accessing ACC support and services.

Research was conducted this year into Māori attitudes, perceptions and behaviour in relation to ACC activities, to solicit information to help address lower claim rates, lower levels of treatment and rehabilitation servicing, and injury prevention for Māori.

The Māori and Pacific Peoples Communication Strategy and Action Plan, which aims to increase awareness of the ACC Scheme and entitlements, is under development.

The brochure *How to Make a Claim to ACC* and the *Introduction to the Code of ACC Claimants' Rights*, together with some fact sheets for claimants and child safety literature, are available in Māori.

Overall Māori claimant satisfaction for 2003-2004 was 83% (sample = 841, margin of error ±3.4%). This exceeds the 2002-2003 result (81%) and ACC's 80% target.

KEY OBJECTIVE 8: IMPROVED RELATIONSHIPS WITH PACIFIC PEOPLES

ACC is committed to improving its relationships with Pacific peoples, and improving access and delivery of ACC services by addressing their specific needs.

Goal 8.1: Awareness of ACC claim processes and entitlements

The percentage of new entitlement claims relating to Pacific peoples in 2003-2004 was consistent with 2002-2003 at slightly less than 4%.

ACC is working with the Pacific Consultancy Group to research the reasons for Pacific peoples having lower claim rates than other ethnic populations.

The Māori and Pacific Peoples Communication Strategy and Action Plan, which aims to increase awareness of the ACC Scheme and entitlements, is under development.

The brochure *How to Make a Claim to ACC* is available in Cook Island Māori, Samoan and Tongan. The *Introduction to the Code of ACC Claimants' Rights* is available in Cook Island Māori, Niuean, Samoan and Tongan languages.

Overall Pacific peoples' claimant satisfaction at 30 June 2004 was 89% (sample = 217, margin of error ±6.7%), significantly higher than the target and 2002-2003 level of 80%.

Goal 8.2: Improved internal capacity to work with Pacific peoples

The number of ACC staff identifying as Pacific peoples increased from 95 at 30 June 2003 to 114 at 30 June 2004.

ACC monitors the numbers of Pacific peoples staff working in branches servicing geographic areas with a high Pacific peoples population or a large proportion of Pacific peoples claimants.

Pacific peoples staff satisfaction was measured at 77% in June 2004 (74% in June 2003).

Annual turnover for Pacific peoples staff was 15.0% as at June 2004. This is an increase from 7.0% as at June 2003, and at the upper limit of the target range of 10-15%.

Goal 8.3: Culturally appropriate and targeted service delivery

ACC injury prevention programmes for Pacific communities this year included injuries from falls, motor vehicle crashes, assaults and sports. ThinkSafe community projects included fall prevention initiatives, workplace safety projects, distribution of sports resources, delivery of Street Talk (road safety) courses, distribution of child restraints, water safety, and alcohol and child safety.

Material promoting child safety around the home is available in Samoan and material promoting the use of child car restraints is available in Samoan and Tongan.

ACC's injury prevention programmes were widely promoted at the ASB Bank Auckland Secondary Schools' Māori and Pacific Islands Cultural Festival in March 2004.

KEY OBJECTIVE 9: FINANCIAL MANAGEMENT

Goal 9.1: Effective and efficient collection of levies

Levy revenue

Levy revenue for 2003-2004 totalled $2,654 million, $106 million in excess of the Budget of $2,548 million. The additional revenue includes increased revenue in respect of prior years to the Employers' and Residual Claims Accounts, and higher than forecast earnings bases and motor vehicle numbers.

Debt management

ACC's debt management function focuses on revenue optimisation and improvements to the collection of levy and claimant debt. As well as in-house collection activity, ACC has continued to work closely with its levy collection agencies (Inland Revenue, LTSA) and debt collection agency partners.

Goal 9.2: To achieve returns on investment funds that exceed industry benchmark indices having regard to the Crown's risk preferences

ACC was managing $4.9 billion of investments at 30 June 2003 and aims to achieve investment returns at least equal to market benchmarks plus 1%. Investment returns during 2003-2004 for ACC's total reserves exceeded the benchmarks by 0.7%. Detailed comment on investment performance is included in the Investments section of the Report (pages 83-89).

Investment income for 2003-2004 was $497 million, $263 million in excess of the $234 million budget.

Goal 9.3: Controlled expenditure

Claim costs

Claim costs (treatment, social and vocational rehabilitation, and compensation entitlements prescribed by the Act for claimants) paid during 2003-2004 totalled $1,798 million compared with Budget of $1,779 million. This slight overspend primarily resulted from higher than forecast capitalisation and backpayment of independence allowances. Further details of claim costs are provided within the Statement of Financial Performance.

Administration costs

ACC's administration costs were less than Budget for 2003-2004, primarily as a result of delays in expanding the scale of injury prevention expenditure, and lower depreciation due to lower than budgeted capital expenditure.

COSTS BY CLASSIFICATION ($M)	2003-2004 ACTUAL	2003-2004 BUDGET	VARIANCE
Injury prevention costs	30.2	32.5	7.1%
Investment costs	7.9	10.5	24.8%
Levy collection costs	52.6	48.5	(8.5%)
Operating costs	218.3	226.0	3.4%
Total administration costs	**309.0**	**317.5**	**2.7%**

14 INVESTMENTS AND CLAIMS LIABILITY COVER

Why does ACC invest?

When ACC collects levies, it is decades before we finish paying out the costs that those levies are intended to cover. Many serious injuries require claimants to receive ongoing rehabilitation, medical care or replacement earnings for their lifetime.

In the meantime, ACC invests those funds, expecting to earn a return. This return reduces the amount of money that the Corporation needs to put aside to cover our future costs.

What are the risks?

By assuming that we will earn a return on our investments, ACC runs the risk that:

1. We may earn less than the expected return in a given year (and in some circumstances could suffer a loss on investments). This would be most likely to occur in years when equity markets are weak.
2. We may need to lower our assumption about future investment returns. This would happen when long-term bond yields decline.

Either of these events could create a shortfall which ACC would have to recover by charging higher levies. Conversely, ACC would benefit – and we might therefore be able to reduce levy rates if we earn a higher than expected investment return, or if we are able to realistically increase our assumption about future investment returns.

ACC is also exposed to inflation. The future costs of ACC's commitments to rehabilitating claimants, providing medical care and replacing their earnings are tied to wage rates. These costs will grow faster if average wage increases prove to be higher than expected. This creates an incentive for ACC to hold investments which protect us against inflation. In essence, ACC's true risk is potential downside in real investment returns (that is, returns adjusted for inflation) rather than nominal investment returns (returns without any adjustment for inflation).

An overview of the past year

Over the 2003-2004 year, equity markets rose strongly, but a rise in bond yields resulted in poor returns from long-term bonds.

ACC benefited from both of these market trends, although the effect on ACC of the rise in bond yields is complicated:

- The rise in equity markets benefited ACC by boosting our investment income.
- The rise in bond yields decreased ACC's investment income by more than $120 million due to a reduction in the market value of ACC's bond holdings. This reduction in market value is treated as a reduction in ACC's investment income.
- The rise in bond yields also increased the expected future return on ACC's funds. This means the funds ACC requires now to cover our future commitments on existing claims have reduced by $960 million. This reduction is reflected in constrained growth in ACC's claims liability.

Overall, investment income was ahead of budget, as the strength in equity markets more than offset the negative impact on investment returns from the rise in bond yields. Investment returns were also boosted by ACC outperforming the market returns in most of the areas in which we invested.

Asset allocation: why does ACC invest so much money in bonds?

At the end of the financial year, ACC had almost half of our reserves portfolios invested in bond markets. ACC's bond portfolios are skewed towards longer-term bonds with more than five years remaining until their maturity date.

Due to the poor returns from bond markets over the past year, it is worthwhile to review the reason why ACC has invested so heavily in long-term bonds.

The biggest single risk to ACC's ability to fund the future costs of existing claims is a decline in interest rates. The amount of money that ACC needs to hold now to meet all the future costs of existing claims – the discounted claims liability – amounts to only 40 cents for every dollar of future expenditure. We expect to earn the difference – 60 cents – from investment income, based on our assumption that we earn an investment return averaging 6.5% per annum over the next few decades. If ACC only expected to earn investment returns equal to inflation then we would need to find funding of more than 67 cents for each dollar of estimated future expenditure on existing claims. The increased funding requirement would amount to several billion dollars.

We assume that ACC can earn a future investment return of 6.5% per annum because 6.5% is roughly the return that we can 'lock in' by buying the longest maturity government bonds. Although the short-term return from long-term government bonds may vary a lot from month to month due to changes in interest rates, we can be confident about the total return we'll get over the life of a government bond. This is because the value of the cashflows that investors will receive from government bonds is certain – it is just the discount that financial markets apply to these cashflows which fluctuate from month to month.

By contrast, other classes of investment do not offer us this certainty. If we invest in shorter-term fixed interest investments, then we may have a high degree of certainty about the return we will earn over the next year, but we will have no way of knowing our returns in future years, as they will depend on the future level of interest rates.

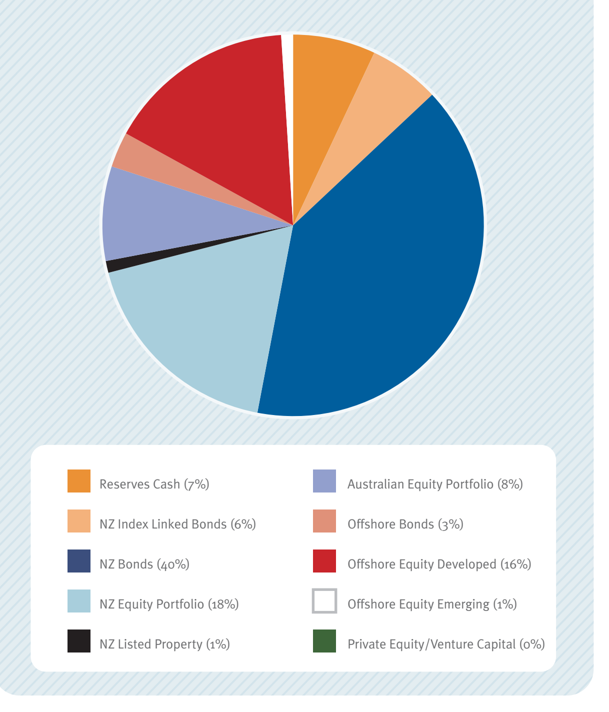
Equity investments (shares) do not offer a certain return for any time period. ACC expects our investments in shares to provide a greater return than bonds in the longer-term – but we cannot be sure. The future returns from shares will depend on factors such as future dividends, revenue growth, changes in profit margins and change in the ratio of market capitalisation to profitability. Although we may make an educated guess for each of these factors, we cannot be certain that our estimates are correct. For this reason we cannot be sure that shares will outperform bonds, even over 10 or 20 years.

Another problem with equity investments is that we cannot necessarily increase our expectation for subsequent returns if the market declines, because a decline in the sharemarket may indicate that the outlook for future profits has declined.

By contrast, government bonds offer the investor the certainty of knowing that short-term price declines will always be recovered over the remaining term of the bond.

Due to the uncertainties of equity returns over even quite long periods of time, ACC tends to maintain a large proportion of our investment portfolios in fixed interest investments, even when our best estimate is that shares might outperform fixed interest investments by a few percentage points per annum. We generally prefer to hold the bulk of ACC's fixed interest investments in long-term bonds as a decline in bond yields could dramatically increase the amount of funds that ACC needs now to match our future claim commitments.

AGGREGATE RESERVES
PORTFOLIO BREAKDOWN



Compared with other fund managers, ACC tends to invest a relatively large percentage of our funds in New Zealand investment markets. There are a number of reasons for this. Firstly, New Zealand investment markets match ACC's claims liabilities better than offshore markets, as ACC's claims liabilities are sensitive to real New Zealand bond yields. Secondly, the internal management and custody costs of ACC's New Zealand investments are much lower than the management and custody costs for offshore investments. (Custody costs are a fee you pay a 'custodial bank' to hold shares on your behalf, arrange for purchases and sales to be settled, provide accounting reports, etc.) Thirdly, we expect slightly greater long-term returns from New Zealand markets than offshore (due largely to higher yields).

Previously, we have also favoured New Zealand investment markets because we believed that ACC had more reason to feel confident about outperforming market benchmarks here. Due to the growth in ACC's investment portfolios relative to the size of New Zealand investment markets, we no longer believe that this is the case.

Offshore investment markets remain an important part of ACC's investment portfolio, as they enable us to diversify away from the specific risks of New Zealand investment markets.

Each of ACC's funding accounts splits our investment funds between an investment in ACC's short-term 'cash portfolio' which is used to meet near-term expenses, and a longer-term 'reserves portfolio' specific to that funding account which is set aside to meet the future costs of existing claims.

The investment allocation of the reserves portfolios differs by funding account, reflecting different funding positions, different projected growth rates, and the different claims liability characteristics of ACC's various funding accounts. Generally, rapidly growing funding accounts have higher proportions of their investments in shares than funding accounts that are not expected to record rapid growth in investment assets.

Growth in ACC's investment portfolios

Over the past 10 years, ACC's reserves portfolios have grown ten-fold, from $0.5 billion in 1994 to $5.3 billion in June 2004. The main reason for this growth was the decision to move from a pay as you go scheme to a fully funded scheme that will ultimately hold enough funds to cover all the future costs of existing injuries. ACC is now more than halfway towards this goal of full funding – our long-term investments are just over half the size of our claims liability.

Over the next 10 years, we will grow our long-term investment portfolios until they slightly exceed the size of the claims liability. At the same time, the claims liability is projected to grow roughly in line with growth in the size of the New Zealand economy. As a result, we expect that ACC will have about $17 billion of long-term investment funds by 2014.

Until we are almost fully funded, ACC will be adding funds to our investment portfolios each year. This means that ACC's reserves portfolios will grow faster than they would if ACC merely reinvested our investment income. Once ACC is fully funded, part of our investment income will be used each year to reduce the amount of scheme expenditure that needs to be funded from ACC levies. The rest of the investment income would continue to be reinvested into the investment portfolios, as these portfolios will need to grow in line with the increase in costs of providing accident compensation and rehabilitation to New Zealanders.

The increasing size of ACC's reserves portfolios affects how we manage ACC's investment portfolios, as our allocation to New Zealand investment markets is becoming quite large relative to the size of those markets. ACC's total investment funds are now getting to a size that makes it difficult to achieve a better-than-market return on every additional dollar that we invest in New Zealand equity markets. As our New Zealand portfolios grow we anticipate that future returns from New Zealand portfolios will not exceed market returns by the extent that ACC has achieved in the past.

How we manage our investment portfolios

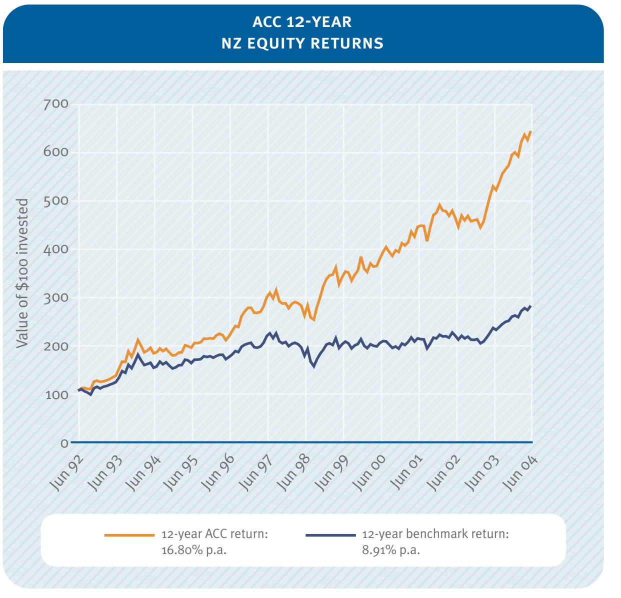
ACC's internal investment unit directly manages almost all of ACC's investment in New Zealand investment markets, and slightly over half of ACC's investments in Australia. There are several reasons for this:

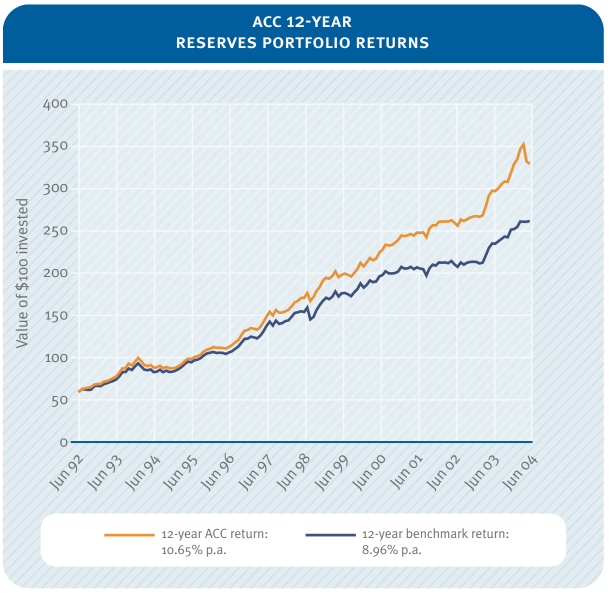
1. ACC has sufficient economies of scale to achieve a much lower internal management cost than would be charged by external fund managers.
2. Internal management ensures that the investment process is closely aligned with ACC's investment objectives (specifically, awareness of ACC's claims liability) rather than the business objectives of an external fund manager.
3. ACC's internal investment unit has achieved better returns in New Zealand asset classes with a higher degree of consistency than other fund managers.

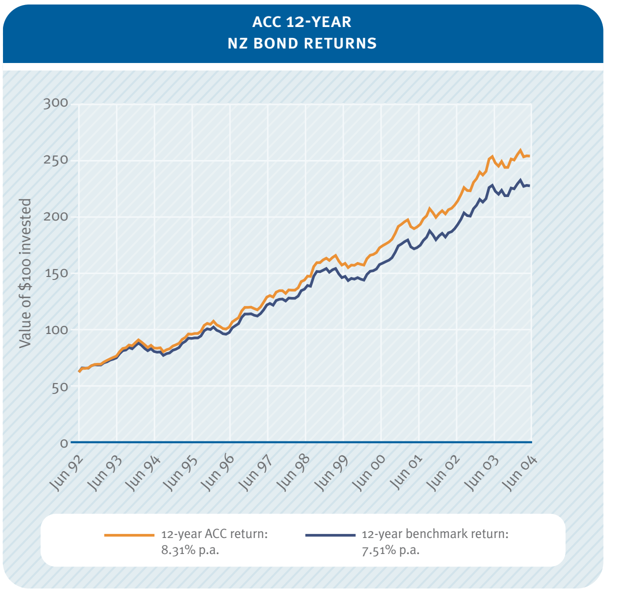
ACC has now been measuring the performance of our investment portfolios on a market value basis for 12 years, and in each of these financial years ACC has outperformed our benchmark indices in both New Zealand Bonds and New Zealand Equities. We believe that this consistency of investment performance is unique among New Zealand fund managers.

ACC outsources the management of most of our foreign assets to external fund management companies as we do not have the resources to successfully monitor thousands of global companies and markets.

The Investment Committee of ACC's Board sets long-term 'benchmark' investment allocations for each funding account's reserves portfolio, based on the advice of ACC's investment unit. ACC's investment staff are able to make short- or medium-term decisions to vary from these benchmark allocations, within risk control parameters set by the Investment Committee.







INVESTMENT RETURNS FOR THE 2003-2004 YEAR

ACC's reserves portfolios returned an average of 10.8% over the year.

This return was significantly in excess of budget, which was especially pleasing in the context of the rise in bond yields over the year. A rise in bond yields would normally be expected to result in below-budget returns for ACC's reserves portfolios.

Although the aggregate return of 10.8% is strong in absolute terms, it is lower than the comparable returns achieved by several other New Zealand fund managers. The main reason for this is ACC's policy of maintaining a large exposure to long-duration bonds. Long-duration bonds delivered poor returns due to rises in interest rates over 2003-2004.

ACC's reserves portfolios all outperformed the market benchmarks against which we measure our portfolios. However, the magnitude of the outperformance was less than ACC had achieved in previous years.

The positive relative performance of ACC's reserves portfolios was due to our good relative performance within most investment markets. However, our allocation between investment markets subtracted from performance during the year as ACC held a lower weighting in equities than the percentage provided for in ACC's portfolio benchmarks.

We enjoyed our strongest relative performance compared with the benchmark in listed property stocks. This portfolio represents less than 1% of ACC's total reserves portfolios.

The key NZ equity and NZ bond portfolios outperformed their benchmark indices, although by a lesser margin than ACC has enjoyed in previous years. Most of the shares that ACC held in the NZ equity portfolio rose strongly over the year, but many New Zealand shares in which ACC had little or no investment performed just as well.

Our strong relative performance in global equities reflects a modification we made to the benchmarks we give to the external fund management companies managing our global equities investments. We had reduced the allocation to North America included in the portfolio benchmarks, and the external fund managers have correspondingly held a lower percentage of the portfolios that they manage in North America. This assisted performance in 2003-2004 due to the weakness of the US dollar and the strength of the Japanese equity market.

We were disappointed by the Australian equity portfolio, which underperformed against its benchmark. This was due to underperformance in the portion of the portfolio managed internally by ACC. ACC continued to select Australian stocks using quantitative indicators that had worked well in previous years, but these indicators failed to work this year. We are reviewing the way in which we manage this portfolio.

		ANNUAL PORTFOLIO RETURNS			
		THIS YEAR		AVERAGE LAST 3 YEARS	
ASSET CLASS	$MILLION	RETURN	BENCHMARK	RETURN	BENCHMARK
NZ Cash Portfolio	229	5.42%	5.45%	5.76%	5.64%
Reserves					
NZ Equity Portfolio	967	21.98%	20.36%	13.30%	9.93%
NZ Private Equity	8	−7.44%	N/A	N/A	N/A
Australian Equity Portfolio	448	22.24%	23.22%	8.72%	6.74%
Reserves Cash	351	5.39%	5.49%	5.58%	5.63%
NZ Bonds	2,141	0.09%	−0.14%	7.78%	7.39%
NZ Listed Property	45	16.87%	10.88%	17.13%	13.11%
NZ Index Linked Bonds	314	−0.37%	−0.49%	9.96%	9.76%
Offshore Bonds	141	6.71%	3.72%	11.71%	10.22%
Offshore Equity – Developed	854	23.60%	20.16%	−4.42%	−5.88%
Offshore Equity – Emerging	39	22.67%	23.08%	0.30%	−2.85%
Total Reserves	**5,308**	**10.77%**	**10.08%**	**8.82%**	**6.84%**
RESERVES PORTFOLIO RETURNS BY FUND					
Residual Claims	685	8.08%	7.36%	8.63%	7.04%
Motor Vehicle	1,110	11.84%	11.09%	8.91%	6.50%
Earners’	1,889	9.07%	8.38%	8.77%	6.76%
New Employers’	796	13.97%	13.58%	7.33%	4.93%
Self-Employed	140	15.56%	14.51%	7.93%	5.31%
Non-Earners’	459	16.00%	14.16%	N/A	N/A
Medical Misadventure	229	11.84%	11.32%	N/A	N/A

Currency hedging

Over the past year, ACC again avoided significant potential losses by hedging the majority of our foreign currency assets. These hedging gains of slightly over $55 million were not due to ACC bravely anticipating the big gains in the New Zealand dollar over the past year and undertaking a huge 'active' currency trade. Rather, ACC had adopted a policy of hedging the majority of our foreign exchange exposures based on an analysis of its risks and our expectation that over the very long-term the New Zealand dollar would not decline by quite as much as was priced into financial markets.

In the second half of the 2003-2004 year, ACC increased our exposure to unhedged foreign exchange exposure, as we concluded that the New Zealand dollar had risen to a point from which it was quite likely to decline at a faster rate than was priced into financial markets.

Although ACC frequently reviews our hedging policies, it is anticipated that ACC will always maintain some foreign exchange hedging. There will inevitably be some years in which the New Zealand dollar shows significant declines, and ACC is likely to lose money on our currency hedging when this occurs. However, when the New Zealand dollar declines it is unlikely that ACC would ever lose as much from hedging as it gains from the currency-affected revaluation of our offshore investments. In hedging a portion of our foreign exchange exposures, ACC's primary objective is simply to reduce the potential variability of our investment returns.

Private equity

ACC holds a small investment in private (unlisted) equity, including both direct investments by ACC and investment in four of the venture capital funds that are participating in the scheme operated by the New Zealand Venture Investment Fund. These investments represent a very small proportion of ACC's investment portfolios, partly because private equity investing is relatively new to ACC and we want to limit our exposure until we become more familiar with it. As there is no market price for private equity investments, it is difficult to value and calculate short-term returns for investments in this asset class.

Investment benchmarks

Like most other fund managers, ACC uses market-based benchmark indices to serve as a point of comparison when considering the make-up and the performance of our investment portfolios. These benchmarks indicate how ACC might invest our funds if we did not have any views on the likely relative performance of different securities within a market. Accordingly, it is important that the benchmarks represent sensible starting points for the construction of portfolios that meet ACC's needs. In many cases, a recognised market benchmark is appropriate for ACC, but in other cases we manage ACC's portfolios against a different benchmark. For example, the high interest sensitivity of ACC's claims liabilities means that ACC has a need for a highly interest-rate-sensitive bond portfolio, so we manage the New Zealand bond portfolio against a customised benchmark index that is heavily skewed towards bonds with more than five years remaining to maturity.

As well as indicating a neutral starting point for managing our portfolios, benchmark indices are useful for assessing portfolio performance. This is because they allow us to differentiate the part of a portfolio's returns that is due to generalised market conditions from the relative value that has been added or subtracted in the management of that portfolio. For these purposes, it is important that we measure the performance of benchmark indices in the same way as the performance of our portfolios. For example, ACC does not get any benefit from imputation tax credits so, unlike most New Zealand fund managers, we do not include the gross value of imputation tax credits in our reported investment returns. This means we need to also exclude the grossed-up value of imputation tax credits from the performance of the benchmark index that we use to help gauge the performance of the New Zealand equity portfolio.

Probability of negative returns

Although ACC has consistently managed to achieve positive returns in each financial year in a wide range of market conditions, it is important that stakeholders understand that there is always a risk that ACC could report negative returns over a single financial year. We calculate that there is about a one in five chance that ACC will record negative reserves portfolio returns in any single financial year.

Statistical analysis would suggest that in any given year there is less than a 2% probability that ACC will record returns of -10% or worse. However, this analysis relies upon the critical assumption that we can make inferences about the probability of extreme future events based on a statistical analysis of recent history, so it is wise to assume that the probability of negative returns of this magnitude could be higher than 2%.

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

1. A rise in bond yields of about one percentage point could result in ACC recording negative investment returns. However, ACC's overall funding position would improve as a result of this decline in bond yields, as our claims liability would decrease by an even greater amount than the decline in investment income.
2. Based on our current policy, ACC's funding accounts will typically have an average of 46% of their reserves funds invested in equity markets. This means that a generalised decline in foreign and domestic equity markets of around 9% or more would tend to result in ACC recording negative overall investment returns.

Generally, ACC's investments in individual companies or securities are too small to significantly endanger total investment returns in a single financial year. ACC holds only one equity investment of more than $100 million. The only credit exposures of more than $100 million are to the New Zealand Government and some major New Zealand banks.

50 LARGEST EQUITY INVESTMENTS AS AT 30 JUNE 2004

	$MILLION		$MILLION
Telecom Corporation of NZ	176.3	News and Media NZ	11.7
Fletcher Building	63.4	Nuplex	11.6
Fisher and Paykel Healthcare	53.1	Royal Dutch Petroleum/Shell	11.3
Independent Newspapers	52.3	Natural Gas Corporation	10.8
Westpac	43.6	Vodafone	10.7
Auckland International Airport	36.0	Steel and Tube	10.7
Contact Energy	35.6	Mainfreight	10.6
Carter Holt Harvey	33.0	Michael Hill International	9.7
Fisher and Paykel Appliances	33.0	Macquarie Goodman Properties	9.2
Sky City	32.0	Woolworths (Australia)	9.0
DB Breweries	31.3	HSBC Holdings	8.8
ANZ Bank	29.1	QBE Insurance Group	8.8
Guinness Peat Group	25.5	Toyota Motor	8.4
News Corporation	24.4	Total SA	8.2
The Warehouse	24.0	AMP	8.1
Tenon Limited	22.3	Insurance Australia Group	7.7
Telstra Corporation	21.1	Templeton Emerging Markets	7.6
Kiwi Income Property	19.9	Novartis	7.5
Commonwealth Bank	19.5	Ports of Auckland	7.5
BHP Billiton	19.5	Hellaby Holdings	7.1
National Australia Bank	16.2	St George Bank	7.0
Air New Zealand	13.5	Nufarm	6.8
Promina	12.3	Microsoft Corporation	6.6
Infratil	12.1	General Electric Company	6.5
BP	12.1	Waste Management NZ	6.3

What is the ACC claims liability?

Every year, ACC has to estimate the future claim payments it will need to make for all the injuries that have happened in the past. The estimate of the total discounted amount of all future claim payments for all past injuries is the ACC claims liability. (The discounting reduces the outstanding claims liability in light of ACC's expected investment returns.)

The ACC claims liability is not like a liability in an ordinary company's balance sheet because it is not a known quantity. The ACC claims liability is an estimate of the amount of money needed to settle all past claims and there is significant uncertainty in the estimate. The estimate of the liability is unbiased in the sense that it does not contain any deliberate optimism or conservatism. Such an estimate is typically described as a 'best' estimate.

Why is the ACC claims liability an estimate?

It is impossible to know exactly how much money needs to be set aside to settle all past claims and there are many reasons why the liability is uncertain. The more important reasons include:

- It takes a long time before all the injuries in any past year are reported. Some injuries/conditions can take a long time to appear. An extreme example is the onset of asbestosis, which may not appear for over 20 years. At the time that people were being exposed to asbestos, it was not widely known that it was so harmful. This means there could be many more claims in the future than those already reported.
- Even for those claims that have already been reported, there is uncertainty as to how long it may take to recover. For more serious injuries, employed claimants receive weekly compensation while they cannot work. Therefore, the longer they are on the ACC Scheme, the more money they need to be paid and the larger the liability for those people. Some seriously injured people might stay on weekly compensation for over 40 years. The weekly benefit is adjusted annually for future wage inflation and this is another source of uncertainty. Weekly compensation accounts for about 40% of the ACC claims liability.
- It is also impossible to predict how much additional help a claimant may need in terms of medical treatment (including surgery) and rehabilitation. Also, the costs of various treatments can change (they usually go up) and new (and often expensive) treatments become available. On the other hand, ACC is getting better at targeting the type of help a particular claimant needs and this should lead to shorter claim duration, and the removal of unnecessary costs.
- Court decisions may change an interpretation of the Act under which ACC operates and then change the entitlements to particular groups of claimants.

How is the ACC claims liability estimated?

By examining the reporting delay patterns it is possible to build statistical and actuarial models of the claim reporting process so that the ultimate number of claims arising in each injury year can be estimated. For 'older' injury years most of the claims incurred will have been reported and our estimates of ultimate numbers of claims for these years will be reasonably accurate. For more recent years the estimate of the ultimate number of claims incurred will be more uncertain because a significant number of injuries will not yet have been reported.

By subtracting the number of past claims that have already been reported from the estimate of the ultimate number of claims incurred, we get an estimate of the number of claims that have been incurred but not (yet) reported. ACC needs to make an allowance for these 'incurred but not reported' (IBNR) claims. For each of the claims that have been reported in the past that are still active (receiving claim payments), we need to estimate how much the future claim payments will be. By applying statistical and actuarial techniques to ACC's data on claim payment histories and using other relevant information about the future, ACC can estimate the projected future claim payments for all active claimants. These claim payments are for weekly compensation, medical treatments, rehabilitation, independence allowance, lump sums and death benefits.

Some injuries can recur and it is necessary to recognise the possibility that some claims will be reopened. The claims liability includes payments expected to be made on claims that will reopen.

Once all the future claim payments have been estimated and projected, it is necessary to discount these projected cash flows to allow for investment returns (to calculate the present value of the projected future claim payments). Investment returns are a significant factor in reducing the amount of the liability because the projected cash flows extend a long way out into the future.

The liability amount can be thought of as the lump sum invested now that will be sufficient to pay all future claim payments for injuries that occurred before the liability valuation date. For this to be exactly the right amount the assumptions used to estimate the liability must be exactly borne out in practice. This is almost certainly not going to be the case but the estimated liability should be close to the amount required. Investment returns on this lump sum compounding over many years reduce the amount that needs to be held.

The assumption bases used in the actuarial and statistical models are set by reference to the relevant accounting and actuarial professional standards for New Zealand-based general insurers. Compliance with these professional standards is mandatory in New Zealand.

By using the above approach, ACC obtains a 'fully funded' estimate of the claims liability. A liability is calculated on a 'fully funded' basis if all future claim payments arising out of past injuries are taken into account, not just the claim payments expected in the next financial year. Consequently, a fully funded estimate of the liability is representative of the true cost of providing injury cover.

Does ACC take external advice on the liability valuation?

ACC uses external actuarial consultants to help with the valuation of the liability. This year ACC used PricewaterhouseCoopers as a result of their winning the recent tender to provide actuarial advice to ACC. PricewaterhouseCoopers have extensive experience with the ACC Scheme in New Zealand and many other accident compensation schemes overseas (especially Australia). ACC follows the Financial Reporting Standards (FRS-35) in determining the value of its liabilities.

Why does the ACC claims liability change?

Each year the ACC claims liability is re-calculated based on the most up-to-date information and Scheme experience. This latest information is used to review the trends in experience, which may alter the assumptions regarding future benefit payments. These assumptions include:

- claim duration (how long claimants take to be rehabilitated)
- claim costs (changes in future expected claim payments)
- inflation (wage and cost inflation)
- interest rates (earnings from assets invested).

Changes to any of these assumptions will affect the resulting ACC claims liability. For example, if the interest rate assumption is reduced, the expectation is that future investment returns will be less and therefore ACC will need to hold more funds to cover future expected claim payments (the ACC claims liability will increase).

Any change in the aforementioned assumptions will have a flow-on effect in respect of the expected fully funded cost of claims arising in the next levy year. The expected fully funded cost of claims forms the basis of the levy rates ACC sets annually. Levy rates are also impacted by changes in:

- the number of claims expected
- the amount of earnings, or the number of motor vehicles which are levied to cover the cost of claims
- the level of reserves (the level of funds in each of the ACC accounts compared with what is required to pay the future costs of claims already incurred).

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FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

30 YEARS OF ACC 1974–2004

CONTENTS

a) Reporting Entity

The financial statements are those of the Accident Compensation Corporation (ACC) which is designated as a Crown entity under the Public Finance Act 1989.

ACC and its subsidiaries comprise the ACC Group.

The financial statements have been prepared in accordance with the:

a) Public Finance Act 1989 – Part V.

b) Financial Reporting Act 1993.

c) Accident Insurance Act 1998. It was replaced by the Injury Prevention, Rehabilitation, and Compensation Act 2001 passed in September 2001, which came into effect on 1 April 2002.

d) Accident Insurance (Transitional Provisions) Act 2000.

e) Injury Prevention, Rehabilitation, and Compensation Act 2001 (referred to hereafter as the Act).

b) Measurement Base

The financial statements are prepared on the basis of historical cost except where modified by the revaluation of investments and certain property, plant and equipment and the actuarial quantification of claim liabilities.

c) Levy and Residual Levy

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

Levies are now set on a full funding basis for the Earners’, Employers’, Self-Employed Work, Motor Vehicle and Medical Misadventure Accounts. The Non-Earners’ Account has been fully funded by the Government from 1 July 2001 in respect of claims incurred from that date. Claims before that date continue to be funded on a ‘pay as you go’ basis.

In addition to the above, residual levies are set to fund the claims liability at 30 June 1999 in respect of the Residual Claims, Earners’ and Motor Vehicle Accounts respectively. It is expected that these residual levies will be charged until these Accounts are fully funded, anticipated to be until 2014. The Medical Misadventure Account is also expected to be fully funded to meet the claims liability at 30 June 1999 by 2014.

d) Source and Application of Levy and Residual Levy Income

The Act requires ACC to record levy and residual levy income by individual Accounts. The source and application of levy and residual levy income for each Account are as follows:

(i) Residual Claims Account

The Residual Claims Account derives its funds from:

a) Residual levies from employers on the earnings of their employees.

b) Residual levies from earners who are self-employed.

These funds are applied in accordance with the Act in respect of accidents prior to 30 June 1999 that are:

a) Non-work injury (other than motor vehicle injury) suffered by an earner on or after 1 April 1974 and before 1 July 1992.

b) Work injury other than motor vehicle suffered on or after 1 April 1974.

Note: The Residual Claims Account was the Employers’ Account prior to 1 July 1999.

(ii) Self-Employed Work Account

The Self-Employed Work Account derives its funds from earners who are self-employed. These funds are applied in accordance with the Act in respect of accidents on or after 1 July 1999.

(iii) Motor Vehicle Account

The Motor Vehicle Account derives its funds from:

a) Levies and residual levies on motor vehicle ownership.

b) The levies portion of the excise duty on petrol.

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

(iv) Non-Earners' Account

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

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

This Account has previously been managed on a 'pay as you go basis' while the claims liability cost (both current and future) is recognised in the year the injury occurs. From 1 July 2001 this has continued in respect of claims incurred on or before 30 June 2001, while new claims from 1 July 2001 are fully funded.

(v) Earners' Account

The Earners' Account derives its funds from levies and residual levies payable by earners on their earnings.

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

(vi) Medical Misadventure Account

The Medical Misadventure Account derives its funds from allocations from the Earners' Account (in the case of an earner) or the Non-Earners' Account (in the case of a non-earner).

These funds are applied in accordance with the Act in respect of personal injury that derives from medical misadventure suffered on or after 1 July 1992.

(vii) Employers' Account

The Employers' Account was created on 1 April 2000. This Account derives its funds from employers who were covered by ACC from 1 April 2000, and from all employers on and after 1 July 2000.

These funds are applied in accordance with the Act in respect of work injury suffered on or after 1 April 2000 by employees of employers who are insured by ACC, and for all employees' work injuries incurred on and after 1 July 2000.

e) Allocation of Indirect Income and Expenditure

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

(i) Investment income
Allocated based on the investment balances of the respective Accounts.

(ii) Indirect operating cost
Allocated based on the operating activities undertaken for each Account.

f) Levy and Residual Levy Income

All levy and residual levy income is recognised in the period to which it relates.

g) Claims Liability

The claims liability was first recognised in the financial statements in the 1999 financial year. In accordance with financial reporting standards this is revalued annually based on the latest actuarial information.

Adjustments to the liability are reflected in the Statement of Financial Performance with the overall liability being reflected in the Statement of Financial Position.

Future expenditure commitments exist in respect of:

(i) Claims notified and accepted in the current and previous years, but which will not be met until future years.

(ii) Claims incurred but not notified to, or accepted by, ACC at balance date.

h) Consolidation of Subsidiaries

The group financial statements incorporate the financial statements of ACC and its subsidiaries, which have been consolidated using the purchase method. All intercompany transactions, balances and unrealised surpluses are eliminated on consolidation.

The trading subsidiary companies are detailed in Note 10.

i) Investments

Investments are recorded at market value. Where ACC owns more than 5% of the issued capital of a company, the market value of the equity is discounted to reflect the impact of selling large holdings. Market value for publicly listed investments has been determined by reference to market values at balance date. For non-listed investments, market rates have been determined based on the cost and adjusted for performance of the business since that date. Changes in market value are credited or charged to the Statement of Financial Performance by Account in accordance with the basis used for allocating investment income.

Interest income is recognised in the Statement of Financial Performance as it accrues. Dividend income is recognised in the Statement of Financial Performance on the date that the dividend is declared or, where more appropriate, on the last date to register for the dividend.

j) Financial Instruments

ACC has various financial instruments with off-balance sheet risk which are used to reduce ACC's exposure to fluctuations in foreign currency exchange rates, interest rates and equity markets. Derivatives may also be used temporarily in lieu of purchasing bonds, equities or currency. The use of financial instruments is covered by investment policies which control the risks associated with such instruments.

The financial instruments are valued at market value, and the gains or losses from financial instruments are recognised in the Statement of Financial Performance as revenue or expense items as they arise.

k) Foreign Currencies

Transactions in foreign currencies are converted to New Zealand dollars at the rate of exchange ruling at the date of the transaction. Short-term transactions covered by foreign currency forward contracts are measured and reported at the forward rate of exchange specified in those contracts. At balance date foreign currency monetary assets and foreign currency forward contracts, designated as economic hedges, are converted at the rate ruling at balance date with exchange variations arising from the translation process being credited or charged to the Statement of Financial Performance by Account based on the investment balances of the respective Accounts.

l) Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation except for freehold land which is shown at valuation and buildings which are shown at valuation less accumulated depreciation.

Revaluations are transferred to the asset revaluation reserve for that class of assets. If any revaluation reserve has a deficit, that deficit is recognised in the Statement of Financial Performance in the period it arises. In subsequent periods any revaluation surplus that reverses previous revaluation deficits is recognised as revenue in the Statement of Financial Performance.

Costs of development projects are accumulated as work in progress until the project is completed. At that stage the costs are transferred to the appropriate fixed asset category and are depreciated accordingly. Capitalised project costs comprise direct project cost only.

m) Depreciation

Depreciation of property, plant and equipment, other than freehold land, is charged on a straight line basis so as to allocate the cost of assets, less any estimated residual value, over their expected lives. The estimated useful lives are as follows:

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

n) Statement of Cash Flows

The following are the definitions of the terms used in the Statement of Cash Flows:

(i) Cash is considered to be cash on hand and current accounts with banks, net of bank overdrafts.

(ii) Investing activities are those activities relating to the acquisition, holding and disposal of property, plant and equipment and investments. Investments include securities not falling within the definition of cash. Income received in relation to investing activities is included in operating activities.

(iii) Financing activities are activities which result in changes in the size and composition of ACC's capital structure.

(iv) Operating activities include all transactions and other events that are not investing or financing activities. Investment income and realised gains and losses on the disposal of investments are included in operating surplus and as investing activities in the Statement of Cash Flows.

o) Income Tax

ACC is exempt from payment of income tax under section 259(5) of the Act. The subsidiary companies are, however, liable for income tax.

Tax effect accounting is applied on a comprehensive basis to all timing differences. A debit balance in the deferred tax account, arising from timing differences or income tax benefits from income tax losses, is only recognised if there is a virtual certainty of realisation.

The income tax expense charged to the Statement of Financial Performance includes both the current year's provision and the income tax effect of timing differences calculated using the liability method.

p) Employee Entitlements

A liability for annual leave and long service leave is accrued and recognised in the Statement of Financial Position. The liability is equal to the present value of the estimated future cash outflows as a result of employee services provided at balance date.

q) Leases

Where most of the risks and rewards of ownership are retained by the lessor, leases are classified as operating leases and costs are expensed in the period in which they are incurred.

Commitments under lease agreements are disclosed in the Statement of Commitments.

r) Receivables

Receivables are stated at their estimated realisable value.

s) Budget Figures

The budget figures for the Statement of Financial Performance are those approved by the Board at the beginning of the financial year. The Statement of Financial Position and Statement of Cash Flows have been restated from the budget using actual 2003 figures as the opening position.

The budget figures have been prepared in accordance with generally accepted accounting practice in New Zealand and are consistent with the accounting policies adopted in preparing the financial statements. The budget figures are unaudited.

t) Changes to Accounting Policies

There have been no changes in accounting policies. All policies have been applied on a basis consistent with the previous year.

u) Comparatives

To ensure consistency with the current period, comparative figures have been restated where appropriate.

	NOTES	GROUP ACTUAL **2004** $000	GROUP BUDGET **2004** $000	GROUP ACTUAL **2003** $000
Net levy income				
Residual Claims Account		215,825	196,669	203,661
Motor Vehicle Account		564,071	515,453	414,827
Non-Earners' Account		574,396	580,758	610,457
Earners' Account		673,895	657,342	692,064
Self-Employed Work Account		96,531	125,089	122,491
Employers' Account		460,202	403,661	424,038
Medical Misadventure Account		69,540	68,984	106,738
Total net levy income	1&3	2,654,460	2,547,956	2,574,276

Net levy income has increased by 3.1% over last year. This is mainly due to:

(i) an increase in the ACC levy portion of the excise duty on petrol

(ii) more New Zealanders being in work and earning more.

EXPENDITURE				
Rehabilitation expenditure				
Vocational rehabilitation		34,445	25,003	23,221
Social rehabilitation		238,488	230,251	222,902
Medical treatment		278,093	265,586	253,240
Hospital treatment		119,010	109,871	114,759
Public health acute services		268,934	289,376	268,336
Dental treatment		12,030	11,518	11,452
Conveyance for treatment		41,358	43,891	45,501
Backdated attendant care	7	(2,162)	-	328
Miscellaneous claim costs		7,309	8,792	11,155
		997,505	984,288	950,894
Compensation expenditure				
Income maintenance		640,292	633,405	612,102
Independence allowances		73,765	48,997	34,813
Lump sums		8,344	24,134	1,116
Death benefits		77,968	88,086	104,629
		800,369	794,622	752,660
Total claim costs		1,797,874	1,778,910	1,703,554

Total claim costs have increased by 5.5% over last year due to increases in claim numbers, inflation, increased emphasis on vocational rehabilitation and increased capitalised payments for independence allowances partly offset by reduced lump sum commutation payments for death benefits.

The above statement is to be read in conjunction with the accounting policies on pages 93 to 96 and notes on pages 113 to 127.

	NOTES	GROUP ACTUAL **2004** $000	GROUP BUDGET **2004** $000	GROUP ACTUAL **2003** $000
Operating costs	4	219,498	228,025	199,514
Injury prevention costs		30,210	32,506	23,578
Collection costs		52,564	48,466	51,762
Total expenditure		2,100,146	2,087,907	1,978,408
Operating surplus before adjustment to claims liability		554,314	460,049	595,868
Adjustment to claims liability	21	169,903	507,186	1,650,519

The increase in interest rate has had a significant favourable impact on the claims liability. Partly offsetting this is higher than expected number of claims and weekly compensation costs.

	NOTES	GROUP ACTUAL 2004 $000	GROUP BUDGET 2004 $000	GROUP ACTUAL 2003 $000
Surplus/(deficit) from underwriting activities after adjustment to claims liability		384,411	(47,137)	(1,054,651)
Net investment income	2&3	489,425	224,019	437,025

The funds invested achieved a 10.8% return for the Reserves Portfolio and 5.4% for the Cash Portfolio. Both of these returns are ahead of market benchmarks and the overall return is ahead of the budgeted return of 4.96%.

	NOTES	GROUP ACTUAL 2004 $000	GROUP BUDGET 2004 $000	GROUP ACTUAL 2003 $000
Other income	3	2,012	2,562	2,042
Surplus/(deficit) before tax		875,848	179,444	(615,584)
Income tax (credit)/expense	5	(72)	138	(101)
Net surplus/(deficit) after tax		875,920	179,306	(615,483)

The above statement is to be read in conjunction with the accounting policies on pages 93 to 96 and notes on pages 113 to 127.

	NOTES	PARENT ACTUAL 2004 $000	PARENT BUDGET 2004 $000	PARENT ACTUAL 2003 $000
Net levy income				
Residual Claims Account		215,825	196,669	203,661
Motor Vehicle Account		564,071	515,453	414,827
Non-Earners' Account		574,396	580,758	610,457
Earners' Account		673,895	657,342	692,064
Self-Employed Work Account		96,531	125,089	122,491
Employers' Account		460,202	403,661	424,038
Medical Misadventure Account		69,540	68,984	106,738
Total net levy income	1&3	2,654,460	2,547,956	2,574,276
EXPENDITURE				
Rehabilitation expenditure				
Vocational rehabilitation		34,445	25,003	23,221
Social rehabilitation		238,488	230,251	222,902
Medical treatment		278,093	265,586	253,240
Hospital treatment		119,010	109,871	114,759
Public health acute services		268,934	289,376	268,336
Dental treatment		12,030	11,518	11,452
Conveyance for treatment		41,358	43,891	45,501
Backdated attendant care	7	(2,162)	-	328
Miscellaneous claim costs		7,309	8,792	11,155
		997,505	984,288	950,894
Compensation expenditure				
Income maintenance		640,292	633,405	612,102
Independence allowances		73,765	48,997	34,813
Lump sums		8,344	24,134	1,116
Death benefits		77,968	88,086	104,629
		800,369	794,622	752,660
Operating costs	4	218,256	226,014	198,226
Injury prevention costs		30,210	32,506	23,578
Collection costs		52,564	48,466	51,762
Total expenditure		2,098,904	2,085,896	1,977,120
Operating surplus before adjustment to claims liability		555,556	462,060	597,156
Adjustment to claims liability	21	169,903	507,186	1,650,519
Surplus/(deficit) from underwriting activities after adjustment to claims liability		385,653	(45,126)	(1,053,363)
Net investment income	2&3	489,425	224,019	437,025
Other income	3	997	887	1,059
Net surplus/(deficit)		876,075	179,780	(615,279)

The above statement is to be read in conjunction with the accounting policies on pages 93 to 96 and notes on pages 113 to 127.

GROUP STATEMENT OF MOVEMENTS IN ACCOUNT RESERVES (EQUITY)

FOR THE YEAR ENDED 30 JUNE 2004

	NOTES	GROUP ACTUAL **2004** $000	GROUP BUDGET **2004** $000	GROUP ACTUAL **2003** $000
Account reserves – opening balance (deficit)		(4,251,865)	(4,251,865)	(3,636,415)
Recognised revenues and expenses for the year				
Net surplus/(deficit) after tax		875,920	179,306	(615,483)
Increase in asset revaluation reserves	19	904	-	-
Total recognised revenues and expenses for the year		876,824	179,306	(615,483)
Other movements				
Amalgamation of the Non-Compliers Fund	23	-	-	33
Account reserves – closing balance (deficit)		(3,375,041)	(4,072,559)	(4,251,865)

PARENT STATEMENT OF MOVEMENTS IN ACCOUNT RESERVES (EQUITY)

FOR THE YEAR ENDED 30 JUNE 2004

	NOTES	PARENT ACTUAL **2004** $000	PARENT BUDGET **2004** $000	PARENT ACTUAL **2003** $000
Account reserves – opening balance (deficit)		(4,251,546)	(4,251,546)	(3,636,300)
Recognised revenues and expenses for the year				
Net surplus/(deficit)		876,075	179,780	(615,279)
Increase in asset revaluation reserves	19	904	-	-
Total recognised revenues and expenses for the year		876,979	179,780	(615,279)
Other movements				
Amalgamation of the Non-Compliers Fund	23	-	-	33
Account reserves – closing balance (deficit)		(3,374,567)	(4,071,766)	(4,251,546)

The above statement is to be read in conjunction with the accounting policies on pages 93 to 96 and notes on pages 113 to 127.

	NOTES	PARENT ACTUAL 2004 $000	PARENT BUDGET 2004 $000	PARENT ACTUAL 2003 $000
RESIDUAL CLAIMS ACCOUNT				
Net levy income				
Residual levy*		215,825	196,669	203,661
Total net levy income		215,825	196,669	203,661
EXPENDITURE				
Rehabilitation expenditure				
Vocational rehabilitation		5,948	4,663	6,114
Social rehabilitation		38,832	29,723	33,085
Medical treatment		13,798	10,792	11,512
Hospital treatment		8,309	6,223	9,327
Dental treatment		1,378	1,190	1,392
Conveyance for treatment		690	612	803
Backdated attendant care	7	154	-	148
Miscellaneous claim costs		1,875	1,776	4,325
		70,984	54,979	66,706
Compensation expenditure				
Income maintenance		193,374	192,497	207,965
Independence allowances		12,694	8,268	5,522
Lump sums		394	-	(167)
Death benefits		16,498	24,051	28,932
		222,960	224,816	242,252
Operating costs	4	33,392	32,998	34,093
Collection costs		6,045	5,477	7,624
Total expenditure		333,381	318,270	350,675
Operating (deficit) before adjustment to claims liability		(117,556)	(121,601)	(147,014)
Adjustment to claims liability	21	(78,535)	(172,679)	112,432
Surplus/(deficit) from underwriting activities after adjustment to claims liability		(39,021)	51,078	(259,446)
Net investment income		68,769	34,245	95,109
Other income		109	111	142
Net surplus/(deficit)		29,857	85,434	(164,195)
Account reserve – opening balance (deficit)		(1,443,107)	(1,443,107)	(1,278,912)
Net surplus/(deficit)		29,857	85,434	(164,195)
Account reserve – closing balance (deficit)		(1,413,250)	(1,357,673)	(1,443,107)

* Higher earnings base from employers resulted in an increase in income in this Account from last year. This is partly offset by a decrease in the average levy rate from $0.31 in the 2003-2004 tax year to $0.30 in the 2004-2005 tax year.

The above statement is to be read in conjunction with the accounting policies on pages 93 to 96 and notes on pages 113 to 127.

STATEMENT OF FINANCIAL PERFORMANCE AND MOVEMENTS IN ACCOUNT RESERVES (EQUITY) *FOR THE YEAR ENDED 30 JUNE 2004*

	NOTES	PARENT ACTUAL 2004 $000	PARENT BUDGET 2004 $000	PARENT ACTUAL 2003 $000
MOTOR VEHICLE ACCOUNT				
Net levy income				
Levy income from motor licensing		204,686	195,453	189,580
Levy income from petrol premium		151,369	138,090	61,804
Residual levy		208,016	181,910	163,443
Total net levy income*		564,071	515,453	414,827
EXPENDITURE				
Rehabilitation expenditure				
Vocational rehabilitation		4,624	3,805	3,229
Social rehabilitation		68,769	66,579	62,961
Medical treatment		12,835	11,432	10,389
Hospital treatment		8,238	7,926	7,670
Public health acute services		39,318	41,848	39,229
Dental treatment		758	746	759
Conveyance for treatment		8,436	8,002	8,548
Backdated attendant care	7	(951)	-	(1,787)
Miscellaneous claim costs		1,325	1,740	1,592
		143,352	142,078	132,590
Compensation expenditure				
Income maintenance		100,741	98,246	100,648
Independence allowances		13,628	9,395	6,051
Lump sums		2,196	5,438	408
Death benefits		38,543	37,363	53,075
		155,108	150,442	160,182
Operating costs	4	27,281	28,930	25,572
Injury prevention costs		6,072	5,656	5,753
Collection costs		10,881	11,050	10,145
Total expenditure		342,694	338,156	334,242
Operating surplus before adjustment to claims liability		221,377	177,297	80,585
Adjustment to claims liability	21	100,641	72,788	500,274
Surplus/(deficit) from underwriting activities after adjustment to claims liability		120,736	104,509	(419,689)
Net investment income		98,689	43,191	79,619
Other income		190	132	190
Net surplus/(deficit)		219,615	147,832	(339,880)
Account reserve – opening balance (deficit)		(1,776,549)	(1,776,549)	(1,436,669)
Net surplus/(deficit)		219,615	147,832	(339,880)
Account reserve – closing balance (deficit)		(1,556,934)	(1,628,717)	(1,776,549)

* The ACC levy portion of the excise duty on petrol has increased from 2.1 cents to 5.08 cents per litre resulting in higher income.

The above statement is to be read in conjunction with the accounting policies on pages 93 to 96 and notes on pages 113 to 127.

	NOTES	PARENT ACTUAL 2004 $000	PARENT BUDGET 2004 $000	PARENT ACTUAL 2003 $000
NON-EARNERS' ACCOUNT				
Net levy income				
Levy income appropriated by Parliament*		605,689	611,801	658,489
Less funding of Medical Misadventure Account		(31,293)	(31,043)	(48,032)
Total net levy income		574,396	580,758	610,457
EXPENDITURE				
Rehabilitation expenditure				
Vocational rehabilitation		581	370	485
Social rehabilitation		78,998	81,633	79,426
Medical treatment		102,160	102,957	100,163
Hospital treatment		30,739	28,009	29,442
Public health acute services		160,796	172,866	160,462
Dental treatment		5,776	5,745	5,595
Conveyance for treatment		18,982	21,617	22,369
Backdated attendant care	7	(2,138)	-	1,812
Miscellaneous claim costs		1,002	545	550
		396,896	413,742	400,304
Compensation expenditure				
Income maintenance		6,908	6,359	11,423
Independence allowances		29,621	18,339	14,997
Lump sums		1,296	6,683	429
Death benefits		2,466	3,726	2,639
		40,291	35,107	29,488
Operating costs	4	26,844	28,478	24,383
Injury prevention costs		6,223	7,249	5,800
Total expenditure		470,254	484,576	459,975
Operating surplus before adjustment to claims liability		104,142	96,182	150,482
Adjustment to claims liability	21	(13,622)	127,008	344,692
Surplus/(deficit) from underwriting activities after adjustment to claims liability		117,764	(30,826)	(194,210)
Net investment income		46,233	19,345	26,985
Other income		7	103	14
Net surplus/(deficit)		164,004	(11,378)	(167,211)
Account reserve – opening balance (deficit)		(1,122,207)	(1,122,207)	(954,996)
Net surplus/(deficit)		164,004	(11,378)	(167,211)
Account reserve – closing balance (deficit)		(958,203)	(1,133,585)	(1,122,207)

* With the reduction in interest rate impacting favourably on the claims liability, lower funding is required.

The above statement is to be read in conjunction with the accounting policies on pages 93 to 96 and notes on pages 113 to 127.

STATEMENT OF FINANCIAL PERFORMANCE AND MOVEMENTS IN ACCOUNT RESERVES (EQUITY) *FOR THE YEAR ENDED 30 JUNE 2004*

	NOTES	PARENT ACTUAL 2004 $000	PARENT BUDGET 2004 $000	PARENT ACTUAL 2003 $000
EARNERS' ACCOUNT				
Net levy income				
Levy income*		704,495	683,553	731,232
Residual levy		7,647	11,730	19,538
Less funding of Medical Misadventure Account		(38,247)	(37,941)	(58,706)
Total net levy income		673,895	657,342	692,064
EXPENDITURE				
Rehabilitation expenditure				
Vocational rehabilitation		11,897	8,897	7,210
Social rehabilitation		22,843	21,766	21,270
Medical treatment		99,748	93,740	88,614
Hospital treatment		50,742	48,307	48,061
Public health acute services		44,912	48,810	44,864
Dental treatment		3,392	3,134	3,060
Conveyance for treatment		9,199	9,444	9,473
Backdated attendant care	7	928	-	-
Miscellaneous claim costs		1,251	1,606	1,410
		244,912	235,704	223,962
Compensation expenditure				
Income maintenance		189,693	188,852	166,356
Independence allowances		12,048	8,216	5,709
Lump sums		1,692	4,206	293
Death benefits		13,008	15,492	13,914
		216,441	216,766	186,272
Operating costs	4	73,550	75,488	65,615
Injury prevention costs		6,465	7,086	5,541
Collection costs		18,187	19,338	19,735
Total expenditure		559,555	554,382	501,125
Operating surplus before adjustment to claims liability		114,340	102,960	190,939
Adjustment to claims liability	21	2,068	176,625	316,824
Surplus/(deficit) from underwriting activities after adjustment to claims liability		112,272	(73,665)	(125,885)
Net investment income		156,362	79,754	178,149
Other income		323	294	366
Net surplus		268,957	6,383	52,630
Account reserve – opening balance		180,766	180,766	128,136
Net surplus		268,957	6,383	52,630
Account reserve – closing balance		449,723	187,149	180,766

* Higher earnings base from earners resulted in an increase in income in this Account. However included in last year was an earners' levy 'square-up' for previous tax years with Inland Revenue resulting in additional income of $89.9 million for that year.

The above statement is to be read in conjunction with the accounting policies on pages 93 to 96 and notes on pages 113 to 127.

	NOTES	PARENT ACTUAL 2004 $000	PARENT BUDGET 2004 $000	PARENT ACTUAL 2003 $000
SELF-EMPLOYED WORK ACCOUNT				
Net levy income				
Levy income*		96,531	125,089	122,491
Total net levy income		96,531	125,089	122,491
EXPENDITURE				
Rehabilitation expenditure				
Vocational rehabilitation		1,710	1,174	958
Social rehabilitation		4,948	5,051	4,073
Medical treatment		10,542	10,714	9,947
Hospital treatment		5,613	4,827	5,623
Public health acute services		5,379	6,047	5,317
Dental treatment		253	237	245
Conveyance for treatment		948	1,094	1,155
Miscellaneous claim costs		76	80	55
		29,469	29,224	27,373
Compensation expenditure				
Income maintenance**		30,441	31,211	28,064
Independence allowances		340	454	185
Lump sums		468	1,059	8
Death benefits		1,978	1,987	1,303
		33,227	34,711	29,560
Operating costs	4	11,131	12,431	10,506
Injury prevention costs		1,873	1,918	1,650
Collection costs		6,518	4,895	6,094
Total expenditure		82,218	83,179	75,183
Operating surplus before adjustment to claims liability		14,313	41,910	47,308
Adjustment to claims liability	21	16,299	53,310	51,229
Surplus/(deficit) from underwriting activities after adjustment to claims liability		(1,986)	(11,400)	(3,921)
Net investment income		17,834	6,363	8,434
Other income		159	56	145
Net surplus/(deficit)		16,007	(4,981)	4,658
Account reserve – opening balance (deficit)		(1,137)	(1,137)	(5,795)
Net surplus/(deficit)		16,007	(4,981)	4,658
Account reserve – closing balance (deficit)		14,870	(6,118)	(1,137)

* Lower income this year is due to lower earnings base from self-employed on which levies are charged and lower than expected average levy rate being achieved.

** Includes payments of $3.5 million (2003 – $4.0 million) to persons who have purchased weekly compensation under CoverPlus Extra policies, of which $3.5 million (2003 – $2.8 million) relates to work-related injuries and $nil (2003 – $1.2 million) to non-work injuries. Non-work injuries payment of $2.0 million this year was paid from the Earners' and Motor Vehicle Accounts. 12,562 (2003 – 9,968) CoverPlus Extra policies were purchased during the year.

The above statement is to be read in conjunction with the accounting policies on pages 93 to 96 and notes on pages 113 to 127.

	NOTES	PARENT ACTUAL 2004 $000	PARENT BUDGET 2004 $000	PARENT ACTUAL 2003 $000
EMPLOYERS' ACCOUNT				
Net levy income				
Levy income*		460,202	403,661	424,038
Total net levy income		460,202	403,661	424,038
EXPENDITURE				
Rehabilitation expenditure				
Vocational rehabilitation		9,339	5,914	5,029
Social rehabilitation		14,319	16,342	13,290
Medical treatment		37,223	34,198	31,205
Hospital treatment		14,596	13,617	13,742
Public health acute services		17,615	18,809	17,525
Dental treatment		437	436	373
Conveyance for treatment		2,907	2,919	2,940
Miscellaneous claim costs		359	1,928	2,132
		96,795	94,163	86,236
Compensation expenditure				
Income maintenance		106,495	104,716	87,944
Independence allowances		1,503	1,075	617
Lump sums		1,228	4,297	77
Death benefits		3,820	3,796	2,721
		113,046	113,884	91,359
Operating costs	4	41,249	43,169	34,006
Injury prevention		9,577	10,564	4,810
Collection costs		10,933	7,706	8,164
Total expenditure		271,600	269,486	224,575
Operating surplus before adjustment to claims liability		188,602	134,175	199,463
Adjustment to claims liability	21	60,343	221,092	243,452
Surplus/(deficit) from underwriting activities after adjustment to claims liability		128,259	(86,917)	(43,989)
Net investment income		80,372	31,625	37,064
Other income		208	178	200
Net surplus/(deficit)		208,839	(55,114)	(6,725)
Account reserve – opening balance		108,379	108,379	115,071
Net surplus/(deficit)		208,839	(55,114)	(6,725)
Amalgamation of the Non-Compliers Fund	23	-	-	33
Account reserve – closing balance		317,218	53,265	108,379

* Income is higher this year due to higher wage base on which levies are charged compared to last year and budget.

The above statement is to be read in conjunction with the accounting policies on pages 93 to 96 and notes on pages 113 to 127.

	NOTES	PARENT ACTUAL 2004 $000	PARENT BUDGET 2004 $000	PARENT ACTUAL 2003 $000
MEDICAL MISADVENTURE ACCOUNT				
Net levy income				
Levy income funded by:				
Non-Earners' Account		31,293	31,043	48,032
Earners' Account		38,247	37,941	58,706
Total net levy income		69,540	68,984	106,738
EXPENDITURE				
Rehabilitation expenditure				
Vocational rehabilitation		346	180	196
Social rehabilitation		9,779	9,157	8,797
Medical treatment		1,787	1,753	1,410
Hospital treatment		773	962	894
Public health acute services		914	996	939
Dental treatment		36	30	28
Conveyance for treatment		196	203	213
Backdated attendant care	7	(155)	-	155
Miscellaneous claim costs		1,421	1,117	1,091
		15,097	14,398	13,723
Compensation expenditure				
Income maintenance		12,640	11,524	9,702
Independence allowances		3,931	3,250	1,732
Lump sums		1,070	2,451	68
Death benefits		1,655	1,671	2,045
		19,296	18,896	13,547
Operating costs	4	4,809	4,520	4,051
Injury prevention costs		-	33	24
Total expenditure		39,202	37,847	31,345
Operating surplus before adjustment to claims liability		30,338	31,137	75,393
Adjustment to claims liability	21	82,709	29,042	81,616
Surplus/(deficit) from underwriting activities after adjustment to claims liability		(52,371)	2,095	(6,223)
Net investment income		21,166	9,496	11,665
Other income		1	13	2
Net surplus/(deficit)		(31,204)	11,604	5,444
Account reserve – opening balance (deficit)		(197,735)	(197,735)	(203,179)
Net surplus/(deficit)		(31,204)	11,604	5,444
Account reserve – closing balance (deficit)		(228,939)	(186,131)	(197,735)

The above statement is to be read in conjunction with the accounting policies on pages 93 to 96 and notes on pages 113 to 127.

GROUP STATEMENT OF FINANCIAL POSITION — *AS AT 30 JUNE 2004*

	NOTES	GROUP ACTUAL 2004 $000	GROUP BUDGET 2004 $000	GROUP ACTUAL 2003 $000
Account reserves				
Residual Claims Account		(1,413,250)	(1,357,673)	(1,443,107)
Motor Vehicle Account		(1,556,934)	(1,628,717)	(1,776,549)
Non-Earners' Account		(958,203)	(1,133,585)	(1,122,207)
Earners' Account		449,723	187,149	180,766
Self-Employed Work Account		14,870	(6,118)	(1,137)
Employers' Account		317,218	53,265	108,379
Medical Misadventure Account		(228,939)	(186,131)	(197,735)
Total Account reserves		(3,375,515)	(4,071,810)	(4,251,590)
Subsidiaries reserves		(474)	(793)	(319)
Revaluation reserve	12&19	948	44	44
Total reserves (deficit)		(3,375,041)	(4,072,559)	(4,251,865)
Represented by:				
Assets				
Bank balances		16,279	23,958	24,432
Receivables	13	667,368	267,544	627,350
Accrued levy income	8	266,926	302,886	283,525
Deferred tax	6	166	338	150
Investments	9	6,175,958	5,941,376	4,922,780
Property, plant and equipment	12	101,247	100,059	88,208
Total assets		7,227,944	6,636,161	5,946,445
Less liabilities				
Levy received in advance	11	346,176	314,638	313,478
Payables and accrued liabilities	7&14	909,617	732,088	730,025
Claims liability	21	9,347,192	9,661,994	9,154,807
Total liabilities		10,602,985	10,708,720	10,198,310
Net liabilities		(3,375,041)	(4,072,559)	(4,251,865)

For and on behalf of the Board, which authorised the issue of these financial statements on 5 August 2004:

David Caygill
Chairman
Date: 5 August 2004

Garry Wilson
Chief Executive
Date: 5 August 2004

The above statement is to be read in conjunction with the accounting policies on pages 93 to 96 and notes on pages 113 to 127.

	NOTES	PARENT ACTUAL 2004 $000	PARENT BUDGET 2004 $000	PARENT ACTUAL 2003 $000
Account reserves				
Residual Claims Account		(1,413,250)	(1,357,673)	(1,443,107)
Motor Vehicle Account		(1,556,934)	(1,628,717)	(1,776,549)
Non-Earners' Account		(958,203)	(1,133,585)	(1,122,207)
Earners' Account		449,723	187,149	180,766
Self-Employed Work Account		14,870	(6,118)	(1,137)
Employers' Account		317,218	53,265	108,379
Medical Misadventure Account		(228,939)	(186,131)	(197,735)
Total Account reserves		(3,375,515)	(4,071,810)	(4,251,590)
Revaluation reserve	12&19	948	44	44
Total reserves (deficit)		(3,374,567)	(4,071,766)	(4,251,546)
Represented by:				
Assets				
Bank balances		16,051	24,583	24,444
Receivables	13	667,516	266,405	627,145
Accrued levy income	8	266,926	302,886	283,525
Investments	9	6,175,958	5,941,376	4,922,780
Investment in subsidiaries	10	1,450	1,100	1,100
Property, plant and equipment	12	100,797	99,101	87,327
Total assets		7,228,698	6,635,451	5,946,321
Less liabilities				
Levy received in advance	11	346,176	314,638	313,478
Payables and accrued liabilities	7&14	909,897	730,585	729,582
Claims liability	21	9,347,192	9,661,994	9,154,807
Total liabilities		10,603,265	10,707,217	10,197,867
Net liabilities		(3,374,567)	(4,071,766)	(4,251,546)

For and on behalf of the Board, which authorised the issue of these financial statements on 5 August 2004:

David Caygill
Chairman
Date: 5 August 2004

Garry Wilson
Chief Executive
Date: 5 August 2004

The above statement is to be read in conjunction with the accounting policies on pages 93 to 96 and notes on pages 113 to 127.

	NOTES	GROUP ACTUAL 2004 $000	GROUP BUDGET 2004 $000	GROUP ACTUAL 2003 $000
Cash flows from operating activities				
Cash was provided from:				
Levy income		2,704,412	3,077,376	2,381,597
Interest		167,219	123,057	141,267
Dividends		53,388	50,000	36,840
Goods and services tax (net)		-	-	49,671
Taxation received		135	-	-
Other income		2,012	2,562	2,042
		2,927,166	3,252,995	2,611,417
Cash was applied to:				
Payments to injured persons, suppliers and employees		2,048,659	1,705,652	2,028,077
Goods and services tax (net)		15,815	58,286	-
Taxation paid		-	89	105
		2,064,474	1,764,027	2,028,182
Net cash movement from operating activities	22	862,692	1,488,968	583,235
Cash flows from investing activities				
Cash was provided from:				
Proceeds from sale of investments		12,583,142	12,000,000	9,241,314
Proceeds from sale of property, plant and equipment		204	-	3,468
		12,583,346	12,000,000	9,244,782
Cash was applied to:				
Purchase of investments		13,412,508	13,448,347	9,792,962
Purchase of property, plant and equipment		41,683	41,095	25,495
		13,454,191	13,489,442	9,818,457
Net cash movement from investing activities		(870,845)	(1,489,442)	(573,675)
Cash flows from financing activities				
Net cash movement from financing activities		-	-	-
Net increase/(decrease) in cash held		(8,153)	(474)	9,560
Bank balance – opening balance		24,432	24,432	14,872
Bank balance – closing balance		16,279	23,958	24,432

The above statement is to be read in conjunction with the accounting policies on pages 93 to 96 and notes on pages 113 to 127.

	NOTES	PARENT ACTUAL 2004 $000	PARENT BUDGET 2004 $000	PARENT ACTUAL 2003 $000
Cash flows from operating activities				
Cash was provided from:				
Levy income		2,704,412	3,077,376	2,381,597
Interest		167,219	123,057	141,267
Dividends		53,388	50,000	36,840
Goods and services tax (net)		-	-	49,665
Other income		997	887	1,059
		2,926,016	3,251,320	2,610,428
Cash was applied to:				
Payments to injured persons, suppliers and employees		2,047,239	1,703,745	2,027,465
Goods and services tax (net)		15,840	58,267	-
		2,063,079	1,762,012	2,027,465
Net cash movement from operating activities	22	862,937	1,489,308	582,963
Cash flows from investing activities				
Cash was provided from:				
Proceeds from sale of investments		12,583,142	12,000,000	9,241,314
Proceeds from sale of property, plant and equipment		188	-	3,468
		12,583,330	12,000,000	9,244,782
Cash was applied to:				
Purchase of investments		13,412,508	13,448,347	9,792,962
Investment in subsidiaries		350	-	-
Purchase of property, plant and equipment		41,802	40,822	25,212
		13,454,660	13,489,169	9,818,174
Net cash movement from investing activities		(871,330)	(1,489,169)	(573,392)
Cash flows from financing activities				
Net cash movement from financing activities		-	-	-
Net increase/(decrease) in cash held		(8,393)	139	9,571
Bank balance – opening balance		24,444	24,444	14,873
Bank balance (overdraft) – closing balance		16,051	24,583	24,444

The above statement is to be read in conjunction with the accounting policies on pages 93 to 96 and notes on pages 113 to 127.

STATEMENT OF COMMITMENTS — *AS AT 30 JUNE 2004*

	GROUP ACTUAL **2004** $000	GROUP ACTUAL **2003** $000	PARENT ACTUAL **2004** $000	PARENT ACTUAL **2003** $000
Capital commitments approved and contracted	5,217	742	5,217	742
Non-cancellable operating lease commitments payable				
Not later than one year	8,444	9,151	8,020	8,319
Later than one year but not greater than two years	8,056	6,998	7,632	6,436
Later than two years but not greater than five years	22,435	10,026	21,406	9,886
Later than five years	24,418	3,768	24,195	3,768
Total non-cancellable operating lease commitments payable	63,353	29,943	61,253	28,409
Total commitments	68,570	30,685	66,470	29,151

ACC Group leases premises for its branch network and some of its corporate offices. The annual lease payments are subject to varying terms of review. The amounts disclosed above as future commitments are based on current rental rates.

STATEMENT OF CONTINGENT LIABILITIES — *AS AT 30 JUNE 2004*

There are several legal actions against ACC in existence, arising in the main from challenges to operational decisions made by ACC. No accrual has been made for these contingent liabilities as ACC will be vigorously defending these claims.

The estimated contingent liabilities of these actions are as follows:

	GROUP ACTUAL **2004** $000	GROUP ACTUAL **2003** $000	PARENT ACTUAL **2004** $000	PARENT ACTUAL **2003** $000
Legal proceedings	3,644	5,222	3,644	5,222

In addition to the above litigation and claims, there may be additional litigation in progress of which ACC has not yet been advised, mainly as a consequence of ACC claimants appealing a review officer's decision to the District Court. While an estimate of the financial effect of outstanding appeals cannot be made, management believes the resolution of outstanding appeals will not have a materially adverse effect on the financial statements of ACC.

The above statement is to be read in conjunction with the accounting policies on pages 93 to 96 and notes on pages 113 to 127.

1. Net Levy Income

	GROUP AND PARENT 2004 $000	GROUP AND PARENT 2003 $000
Net levy income consists of the following:		
Levy income	2,640,547	2,583,224
Add/(less):		
Decrease in provision for refund to early/later scheme employers	4,978	5,928
Reinsurance expense (refer to note 20 also)	-	(525)
Levy debts written off	(14,929)	(7,016)
(Increase)/decrease in the provision for doubtful debts for levy debtors	23,864	(7,335)
Net levy income	2,654,460	2,574,276

2. Net Investment Income

	GROUP AND PARENT 2004 $000	GROUP AND PARENT 2003 $000
Net investment income consists of the following:		
Dividends received	68,043	46,563
Interest received	182,920	154,036
Net realised and unrealised gains	246,329	244,355
Total investment income	497,292	444,954
Less:		
Investment expense	(7,867)	(7,929)
Net investment income	489,425	437,025

Included in net realised and unrealised gains are foreign exchange gains of $56.3 million (2003 – $88.5 million).

3. Total Operating Revenue

	GROUP 2004 $000	GROUP 2003 $000	PARENT 2004 $000	PARENT 2003 $000
Levy income	2,640,547	2,583,224	2,640,547	2,583,224
Investment income	497,292	444,954	497,292	444,954
Other income	2,012	2,042	997	1,059
Total operating revenue	3,139,851	3,030,220	3,138,836	3,029,237

4. Operating Costs

	GROUP 2004 $000	GROUP 2003 $000	PARENT 2004 $000	PARENT 2003 $000
Operating costs include:				
External audit fees	265	214	265	214
Fees paid to external auditor for other services	88	74	88	74
Directors' fees	330	303	266	270
Rental of office premises	9,090	7,594	9,078	7,594
Depreciation:				
– Buildings	142	138	142	138
– Freehold improvements	387	378	387	378
– Leasehold improvements	2,338	2,282	2,295	2,193
– Furniture, fittings and equipment	2,062	2,225	2,000	2,098
– Computer equipment	19,664	16,273	19,527	16,044
– Motor vehicles	492	459	490	443
Property, plant and equipment write-offs/(reversal):				
– Computer equipment	83	(73)	83	(73)
Operating lease equipment rentals	24	47	14	24
Bad debts written off	3	-	-	-
Change in provision for doubtful debts	1	-	-	-
Personnel expenditure	110,601	106,017	105,786	97,769
Supplies and services	73,919	63,017	77,835	70,494
	219,489	198,948	218,256	197,660
Restructuring costs	9	566	-	566
Operating costs	219,498	199,514	218,256	198,226
Operating costs are allocated to:*				
Residual Claims Account			33,392	34,093
Motor Vehicle Account			27,281	25,572
Non-Earners' Account			26,844	24,383
Earners' Account			73,550	65,615
Self-Employed Work Account			11,131	10,506
Employers' Account			41,249	34,006
Medical Misadventure Account			4,809	4,051
Operating costs			218,256	198,226

External audit fees of the parent include audit work undertaken for the subsidiaries for this year.

Personnel expenditure includes salaries, superannuation, ACC levies paid and holiday pay accrued.

* Costs were allocated to Accounts for 2004 using a similar activity-based costing methodology as used for 2003.

5. Income Tax (Credit)/Expense

	GROUP 2004 $000	GROUP 2003 $000
Surplus/(deficit) before tax	875,848	(615,584)
Add/(less) permanent differences:		
Parent net (surplus)/deficit	(876,075)	615,279
Non-deductible expenses	6	-
Accounting surplus/(deficit) subject to tax	(221)	(305)
Income tax at 33%	(73)	(101)
(Over)/under provision prior years	1	-
Income tax (credit)/expense	(72)	(101)
The income tax (credit)/expense is represented by:		
Current tax	(56)	(124)
Deferred tax liability	(16)	23
	(72)	(101)

6. Deferred Taxation (Asset)/Liability

	GROUP 2004 $000	GROUP 2003 $000
Balance at beginning of the year	(150)	(173)
Transfer to Statement of Financial Performance	(16)	23
Balance at end of the year	(166)	(150)

7. Provisions

a) Backdated Attendant Care

	GROUP AND PARENT 2004 $000	2003 $000
Opening balance	19,638	24,709
Paid out during the year	(6,733)	(5,399)
Additional provision made during the year	-	328
Unused provision reversed during the year	(2,162)	-
Closing balance	10,743	19,638

A liability for backdated attendant care arose from a decision of the High Court relating to entitlements for periods prior to 1992. The Court found that ACC claimants requiring constant personal attention under the 1972 and 1982 legislation were entitled to 24-hour attendant care from the date of their discharge from hospital as opposed to a lesser level of benefits actually paid by ACC. Included in this is also a liability for attendant care arrears. Most of this liability is expected to be incurred over the next 12 months.

b) Refund for Early/Later Scheme Employers

	GROUP AND PARENT 2004 $000	2003 $000
Opening balance	7,900	14,734
Paid out during the year	(2,265)	(906)
Unused provision reversed during the year	(4,978)	(5,928)
Closing balance	657	7,900

As a result of concerns raised at ministerial level by a number of employers and self-employed persons particularly Federated Farmers, ACC reviewed the way it was applying the 'clean slate' transitional provisions of the Accident Insurance Act 1998 in relation to employers and self-employed levy liability at the cut-off date for the private insurer work injury regime. A provision has been made for levy refunds to certain employers and self-employed persons that are considered to have paid twice for the same period of work injury cover. This liability is expected to be incurred over the next 12 months.

c) Interest on Late Payment of Weekly Compensation

	GROUP AND PARENT 2004 $000	2003 $000
Opening balance	59	4,810
Paid out during the year	(59)	(159)
Unused provision reversed during the year	-	(4,592)
Closing balance	-	59

A liability for interest on late payments of weekly compensation for periods prior to 1 July 1992 arose from a decision of the High Court in 2002. The Court found that there should be no differentiation between periods pre and post 1 July 1992 for payment of interest on late payments of weekly compensation under the 1992 legislation.

8. Accrued Levy Income

As stated in the Statement of Accounting Policies, all levy income is recognised in the period to which it relates. Levy income was therefore accrued to 30 June 2004 in the following Accounts:

	GROUP AND PARENT 2004 $000	2003 $000
Residual Claims Account	173,993	165,835
Earners' Account	66,822	73,131
Employers' Account	-	2,302
Self-Employed Work Account	26,111	42,257
	266,926	283,525

9. Investments

ACC holds investments to meet the liquidity and reserve requirements of each Account as follows:

	GROUP AND PARENT	
	2004	**2003**
	$000	$000
New Zealand deposits at call	806,395	589,377
New Zealand government securities	1,899,574	1,519,242
New Zealand equities	915,305	719,162
Australian equities	503,634	516,180
Australian deposits at call	22,260	19,062
New Zealand discounted securities	409,309	383,067
Other New Zealand fixed interest securities	588,226	370,180
Overseas fixed interest securities	141,074	147,431
Other overseas equities	890,181	659,079
	6,175,958	4,922,780

Included within the above investment asset classes are $16.4 million (2003 – $4.0 million) of New Zealand equities and $680.0 million (2003 – $504.7 million) of New Zealand government securities investments which are subject to fully collateralised security lending transactions. Collateral received in these transactions is held as an asset, and the liability to repurchase the investments is accrued in unsettled investment transactions.

At balance date, ACC has made conditional agreement to commit to invest $24.1 million (2003 – $26.6 million) in private equity arrangements.

10. Investment In Subsidiaries

	PARENT	PARENT	
	2004	**2003**	BALANCE
	$000	$000	DATE
Catalyst Risk Management Limited	600	250	30 June
Dispute Resolution Services Limited	850	850	30 June
	1,450	1,100	

Catalyst Risk Management Limited (formerly known as Catalyst Injury Management Limited) is an injury management company providing recovery and rehabilitation management services.

Dispute Resolution Services Limited is a company providing accident insurance review and disputes services.

These companies are wholly owned subsidiaries of ACC.

11. Levy Received In Advance

	GROUP AND PARENT 2004 $000	GROUP AND PARENT 2003 $000
Motor Vehicle Account	161,336	148,502
Earners' Account	7,751	4,689
Employers' Account	161,964	150,815
Self-Employed Work Account	15,125	9,472
	346,176	313,478

Motor Vehicle Account levy and residual levy from motor vehicle relicensing are for a period of one month to one year in advance.

12. Property, Plant And Equipment

	GROUP 2004 $000	GROUP 2003 $000	PARENT 2004 $000	PARENT 2003 $000
Freehold land at valuation	1,915	1,011	1,915	1,011
Buildings at valuation	6,628	6,377	6,628	6,377
Accumulated depreciation	(980)	(839)	(980)	(839)
	5,648	5,538	5,648	5,538
Freehold improvements at valuation	3,913	3,151	3,913	3,151
Accumulated depreciation	(1,759)	(1,347)	(1,758)	(1,347)
	2,154	1,804	2,155	1,804
Leasehold improvements at cost	21,751	16,865	21,386	16,483
Accumulated depreciation	(9,555)	(7,931)	(9,287)	(7,705)
	12,196	8,934	12,099	8,778
Furniture, fittings and equipment at cost	21,964	20,811	21,631	20,183
Accumulated depreciation	(17,287)	(15,434)	(17,025)	(15,087)
	4,677	5,377	4,606	5,096
Computer equipment at cost	122,775	120,194	121,996	119,248
Accumulated depreciation	(82,971)	(69,188)	(82,471)	(68,649)
	39,804	51,006	39,525	50,599
Motor vehicles at cost	4,185	4,029	4,150	3,907
Accumulated depreciation	(1,797)	(1,437)	(1,766)	(1,352)
	2,388	2,592	2,384	2,555
Work in progress at cost				
Computer equipment	32,465	11,946	32,465	11,946
	101,247	88,208	100,797	87,327

Note
The principal freehold land and building, including freehold improvements, are recorded at their 30 June 2004 valuation. ACC holds the premises as a capital asset for long-term ownership, not as an investment property. The market valuation completed in June 2004 is $9.5 million ($8.6 million in June 2003). The valuations were completed by CB Richard Ellis Limited, an independent registered public valuer. The investment value approach was used as the basis of the valuation.

13. Receivables

	GROUP 2004 $000	GROUP 2003 $000	PARENT 2004 $000	PARENT 2003 $000
Residual claims debtors (note i)	2,925	16,204	2,925	16,204
Less provision for doubtful debts	(2,925)	(16,107)	(2,925)	(16,107)
	-	97	-	97
Self-employed debtors (note i)	75,411	85,296	75,411	85,296
Less provision for doubtful debts	(24,466)	(34,116)	(24,466)	(34,116)
	50,945	51,180	50,945	51,180
Employers debtors (note i)	480,830	482,637	480,830	482,637
Less provision for doubtful debts	(29,065)	(30,096)	(29,065)	(30,096)
	451,765	452,541	451,765	452,541
Experience rating debtors	95	100	95	100
Less provision for doubtful debts	(95)	(99)	(95)	(99)
	-	1	-	1
Claimant debtors (note ii)	14,012	13,657	14,012	13,657
Less provision for doubtful debts	(13,503)	(13,527)	(13,503)	(13,527)
	509	130	509	130
PAYE receivable (note iii)	3,161	1,813	3,161	1,813
Less provision for doubtful debts	(430)	(429)	(430)	(429)
	2,731	1,384	2,731	1,384
Motor vehicle levy receivable (note iv)	52,529	38,564	52,529	38,564
Non-Earners' appropriation	-	26,868	-	26,868
Unsettled investment transactions	104,390	51,921	104,390	51,921
Prepayments	2,722	2,872	2,722	2,868
Tax refund due	257	237	-	-
Intercompany receivables	-	-	616	197
Advances to subsidiaries	-	-	204	978
Sundry debtors	1,520	1,555	1,105	416
	667,368	627,350	667,516	627,145

Note

i The changes in the provisions for doubtful debts for the levy debtors have been charged against levy income. Because of the amount involved, charging against operating costs may result in distortion of this cost. Levy debtors have been invoiced based on liable earnings data provided from Inland Revenue sources.

ii Claimant debt results when an overpayment has been recognised and is unable to be immediately repaid.

iii PAYE receivable represents PAYE on claimant payments subsequently reversed. In most cases this amount is collectable from Inland Revenue.

iv Motor vehicle levy receivable consists of the amount collected by LTSA from motor licensing due to ACC on the 1st of the following month and the amount collected by NZ Customs for the ACC levy portion of the excise duty on petrol.

In addition to the above there are levies outstanding from employers, earners and motor vehicle owners. Inland Revenue, in its capacity as collecting agent for ACC from employers and earners, estimates these to be approximately $nil as at 30 June 2004 (2003 – $34.0 million). The Land Transport Safety Authority, in its capacity as collecting agent for ACC from motor vehicle owners, estimates this to be approximately $27.9 million (2003 – $14.9 million). As ACC is not able to determine the collectability of these levies no accrual has been made.

14. Payables and Accrued Liabilities

	GROUP 2004 $000	GROUP 2003 $000	PARENT 2004 $000	PARENT 2003 $000
Unsettled investment transactions	742,706	543,110	742,706	543,110
PAYE and earnings-related deductions	8,807	7,252	8,797	7,203
Claims expenditure accrued and payable	25,704	25,639	25,704	25,639
Occupational safety and health	15,253	12,643	15,253	12,643
Sundry creditors	1,036	485	987	480
Levies overpaid by Inland Revenue	6,000	12,000	6,000	12,000
Intercompany payables	-	-	547	445
Goods and services tax	42,471	58,286	42,427	58,267
Experience rating creditors	1,615	1,730	1,615	1,730
Accrued employee entitlements	6,581	9,721	6,343	9,146
Other accrued expenditure	37,733	31,562	37,550	31,270
Advances from subsidiaries	-	-	356	52
Non-Earners' appropriation	10,212	-	10,212	-
Provision for backdated attendant care (refer to note 7a)	10,743	19,638	10,743	19,638
Provision for interest on late payment of weekly compensation (refer to note 7c)	-	59	-	59
Provision for income tax	99	-	-	-
Provision for refund to early/later scheme employers (refer to note 7b)	657	7,900	657	7,900
	909,617	730,025	909,897	729,582

15. Financial Instruments

a) Interest Rate Management

ACC invests its funds through 11 investment portfolios which at 30 June 2004 comprise a cash portfolio of $229.0 million (2003 – $382.8 million) and 10 reserves portfolios totalling $5,308.6 million (2003 – $4,048.7 million). The cash portfolio is used to meet liquidity requirements. The reserves portfolios' principal assets are bonds and equities. The interest rate exposures of the reserves and cash portfolios are managed primarily through asset allocation between asset class sub-portfolios and through selection of physical securities within asset class sub-portfolios. Derivative financial instruments may also be used to manage the interest rate exposures of the reserves and cash portfolios.

The Board has delegated the responsibility for the management of interest rate risk to the Investment Committee which has considered this risk relative to the interest rate exposures inherent in the claims liability of each funding account. The Investment Committee has set out investment guidelines for each of the fixed interest portfolios including the use of derivatives. The exposure of each of the fixed interest portfolios is measured by comparing the duration of each portfolio against the selected benchmark index duration.

There were no interest rate swaps held at 30 June 2004 or 2003.

The weighted average effective interest rates for all classes of investments are as follows:

	2004 %	2003 %
New Zealand deposits at call	5.75	5.25
New Zealand government securities	6.16	5.25
New Zealand discounted securities	6.08	5.27
Other New Zealand fixed interest securities	6.97	5.83
Overseas fixed interest securities	4.64	3.32

b) Currency Risk Management

Part of the reserves portfolio is invested in overseas fixed interest and equity markets, which total $1,557.1 million as at 30 June 2004 (2003 – $1,341.8 million). Forward currency agreements are used to create partial economic hedges for the foreign currency exposure.

The Investment Committee has delegated the responsibility for the currency management to the Investment Unit which measures foreign currency exposure of each reserves portfolio. The Investment Committee has set out investment guidelines on the treatment of currency risk. During the year, an average of 61% of the overseas currency exposure was hedged to New Zealand dollars.

The notional principal or contract amounts outstanding at 30 June are as follows:

	GROUP AND PARENT	
	2004	**2003**
	$000	$000
Forward exchange contracts	728,698	946,715

The estimated cash settlement inflow required for these instruments, based on market valuations at 30 June, is:

	GROUP AND PARENT	
	2004	**2003**
	$000	$000
Forward exchange contracts	2,550	1,255

c) Repricing Analysis

The following table identifies the products in which financial instruments that are subject to interest rate risk reprice. The effective interest rate incorporates the effect of the relevant derivative contracts.

	EFFECTIVE INTEREST RATE	TOTAL $000	LESS THAN 1 YEAR $000	BETWEEN 1-2 YEARS $000	2-5 YEARS $000	GREATER THAN 5 YEARS $000
2004 Group and Parent						
Assets						
Investments						
New Zealand government securities	6.16%	1,899,574	-	-	-	1,899,574
New Zealand deposits at call	5.75%	806,395	806,395	-	-	-
New Zealand discounted securities	6.08%	409,309	409,309	-	-	-
Other New Zealand fixed interest securities	6.97%	588,226	15,325	2,564	172,360	397,977
Overseas fixed interest securities	4.64%	141,074	112,077	3,957	4,376	20,664
		3,844,578	1,343,106	6,521	176,736	2,318,215
2003 Group and Parent						
Assets						
Investments						
New Zealand government securities	5.25%	1,519,242	520	-	-	1,518,722
New Zealand deposits at call	5.25%	589,377	589,377	-	-	-
New Zealand discounted securities	5.27%	383,067	383,067	-	-	-
Other New Zealand fixed interest securities	5.83%	370,180	127,196	22,005	109,277	111,702
Overseas fixed interest securities	3.32%	147,431	90,825	4,933	7,501	44,172
		3,009,297	1,190,985	26,938	116,778	1,674,596

d) Credit Risk

To the extent ACC has a receivable from another party there is a credit risk in the event of non-performance by that counterparty. Financial instruments which potentially subject ACC to credit risk principally consist of bank balances, receivables, investments in government securities, foreign currency forward exchange contracts, swaps, options and forward rate agreements.

The Investment Committee has approved a list of selected counterparties and assigned investment limits based on credit ratings assigned to issuers by Standard and Poors. Credit risk exposure is monitored on a continuous basis and ACC does not anticipate non-performance by the counterparties.

Significant concentrations of credit risk are held in the following:

	GROUP 2004 $000	GROUP 2003 $000	PARENT 2004 $000	PARENT 2003 $000
1. Bank balances	16,279	24,432	16,051	24,444
2. Receivables	721,155	677,542	721,625	678,212
3. New Zealand government securities	1,899,574	1,519,242	1,899,574	1,519,242
4. Major New Zealand financial institutions in call deposits, negotiable certificates of deposits and bonds maturing:				
– in less than three months	890,993	786,246	890,993	786,246
– in more than three months	108,102	16,531	108,102	16,531

The highest amount with one institution is $290.5 million (2003 – $209.8 million).

All investments are marked to market; fair value is equal to carrying value.

e) Equity Market Derivatives

There were no equity market derivatives held at 30 June 2004 or 2003.

f) Fair Values

The following methods and assumptions were used to estimate the fair value of each class of financial instrument.

Bank Balances, Receivables, Payables

The carrying value of these items are equivalent to their fair value.

Investments

The fair value of the investments are equivalent to their carrying value.

16. Credit Rating

In terms of the Insurance Companies (Ratings and Inspection) Act 1994, ACC undergoes a financial strength rating. The rating review is performed annually by A M Best Company, Inc. As at the date of this report the rating assigned to ACC was 'A+ (Superior)'. This rating represents 'very strong' financial security.

17. Segmental Reporting

ACC operates in New Zealand and predominantly in one industry, that being insurance-based accident rehabilitation and compensation.

18. Related Party Transactions

ACC as a Crown entity enters into a number of transactions with other government departments, crown agencies and state-owned enterprises on an arm's-length basis where those parties are acting in the course of their normal dealing with ACC. Because these transactions are entered into on an arm's-length basis they are not considered to be related party transactions.

All transactions between ACC and the companies within the group are conducted on an arm's-length basis.

During the year ACC purchased services from the group companies totalling $6.9 million (2003 – $11.4 million). The amount outstanding at balance date was $0.5 million (2003 – $0.4 million). Sales to the group companies by ACC for its services totalled $1.3 million (2003 – $1.5 million). The amount outstanding at balance date was $0.6 million (2003 – $0.2 million).

ACC provided additional advances to its group companies during the year. The amount outstanding at balance date was $0.4 million (2003 – $0.9 million).

Trade amounts owing between related parties are payable under normal commercial terms. No related party debts have been written off or forgiven during the year.

19. Asset Revaluation Reserve

	GROUP AND PARENT	
	2004	2003
	$000	$000
Balance at the beginning of the year	44	44
Revaluation increase	904	-
Balance at the end of the year	948	44
Comprising:		
Land	948	-
Buildings	-	44
	948	44

20. Reinsurance

ACC has no catastrophe reinsurance as the cost to fully replace the cover would not be in line with the risk. Catastrophe reinsurance will be reconsidered if and when this can be achieved at a reasonable cost.

21. Claims Liability

Future expenditure commitments exist in respect of:

1. Claims notified and accepted in the current and previous years, but which will not be fully met until future years.

2. Claims incurred but not notified to, or accepted by, ACC at balance date.

An independent actuarial estimate by PricewaterhouseCoopers Actuarial Pty Ltd, consulting actuaries of Sydney, led by Chris Latham, has been made of the future expenditure relating to injuries which occurred prior to balance date, whether or not the claims have been reported to or accepted by Accident Compensation Corporation. Chris Latham is a Fellow of the Institute of Actuaries of Australia, Fellow of the New Zealand Society of Actuaries and Fellow of the Institute of Actuaries (London).

The actuarial estimate has been made based on actual experience to 30 June 2004 for non-fatal income maintenance and actual experience to 31 March 2004 for all other payment types. The calculation of the outstanding claims liability has been made in accordance with the standards of the New Zealand Society of Actuaries and Financial Reporting Standard 35.

In determining the actuarial estimate, the independent actuaries have relied upon information supplied by ACC. They have used the information without independent verification, although they reviewed it where possible for reasonableness and consistency. This review did not identify any material inconsistencies or deficiencies in the data.

The following table shows the actuarial estimate of the present value of the claims liability that will be payable in future years. The actual outcome is likely to range about this estimate and, like any such forecast, is subject to uncertainty.

The main long-term assumptions used in the above estimates for discounting to present values are:

	2004 % PA YEAR 1	2004 % PA YEARS 2+	2003 % PA
1. Interest rate for discounting (weighted average rate of government stock)	6.5%	6.5%	5.5%
2. Inflation rates:			
– weekly compensation	2.2%	2.5%	2.3%
– impairment benefits	1.6%	2.2%	2.1%
– rehabilitation and other benefits[a]	2.2%	2.5%	8.3%
– medical costs[b]	2.2%	2.5%	5.2%
3. Allowance for claims handling expenses (as a proportion of liabilities)	5.0%	5.0%	5.0%

(a) Social rehabilitation for serious injury claims (which represents around 50% of rehabilitation liability) has an allowance for superimposed inflation of 3.0% pa over the next three years. Non-serious injury social rehabilitation does not include an allowance for superimposed inflation (except for in the Residual Non-Work account which has a short-term allowance for superimposed inflation).

(b) Long-term medical cost inflation (2004) now includes an explicit allowance for superimposed inflation.

Claims Liability as at 30 June 2004 (Discounted)

	30 JUNE 2004 TOTAL $MILLION	RESIDUAL CLAIMS ACCOUNT $MILLION	MOTOR VEHICLE ACCOUNT $MILLION	NON-EARNERS' ACCOUNT $MILLION	EARNERS' ACCOUNT $MILLION	EMPLOYERS' ACCOUNT $MILLION	MEDICAL MIS-ADVENTURE ACCOUNT $MILLION	SELF-EMPLOYED WORK ACCOUNT $MILLION	30 JUNE 2003 TOTAL $MILLION
Rehabilitation									
Medical treatment	466	110	68	106	116	38	17	11	344
Miscellaneous	3,908	656	1,322	964	454	195	260	57	3,910
	4,374	766	1,390	1,070	570	233	277	68	4,254
Compensation									
Income maintenance	3,956	1,430	965	93	821	400	133	114	4,048
Impairment benefits	541	60	106	216	92	28	32	7	389
	4,497	1,490	1,071	309	913	428	165	121	4,437
Present value of the claims liability	8,871	2,256	2,461	1,379	1,483	661	442	189	8,691
Present value of the operating costs of meeting these claims	443	113	123	69	73	33	23	9	435
Bulk billed costs	33	2	5	15	6	3	1	1	29
Total present value of the claims liability	9,347	2,371	2,589	1,463	1,562	697	466	199	9,155
As at end of year (Discounted)	9,155	2,450	2,488	1,477	1,560	614	383	183	7,501
Transfer from Other Insurers	22	-	-	-	-	22	-	-	4
Movement during the year	170	(79)	101	(14)	2	61	83	16	1,650

Maturity Profile

As at 30 June 2004[1]

	30 JUNE 2004 TOTAL $MILLION	RESIDUAL CLAIMS ACCOUNT $MILLION	MOTOR VEHICLE ACCOUNT $MILLION	NON-EARNERS' ACCOUNT $MILLION	EARNERS' ACCOUNT $MILLION	EMPLOYERS' ACCOUNT $MILLION	MEDICAL MIS-ADVENTURE ACCOUNT $MILLION	SELF-EMPLOYED WORK ACCOUNT $MILLION	30 JUNE 2003 TOTAL $MILLION
Within one year	1,160	263	235	169	277	138	36	42	1,116
Later than one year but not later than two years	840	231	200	107	165	82	32	23	770
Later than two years but not later than five years	1,871	548	477	235	330	158	79	44	1,739
Later than five years but not later than ten years	2,034	590	557	284	324	145	93	41	2,014
Later than ten years	3,442	739	1,120	668	466	174	226	49	3,516
Total present value of the claims liability	9,347	2,371	2,589	1,463	1,562	697	466	199	9,155

[1] Includes claim handling expenses.

Analysis Of Changes

	30 JUNE 2004 TOTAL $MILLION	RESIDUAL CLAIMS ACCOUNT $MILLION	MOTOR VEHICLE ACCOUNT $MILLION	NON-EARNERS' ACCOUNT $MILLION	EARNERS' ACCOUNT $MILLION	EMPLOYERS' ACCOUNT $MILLION	MEDICAL MIS-ADVENTURE ACCOUNT $MILLION	SELF-EMPLOYED WORK ACCOUNT $MILLION	30 JUNE 2003 TOTAL $MILLION
Opening gross liability	17,499	4,008	5,133	3,435	2,813	985	834	291	15,225
Payments in respect of prior years	(1,161)	(304)	(240)	(168)	(261)	(115)	(36)	(37)	(1,076)
Change in prior year estimates*	4,709	910	1,722	1,247	111	(75)	804	(10)	1,467
Current year claims**	2,204	-	532	385	621	424	118	124	1,883
Closing gross liability	23,251	4,614	7,147	4,899	3,284	1,219	1,720	368	17,499
Discounted at 2003 interest rate***	10,309	2,571	2,897	1,658	1,694	743	533	213	8,218
Effect of change in interest rates	(962)	(200)	(308)	(195)	(132)	(46)	(67)	(14)	937
Closing discounted liability	9,347	2,371	2,589	1,463	1,562	697	466	199	9,155

* Changes to the estimated value of future payments to reflect the experience of the scheme in 2003-04 for accidents incurred prior to July 2003.

** Estimated value of future payments for injuries incurred between July 2003 and June 2004.

*** The actual estimate is calculated by discounting the expected future payments to their present value. A 'fully funded' scheme would hold assets equal to the discounted liability value.

22. Cash Flows

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

	GROUP ACTUAL 2004 $000	GROUP BUDGET 2004 $000	GROUP ACTUAL 2003 $000	PARENT ACTUAL 2004 $000	PARENT BUDGET 2004 $000	PARENT ACTUAL 2003 $000
Net surplus/(deficit) after taxation	875,920	179,306	(615,483)	876,075	179,780	(615,279)
Add/(less) items classified as investing activities						
(Gain)/loss on sale of fixed assets	38	-	(243)	(12)	-	(243)
Realised (gains)/loss on sale of investments	8,522	(8,000)	(21,140)	8,522	(8,000)	(21,140)
Add/(less) non-cash items						
Depreciation	25,085	29,244	21,755	24,841	29,048	21,294
Offshore income re-invested	(126,764)	(30,000)	(81,271)	(126,764)	(30,000)	(81,271)
Increase/(decrease) in backdated attendant care provision	(2,162)	-	328	(2,162)	-	328
Levy debts written off	14,929	-	7,016	14,929	-	7,016
(Decrease)/Increase in doubtful debts for levy debtors	(23,864)	-	7,335	(23,864)	-	7,335
(Decrease) in provision for refund to early/later scheme employers	(4,978)	-	(6,834)	(4,978)	-	(6,834)
(Decrease) in provision for interest on late payment of weekly compensation	-	-	(4,751)	-	-	(4,751)
Property, plant and equipment writeoffs (reversal)	83	-	(73)	83	-	(73)
Movement in deferred tax	(16)	-	23	-	-	-
Adjustment to claims liability	169,903	507,186	1,650,519	169,903	507,186	1,650,519
Add/(less) movements in working capital items						
In accounts receivable	29,376	311,393	(336,734)	29,023	312,515	(336,720)
In accounts payable and accrued liabilities	13,756	545,174	(65,220)	14,477	544,114	(65,226)
In levies received in advance	32,698	1,160	191,549	32,698	1,160	191,549
Add/(less) net adjustments to investments for market values and accrued income	(149,834)	(46,495)	(163,541)	(149,834)	(46,495)	(163,541)
Net cash inflow/(outflow) from operating activities	862,692	1,488,968	583,235	862,937	1,489,308	582,963

23. Non-Compliers Fund

On 1 July 2002 the Accident Insurance Regulator's role in relation to the Non-Compliers Fund was transferred to ACC pursuant to section 345 of the Act. The Statement of Financial Position was transferred to ACC, as follows:

	$000
Reserves	33
Represented by:	
Assets	
Bank balance	205
Receivables	11
	216
Less liabilities	
Claims liability	(183)
Net assets	33

24. Events After Balance Date

On 1 July 2004, a subsidiary of ACC, Catalyst Risk Management Limited (formerly known as Catalyst Injury Management Limited) acquired the assets, relating to third party administration of ACC's Partnership Programme, of CRM Group Limited for $2.75 million.

As part of the transaction, Catalyst Risk Management Limited has taken over the client contracts of CRM Group Limited and continues to employ their injury management staff.

Assets acquired:

	$000
Non-current assets	
Copyright in technological systems	2,500
Intellectual property rights	25
20% Shareholding in Impac Limited, plus other minor assets	75
Net assets acquired	2,600
Cash paid	2,750
Goodwill arising on acquisition	150

Catalyst Risk Management Limited has also entered into an agreement to subscribe to the capital of AllCare Insurance Limited, a retail insurer of absence minimisation products, in the amount of $1.0 million for a 45% shareholding. The settlement of this agreement is awaiting the vendor to fulfil certain requirements to the satisfaction of Catalyst Risk Management Limited.

STATEMENT OF RESPONSIBILITY

(Pursuant to section 42 of the Public Finance Act 1989)

We acknowledge responsibility for the preparation of these financial statements and for the judgements used therein.

We have been responsible for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of ACC's financial and non-financial reporting.

In our opinion, these financial statements fairly reflect the financial position and operations of ACC for the year ended 30 June 2004.

David Caygill
Chairman
Date: 5 August 2004

Garry Wilson
Chief Executive
Date: 5 August 2004

To the readers of the Financial Statements of the Accident Compensation Corporation and Group

The Auditor-General is the auditor of Accident Compensation Corporation and Group (the "Corporation"). The Auditor-General has appointed me, B R Penrose, using the staff and resources of Ernst & Young, to carry out the audit of the financial statements of the Corporation, on his behalf, for the year ended 30 June 2004.

Unqualified Opinion

In our opinion the financial statements of the Corporation on pages 62 to 82 and 93 to 127:

- comply with generally accepted accounting practice in New Zealand; and
- fairly reflect:
  - the Corporation's financial position as at 30 June 2004;
  - the results of its operations and cash flows for the year ended on that date; and
  - its service performance achievements measured against the performance targets adopted for the year ended on that date.

The audit was completed on 5 August 2004, and is the date at which our opinion is expressed.

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

Basis of Opinion

We carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed our audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements did not have material misstatements, whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in the opinion.

Our audit involved performing procedures to test the information presented in the financial statements. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Board;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statement disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements.

We evaluated the overall adequacy of the presentation of information in the financial statements. We obtained all the information and explanations we required to support the opinion above.

Responsibilities of the Board and the Auditor

The Board is responsible for preparing financial statements in accordance with generally accepted accounting practice in New Zealand. Those financial statements must fairly reflect the financial position of the Corporation as at 30 June 2004. They must also fairly reflect the results of its operations and cash flows and service performance achievements for the year ended on that date. The Board's responsibilities arise from the Public Finance Act 1989 and the Injury Prevention, Rehabilitation and Compensation Act 2001.

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001 and section 43(1) of the Public Finance Act 1989.

Independence

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the Institute of Chartered Accountants of New Zealand.

In addition to the audit, we have carried out assignments in the areas of compliance with tax legislation and marketing strategy investigation, which are compatible with those independence requirements. Other than the audit and these assignments, we have no relationship with or interests in the Corporation.

B R Penrose
Ernst & Young
On behalf of the Auditor-General
Wellington, New Zealand

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

	GROUP	
	2004	2003
$100,000 – $110,000	33	25
$110,000 – $120,000	17	20
$120,000 – $130,000	23	11
$130,000 – $140,000	13	5
$140,000 – $150,000	4	6
$150,000 – $160,000	4	5
$160,000 – $170,000	1	3
$170,000 – $180,000	8	4
$180,000 – $190,000	1	1
$190,000 – $200,000	1	2
$200,000 – $210,000	2	1
$210,000 – $220,000	1	-
$220,000 – $230,000	1	-
$230,000 – $240,000	-	-
$240,000 – $250,000	2	3
$250,000 – $260,000	-	-
$260,000 – $270,000	2	-
$270,000 – $280,000	-	-
$280,000 – $290,000	-	4
$290,000 – $300,000	2	1
$300,000 – $310,000	1	-
$310,000 – $320,000	2	-
$430,000 – $440,000	-	-
$450,000 – $460,000	-	-
$460,000 – $470,000	-	-
$470,000 – $480,000	-	-
$480,000 – $490,000	-	1
$490,000 – $500,000	1	-
	119	92
Average income of above employees	$143,344	$143,284

	2004 $000	2003 $000	2002 $000	2001 $000	2000 $000
Combined					
Total income	3,144,882	3,012,360	2,455,020	2,195,261	1,903,813
Total expenditure	2,098,904	1,977,120	1,852,391	1,742,251	1,606,410
Adjustment to claims liability	169,903	1,650,519	359,474	765,642	(519,000)
Surplus/(deficit)	876,075	(615,279)	243,155	(312,632)	816,403
Opening Account reserves (deficit)	(4,251,546)	(3,636,300)	(3,879,455)	(3,566,280)	(4,382,683)
Amalgamation of the Non-Compliers Fund	-	33	-	-	-
Increase/(decrease) in revaluation reserve	904	-	-	(543)	-
Closing Account reserves (deficit)	(3,374,567)	(4,251,546)	(3,636,300)	(3,879,455)	(3,566,280)
Residual Claims Account					
Total income	284,703	298,912	356,760	280,606	289,765
Total expenditure	333,381	350,675	394,025	472,589	552,423
Adjustment to claims liability	(78,535)	112,432	(201,364)	(95,125)	(824,000)
Surplus/(deficit)	29,857	(164,195)	164,099	(96,858)	561,342
Opening Account reserve (deficit)	(1,443,107)	(1,278,912)	(1,443,011)	(1,346,153)	(1,907,495)
Closing Account reserve (deficit)	(1,413,250)	(1,443,107)	(1,278,912)	(1,443,011)	(1,346,153)
Motor Vehicle Account					
Total income	662,950	494,636	387,421	417,067	414,426
Total expenditure	342,694	334,242	312,591	297,435	283,712
Adjustment to claims liability	100,641	500,274	241,291	188,148	204,000
Surplus/(deficit)	219,615	(339,880)	(166,461)	(68,516)	(73,286)
Opening Account reserve (deficit)	(1,776,549)	(1,436,669)	(1,270,208)	(1,201,692)	(1,128,406)
Closing Account reserve (deficit)	(1,556,934)	(1,776,549)	(1,436,669)	(1,270,208)	(1,201,692)
Non-Earners' Account					
Total income	620,636	637,456	577,141	374,155	357,140
Total expenditure	470,254	459,975	418,045	363,985	343,227
Adjustment to claims liability	(13,622)	344,692	14,891	163,833	46,000
Surplus/(deficit)	164,004	(167,211)	144,205	(153,663)	(32,087)
Opening Account reserve (deficit)	(1,122,207)	(954,996)	(1,099,201)	(945,538)	(913,451)
Closing Account reserve (deficit)	(958,203)	(1,122,207)	(954,996)	(1,099,201)	(945,538)

This Account was established, with effect from 1 April 1992, by the Accident Rehabilitation and Compensation Insurance Act 1992.

	2004 $000	2003 $000	2002 $000	2001 $000	2000 $000
Earners' Account					
Total income	830,580	870,579	617,486	575,112	708,868
Total expenditure	559,555	501,125	460,809	413,489	384,465
Adjustment to claims liability	2,068	316,824	96,068	156,581	(37,000)
Surplus	268,957	52,630	60,609	5,042	361,403
Opening Account reserve (deficit)	180,766	128,136	67,527	62,485	(298,918)
Closing Account reserve (deficit)	449,723	180,766	128,136	67,527	62,485

This Account was established, with effect from 1 April 1992, by the Accident Rehabilitation and Compensation Insurance Act 1992.

	2004 $000	2003 $000	2002 $000	2001 $000	2000 $000
Self-Employed Work Account					
Total income	114,524	131,070	91,625	81,187	90,115
Total expenditure	82,218	75,183	63,679	49,604	24,440
Adjustment to claims liability	16,299	51,229	43,653	47,346	40,000
Surplus/(deficit)	16,007	4,658	(15,707)	(15,763)	25,675
Opening Account reserve	(1,137)	(5,795)	9,912	25,675	-
Closing Account reserve	14,870	(1,137)	(5,795)	9,912	25,675

This Account was established, with effect from 1 July 1999, by the Accident Insurance Act 1998.

	2004 $000	2003 $000	2002 $000	2001 $000	2000 $000
Employers' Account					
Total income	540,782	461,302	387,583	376,854	2,383
Total expenditure	271,600	224,575	173,755	117,101	5,077
Adjustment to claims liability	60,343	243,452	171,980	182,836	1,000
Surplus/(deficit)	208,839	(6,725)	41,848	76,917	(3,694)
Opening Account reserve (deficit)	108,379	115,071	73,223	(3,694)	-
Amalgamation of the Non-Compliers Fund	-	33	-	-	-
Closing Account reserve (deficit)	317,218	108,379	115,071	73,223	(3,694)

This Account was established, with effect from 1 April 2000, by the Accident Insurance Amendment Act 2000.

	2004 $000	2003 $000	2002 $000	2001 $000	2000 $000
Medical Misadventure Account					
Total income	90,707	118,405	37,004	90,280	41,116
Total expenditure	39,202	31,345	29,487	28,048	13,066
Adjustment to claims liability	82,709	81,616	(7,045)	122,023	51,000
Surplus/(deficit)	(31,204)	5,444	14,562	(59,791)	(22,950)
Opening Account reserve (deficit)	(197,735)	(203,179)	(217,741)	(157,950)	(135,000)
Closing Account reserve (deficit)	(228,939)	(197,735)	(203,179)	(217,741)	(157,950)

This Account was established, with effect from 1 April 1992, by the Accident Rehabilitation and Compensation Insurance Act 1992. No expenditure was attributed to the Account until the year ended 30 June 1994.

	2004 $000	2003 $000	2002 $000	2001 $000	2000 $000
Account reserves					
Residual Claims Account	(1,413,250)	(1,443,107)	(1,278,912)	(1,443,011)	(1,346,153)
Motor Vehicle Account	(1,556,934)	(1,776,549)	(1,436,669)	(1,270,208)	(1,201,692)
Non-Earners' Account	(958,203)	(1,122,207)	(954,996)	(1,099,201)	(945,538)
Earners' Account	449,723	180,766	128,136	67,527	62,485
Self-Employed Work Account	14,870	(1,137)	(5,795)	9,912	25,675
Employers' Account	317,218	108,379	115,071	73,223	(3,694)
Medical Misadventure Account	(228,939)	(197,735)	(203,179)	(217,741)	(157,950)
Total Account reserves	(3,375,515)	(4,251,590)	(3,636,344)	(3,879,499)	(3,566,867)
Revaluation reserve	948	44	44	44	587
Total reserves (deficit)	(3,374,567)	(4,251,546)	(3,636,300)	(3,879,455)	(3,566,280)
Represented by:					
Assets					
Bank balances	16,051	24,444	14,873	12,361	26,354
Receivables	667,516	627,145	107,626	109,866	220,747
Accrued levy income	266,926	283,525	439,027	157,948	229,387
Investments	6,175,958	4,922,780	3,628,035	3,417,450	2,824,861
Investment in subsidiaries	1,450	1,100	1,100	1,100	1,100
Property, plant and equipment	100,797	87,327	91,330	82,191	67,005
Total assets	7,228,698	5,946,321	4,281,991	3,780,916	3,369,454
Less liabilities					
Levy received in advance	346,176	313,478	121,929	89,915	83,842
Payables and accrued liabilities	909,897	729,582	295,746	429,314	458,560
Cash advances	-	-	-	-	29,332
Claims liability	9,347,192	9,154,807	7,500,616	7,141,142	6,364,000
Total liabilities	**10,603,265**	**10,197,867**	**7,918,291**	**7,660,371**	**6,935,734**
Net assets/(liabilities)	(3,374,567)	(4,251,546)	(3,636,300)	(3,879,455)	(3,566,280)

There is currently no financial reporting standard in New Zealand covering the disclosure of information in financial reports before entities adopt New Zealand equivalents to International Financial Reporting Standards (NZ IFRS). ACC has therefore provided the following disclosure based on the accounting standard (AASB 1047) issued by the Australian Accounting Standards Board in April 2004.

Managing the transition to NZ IFRS

The transition to NZ IFRS is under the control of the Chief Financial Officer who will report to the Audit Committee on progress. A project team has been set up to manage this transition.

The transition process will start with a diagnostic phase with the aim of providing a clear understanding of the important issues ACC will encounter. The next phase will be to assess the impact of NZ IFRS identifying the systems, processes and internal control changes necessary to gather all the required information.

Staff involved in preparing ACC's financial statements have started familiarising themselves with NZ IFRS and assessing the potential impact on the accounting policies currently used.

Key differences in accounting policies expected to arise from adopting NZ IFRS

Claims liability

No decision has yet been made on what changes will be needed to the accounting policies that cover the valuation of the claims liability. This is because recent developments have raised some significant issues for ACC (refer to page 18).

Financial instruments

ACC has reviewed the NZ IFRS on financial instruments and anticipates that there will be no significant changes to the accounting policies.

Computer software

ACC currently capitalises its internally generated computer software as property, plant and equipment, which is depreciated accordingly.

Under NZ IFRS, ACC's internally generated computer software could be capitalised as an intangible asset, provided it meets the recognition criteria. These assets will be subject to an annual impairment test (testing for any change in the asset's replacement cost).

Revaluation of property, plant and equipment

Asset valuation increments (increases) and decrements (decreases) must be accounted on an individual basis, rather than by class. This has the potential to result in revaluation expenses, as individual asset revaluation movements can no longer be offset against other revaluation movements within that class.

Income tax

A balance sheet approach will be adopted under which temporary differences are identified for each asset and liability rather than accounting for the effects of timing and permanent differences between taxable income and accounting profit.

GLOSSARY AND CONTACT NUMBERS

This glossary is a guide only. Some of these terms are complex and have fuller definitions in our legislation.

Accident	An event that causes a person to be injured, or in different circumstances might have caused a person to be injured.
Age Concern New Zealand	A not-for-profit, charitable organisation, dedicated to promoting the quality of life and wellbeing of older people.
Baldrige principles	Used internationally to measure and improve business performance based on what is commonly found in high-performing companies.
Benchmarking	To improve one's own performance by measuring it against competitors' performance according to specified standards.
Capitalisation	A claimant being able to receive future payments as one, or a series of, lump sums.
Claimant	The injured person who receives rehabilitation and compensation from ACC.
Drink-check tool	A questionnaire that screens for risky or binge drinking and provides options to help.
Endorsed Provider Network	The network is made up of providers who meet externally audited quality-based standards. They include doctors, physiotherapists and radiologists. A claimant who uses an endorsed provider won't have to contribute towards treatment costs.
Entitlements	All the services ACC can provide to an injured person to assist their recovery.
e-transactions	Payments or other transactions between ACC and our customers or partners that are done electronically.
Family Start	An early intervention service aimed at helping New Zealand's most at-risk families.
Fono	A forum for discussion for Pacific peoples. (see *hui*)
Fully funded scheme	Levies are set at a rate that not only covers the cost of claims in the current year for persons injured in the current year, but also covers the estimated total cost of claims which will be paid in future years for those injuries.
Graduated driver licensing	The system for getting your driving licence in New Zealand.
Health Research Council	The major Government funder of biomedical, public health, health services, Māori health and Pacific health research in New Zealand.
Healthwise	A division of ACC, responsible for purchasing and managing contracts for healthcare on behalf of ACC.
Hui	A forum for discussion for Māori.
Incapacity	A person is unable to return to work because of a personal injury.
Impairment	A loss, or loss of use, of any body part or organ function.
Individual rehabilitation plan (IRP)	The key management and planning document for case management. It collects information, sets goals and establishes plans of action for treatment and for social and vocational rehabilitation.
Independence allowance	A weekly non-taxable allowance to help offset the additional costs associated with living with a disability or *impairment*.
Liable earnings	Earnings that a self-employed person has made in a financial year and declared on their end of year tax return. It is also the wages/salaries that an employer has paid out to their staff.
Lump sum compensation	A one off, non-taxable payment to compensate for permanent impairment resulting from an injury covering injuries occurring on or after 1 April 2002.
Mental injury	A clinically significant behavioural, cognitive or psychological dysfunction.
Plunket Society	The major provider of well child health services in New Zealand. Plunket's role is to support the health and wellbeing of families/whanau and young children.
Rehabilitation	A series of interventions (for example, physiotherapy) that aim to return the claimant as close as is practicable to their pre-injury state.

Royal Commission	The commission led by Sir Owen Woodhouse whose recommendations in 1967 led to ACC opening our doors seven years later.
Safe2Go	ACC's programme for training parents in using car seats.
Social rehabilitation	All the rehabilitation unrelated to the claimant's return to work, for example being helped by a nurse, or childcare.
SportSmart	ACC's 10-point action plan for preventing sports injuries.
Stop Bus	ACC's contract with the New Zealand Police for compulsory breath testing and anti-drink-driving advertising.
StoreSafe	Our health and safety passport for employers who visit grocery stores or supermarkets.
Street Talk	A course that teaches drivers a programme to turn negative driving experiences (speeding, etc) into positive ones through learning new safety skills.
The 5 Drivers	The key drivers for our business. We keep our Business Plan around them.
ThinkSafe	Umbrella brand for ACC's injury prevention initiatives, which include FarmSafe and RiverSafe.
Treatment	The management and care of a patient (including diagnosis) to combat disease or disorder. It relates to first aid, or medical, surgical or dental care.
Treatment provider	For example, a nurse, occupational therapist, optometrist, physiotherapist, registered medical practitioner, or speech therapist.
Vocationally independent	An injured person who has the ability following rehabilitation to get a job.
Vocational Medical Assessors	They assess an injured claimant's suitability to return to work, including alternate employment if they are unable to return to their old job.
Vocational Rehabilitation	ACC helps a claimant to maintain employment, obtain employment, or maintain or obtain vocational independence (able to get a job after an injury).

website: www.acc.co.nz

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- *Self-employed levies*
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  xxxxxxxx@xxx.xx.nz
  Freefax: 0800 222 003
- *For agents' and financial advisors' queries*
  0800 222 991
  Freefax: 0800 222 003
- *To contact the Office of the Complaints Investigator*
  0800 650 222
  xxxxxxxxxx@xxx.xx.nz
  Fax: (04) 918 7580
  (09) 915 8317
- *Medical Misadventure*
  0800 735 566
  Fax: (04) 918 7672
- *Sensitive Claims*
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  Fax: (04) 918 7577
- *Preventing fraud*
  0800 372 830
- *Claims*
  0800 101 996