Statement of Intent

July 2013 - June 2016

EQC

EARTHQUAKE COMMISSION

Kōmihana Rūwhenua

Authority, period covered and copyright

This statement is submitted by the Board of the Earthquake Commission in accordance with the Crown Entities Act 2004. It sets out the Board's overall intentions and objectives for the Commission to 30 June 2014 and the two succeeding financial years, as required by the Act.

Chairman

Board member

Presented to the House of Representatives pursuant to Section 149 of the Crown Entities Act 2004.

Date: 30 June 2013

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1. Foreword

This Statement of Intent (SOI) builds upon the 2012 SOI which contained a new set of demanding performance standards, explicit and measurable, for the Earthquake Commission (EQC).

The 2010-2011 Canterbury earthquakes have resulted in the largest insurance claims, by number and amount, in New Zealand's history, and the largest concentration of construction projects the country has ever seen. This is the fourth largest insured claims programme in world history.

The estimated claims costs, for the Canterbury earthquakes, are $12.2 billion.

By 1 July 2013, the beginning of the financial year covered by this SOI, EQC will have paid out $5.6 billion for building, land and contents claims for Canterbury, completed 40,000 full home repairs, settled 50,000 dwelling claims by cash payment carried out 47391 emergency repairs, and installed 19,000 primary heating devices.

Under the commitment made in this SOI, all dwelling claims in Canterbury will be settled by the end of 2015, all houses with damage costing over $50,000 will be repaired by the end of 2013 and all land claims will be settled by 2015. That is a considerable achievement, but we need to go even faster.

This is important to both the well-being of the people of Canterbury - repairing their damaged property, re-establishing their lives and rebuilding their communities - and achieving the Government's objectives for the recovery from New Zealand's greatest natural disaster.

Early in the new financial year we will give the Government options for moving more quickly, and the trade-offs which that may entail. In the meantime, this SOI sets the minimum standards which we will achieve. All of us want to do even better.

Michael Wintringham

Chairman

2. EQC at a glance

This Statement of Intent describes:

- our strategic direction including details of what we aim to achieve; and
- how we will respond to our statutory obligations, the expectations of stakeholders, and external influences.

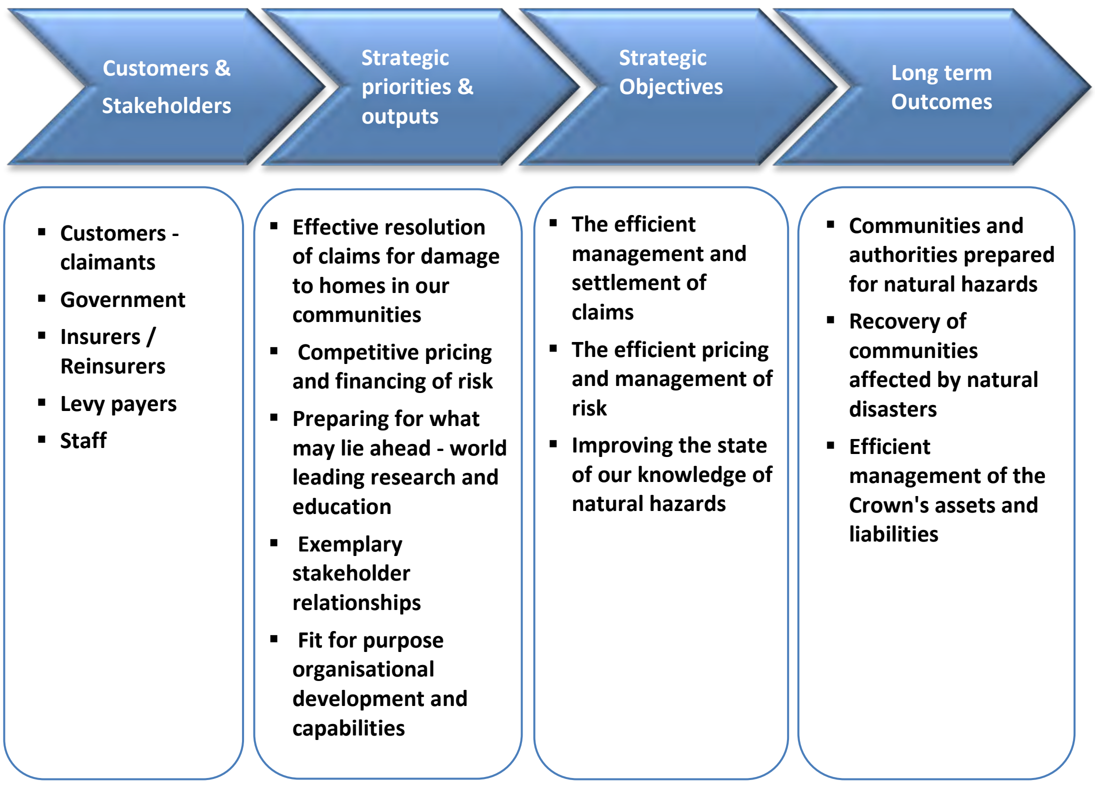
EQC is a Crown entity with statutory functions set out in Section 5 of the Earthquake Commission Act 1993 (the Act). The functions are:

a) to administer the insurance against natural disaster damage provided under the Act;
b) to collect premiums payable for the insurance provided under the Act;
c) to administer the Fund and, so far as is reasonably practicable, protect its value, including by the investment of money held in the Fund;
d) to obtain reinsurance in respect of the whole or part of the insurance provided under the Act;
e) to facilitate research and education about matters relevant to natural disaster damage, methods of reducing or preventing natural disaster damage, and the insurance provided under the Act
f) such other functions as may be conferred on it by:
   i. the Act or any other Act; or
   ii. the Minister, in accordance with Section 112 of the Crown Entities Act 2004.

These functions contribute to New Zealand effectively managing the risk from natural disasters. Currently, our work is focused on settling Canterbury earthquakes claims, ensuring adequate reinsurance and working with an extensive range of people and organisations to improve the management of natural hazard risks in New Zealand.

Figure 1 provides a snapshot of the main components of our services and strategic direction for 2013-2016.

Figure 1: Snapshot of EQC's Services and Strategic Direction



3. What drives us - managing in a changeable operating environment

This section describes:

- how our external operating environment affects our strategic direction
- customers and stakeholder expectations and priorities
- how we respond to change.

3.1 Our unpredictable operating environment

The main influences in our operating environment that affect what we do and our strategic direction are:

- accelerating the settlement of claims from the Canterbury earthquakes of 2010 and 2011
- responding to natural disaster events nationwide at short notice
- improving New Zealand's hazard risk management
- natural disasters off-shore and their impact on New Zealand obtaining adequate reinsurance
- the Government's expectation of better public services for New Zealanders.

3.1.1 The Recovery from the Canterbury Earthquakes

The 2010-2011 Canterbury earthquakes have resulted in the largest insurance claims project in New Zealand's history and the fourth largest ever globally. The scale and type of damage from multiple earthquakes coupled with the prospect of a large volume of complex claims and repair programme resulted in EQC establishing very different operational arrangements to those used in the past (e.g. just settling all claims in cash). In response to these circumstances, EQC has opted to settle many claims through a managed repair programme - the Canterbury Home Repair Programme (CHRP). Key considerations in establishing a contract with Fletcher Construction for a significant proportion of the residential repairs were to:

- provide claimants with certainty that their property would be repaired to an acceptable standard and as quickly as possible
- protect claimants from the prospect of repair cost inflation from limited access to repair resources
- ensure equity between claimants; and
- protect the value of the city-wide housing stock.

Settling claims as soon as we can is important for the well-being of the people of Canterbury and the recovery of their communities.

The Government has also expanded EQC's leadership and coordination role in relation to the claims programme in Canterbury. Consequently EQC's role now includes:

- project managing the contract with Fletcher Construction
- providing engineering advice to the Government. The work done by our geotechnical engineers for our claims requirements has been used for much wider policy purposes.
- a social assistance component to our response through activities such as:
    - identifying of vulnerable households and those seeking temporary accommodation
    - a Crown-funded temporary expansion of our urgent repair approach, to include the uninsured
    - the Winter Heat Programme and insulation initiatives.

3.1.2 Insurers and the Natural Disaster Fund (NDF)

In addition to CHRP and our expanded role, a Court ruling has redefined the reinstatement of EQC cover. This has resulted in EQC having to develop an apportionment methodology to allow liability to be determined between EQC and insurers.

The Earthquake Commission Act 1993 (the Act) requires EQC to administer and, so far as is reasonably practicable, protect the value of the

NDF. To fund claims from recent natural disasters (particularly the Canterbury earthquakes) the sell-down of EQC's NDF equity portfolio was completed in 2012. A return to equity investments is not forecast to resume within the life of this SOI. In the medium term, EQC will therefore maintain sufficient capacity (NDF assets and reinsurance) to meet the obligations on EQC that arise from a natural disaster. The future funding of natural disaster claims may require funding from the government and reinsurers.

3.1.3 Responding to natural hazards nationwide

EQC must also maintain an ability to respond to natural disasters of different magnitude throughout New Zealand. Leveraging our experience with (for example) the Canterbury and Opunake earthquakes and significant landslips in Nelson, is helping us to develop an organisation that can be rapidly scaled at short notice.

3.1.4 Improving New Zealand's natural hazard risk management

No single group or organisation can alone improve every aspect of New Zealand's hazard risk management. Improved hazard risk management includes continuously improving:

- governance and direction from central government and those with the statutory responsibility for managing natural hazard risks, for example local authorities
- hazard research, education and the transfer and adoption of research outputs into professional practices across disciplines including urban planning, engineering, construction, asset management and risk financing
- improving building and land-use standards and compliance. These improvements are driving us to enhance our education, research and collaborative work with stakeholders to support - for example improved hazard risk management policies, practices and regulations. EQC provides information and advice that informs improvements in these areas.

3.1.5 Obtaining adequate reinsurance

Large scale natural disasters elsewhere in the world can affect EQC's ability to secure sufficient reinsurance at an acceptable price. In recent years, a concentration of large-scale natural disasters, including earthquakes in Chile, Japan and New Zealand, and flooding in Thailand and Australia, have impacted on reinsurance markets. These events have increased uncertainty around the pricing of risk. Already, reinsurance contracts have been reduced from three years to one year.

Maintaining the confidence of insurers / reinsurers is therefore crucial to obtaining adequate EQC reinsurance. We are:

- investing in expanding our knowledge and information on risk and portrayal of earthquake hazards
- continuously improving the transparency of claims assessment, apportionment and settlement.

3.1.6 Review of the Earthquake Commission Act 1993

The Canterbury earthquakes have resulted in types of damage and claims (e.g. multi-level dwellings, shared land) that were not contemplated by the Act. Therefore the Act, including EQC's statutory functions, is being reviewed by the Government. The high level objectives of the review are to:

- support the contribution of a well-functioning insurance industry to economic growth opportunities in New Zealand
- manage the fiscal risk to the Crown
- minimise the potential for property owners to experience socially unacceptable distress and loss in the event of a natural disaster
- support an effective approach to overall management of natural disaster risk and recovery.

EQC's contribution to the review includes providing information and advice from our experience over the past 20 years to inform improvements in the Act.

3.2 Customers and stakeholders

3.2.1 Customers

CLAIMANTS

EQC's customers have suffered loss as a result of an unpredictable natural disaster. The resulting emotional, physical and financial trauma often disrupts the lives of individuals, families and communities. When this happens the settling of claims for loss or damage quickly and with certainty is important to their recovery, in particular:

- informative, accurate and timely information relating to the lodgement, assessment and settlement of claims
- timely resolution of claims
- consistent and fair resolution of claims.

REINSURERS

Through reinsurance, EQC obtains cover to meet the cost of natural disaster claims. Particularly important to New Zealand obtaining adequate reinsurance is:

- good faith in the portrayal of New Zealand risks including residential housing in relation to earthquake hazards and the provisions of the Act
- the transparency in the reporting, assessment, apportionment and settlement of claims
- consistent and timely information relevant to the underwriting of risks and the reporting of losses.

To reinforce this focus on customers and obtaining adequate reinsurance we have three strategic priorities (see also section 4.2) that guide the delivery of our services:

- the effective resolution of claims for damage to our homes in our communities
- the competitive pricing and financing of risk
- world leading research and education on natural hazards

3.2.2 Stakeholders

THE GOVERNMENT

The Government has outlined four priorities for 2013-16:

- returning to surplus in 2015
- building a more competitive and productive economy
- delivering better public services to New Zealanders
- the recovery of communities affected by natural disasters - the rebuilding Christchurch.

In addition, on 26 July 2012 the Government issued an Enduring Letter of Expectations to Crown entities that set out expectations of all statutory Crown entities, in particular:

- a more focused, efficient and productive state sector that delivers services differently and more cost effectively
- informative and accurate financial and non-financial performance information that will enable Crown entities to demonstrate value for money
- high quality performance information to enable Ministers to make more informed decisions.

As a natural disaster insurer, the liability for natural disaster claims is a significant item in the Government's accounts. This liability can impact on the Government's financial forecasts and its ability to achieve its priorities. We therefore work closely with Treasury to ensure that risks to financial forecasts are quantified and incorporated in to the Government's accounts.

EQC's contribution to managing these risks lies in:

- maintaining the confidence of insurers through continuous improvement and risk management of our claims settlement services
- supporting improvements in, how New Zealand responds to natural disaster hazards.

Success here also contributes to increased certainty in the Government's financial forecasting of its liability.

As a research funder, we have an opportunity to provide leadership and expertise in integrated disaster risk management. Therefore our contribution to better public services includes:

- supporting effective cross government collaboration and coordination
- expanding our contribution to natural disaster policy development
- continuously improving the efficiency and effectiveness of services - for example, using modern technology and developing the capability of our people.

MINISTER

The Minister Responsible for the Earthquake Commission (our Minister) expects EQC to continue to operate under the Enduring Letter of Expectations. In particular, our Minister expects EQC to:

- identify and report risks to EQC's claims liability and their impact on the Government's accounts and forecasts
- continuously improve overall EQC performance, clams settlement and dispute resolution
- continue to expand the monitoring and reporting of business performance including demonstrating - active risk management, value for money and meeting targets
- provide regular reports on EQC's performance
- Continue to engage positively and constructively with insurers and stakeholders in the Canterbury rebuild.

In addition to the Government's expectations for Crown entities, goals and priorities, the following Ministerial Directions influence the scope of what we do:

- effective 1 November 2001 - requirements for how EQC should invest and manage the Natural Disaster Fund (NDF), and when EQC should consult with the Minister of Finance

  This allowed the Commission to diversify the investment of NDF to include (up to certain limits) New Zealand Government securities, global equities and New Zealand bank bills.
- effective 14 December 2010 giving EQC additional functions in relation to additional land remediation activities to certain parts of Christchurch and Waimakariri districts

  This enabled EQC to: investigate options to remediate certain land in these areas to a higher standard than the statutory minimum; prepare a Concept Design Report for land remediation works in "Zone C" land; and carry out work to mitigate lateral spread in Spencerville.
- effective 18 April 2011 - giving EQC additional functions in relation to entering into and carrying out its roles under a Memorandum of Understanding (MoU) with the Waimakariri District Council relating to certain additional land remediation works in the district. A temporary direction to carry out emergency repairs on uninsured properties was also made.

3.3 Our response to change

As our operating environment inevitably changes, we will need to adjust our operations while at the same time, continue to provide certainty to our customers and stakeholders. To ensure we are able to do this we have:

- increased our focus on effective and timely business performance monitoring, planning and reporting
- improving our ability to scale our business at short notice
- focused our change programme on achieving our strategic priorities through:
  - continuous improvement through Business Process Management
  - delivering change through strategic projects as part of an organisation wide project portfolio management approach
  - improving EQC's change management.

4. Strategic direction

This section explains:

- how our strategy fits together and what we aim to achieve
- our services and their intended impacts ("key results")
- how EQC maintains its focus on customers
- monitoring and reporting performance.

Our strategy map (Figure 2) details the various components of our strategic direction.

4.1 What we aim to achieve

4.1.1 Strategic direction

EQC's strategic direction focuses on achieving the following long-term outcomes for New Zealand the:

- recovery of communities affected by natural disasters
- efficient management of the Crown's assets and liabilities
- communities prepared for natural hazards.

To progress these outcomes we focus our business on achieving three strategic objectives:

1) the efficient management and settlement of natural disaster damage claims
2) the efficient pricing and financing of risk. The Act requires EQC to administer and protect the value of the Natural Disaster Fund (NDF). To fund claims from recent natural disasters (particularly the Canterbury earthquakes) the sell-down of EQC's NDF equity portfolio was completed in 2012. A return to equity investments is not forecast to resume within the life of this SOI. In the medium term, EQC will maintain sufficient capacity (NDF assets and reinsurance) to meet the obligations on EQC that arise from a natural disaster. The future funding of natural disaster claims may require funding from by the government and reinsurers.
3) Improving the state of knowledge about New Zealand's natural hazards. This contributes to the resilience of communities to natural disaster and enables insurers to price New Zealand's natural hazard risks with greater certainty. Therefore EQC funds:
   - research that informs the development of public policy, building standards, land use, resource management and zoning
   - programmes to raise public awareness of preparing for and mitigating the impact of a natural disaster in the home.

4.1.2 Our focus for the next 1-2 years

In line with these outcomes, objectives and priorities EQC's main focus for at least the next 1-2 years will be:

- **Canterbury claims:** efficiently, effectively and as quickly as possible settle Canterbury earthquake claims. Key targets here are:

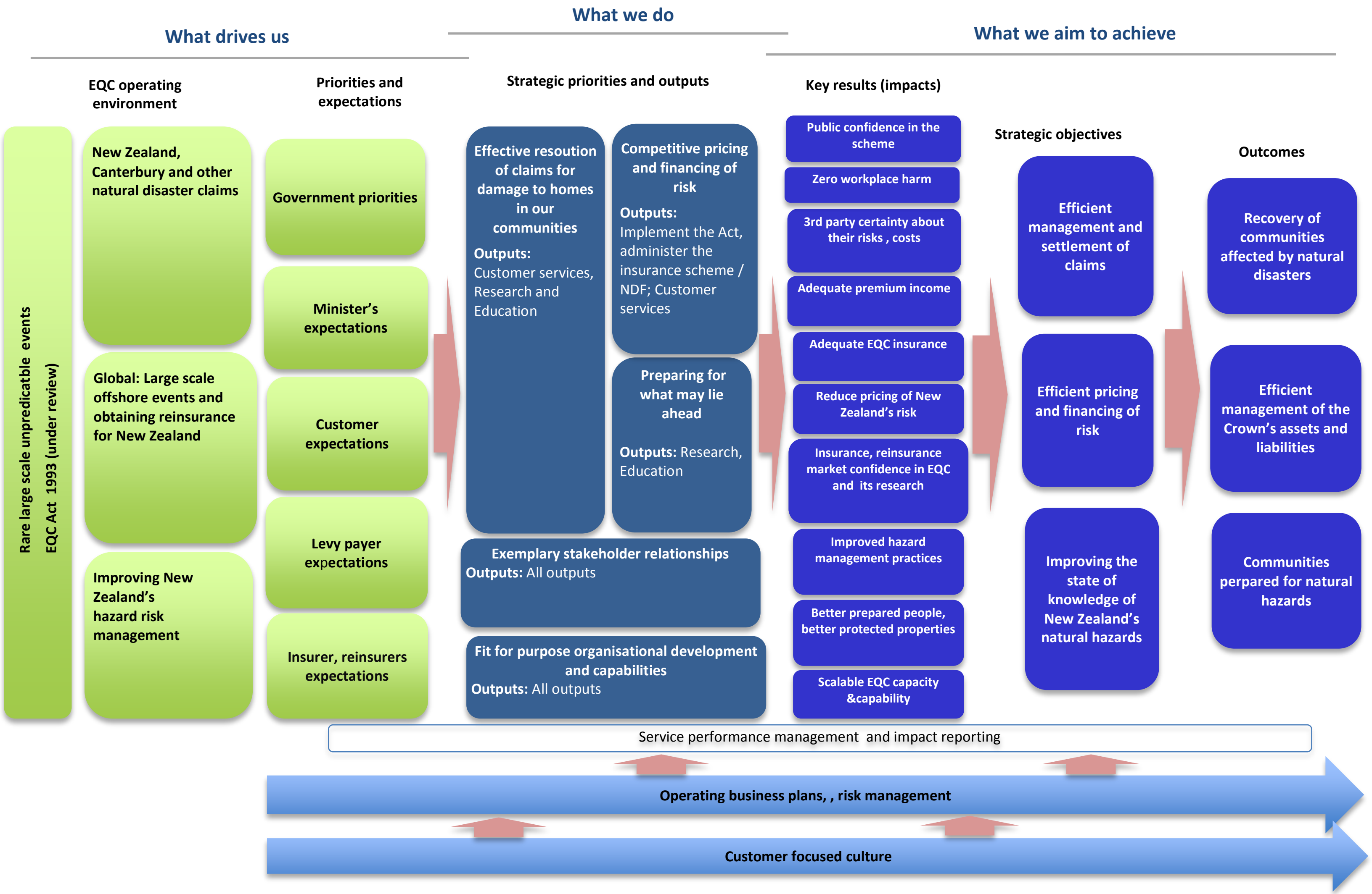
  (a) resolving CHRP repairs for damage over $50,000 by December 2013 and, all other CHRP repairs by the end of 2015.

  (b) resolving all other dwelling claims (under $15,000 damage, and in excess of the maximum EQC entitlement) by the end of 2014

  (c) resolving all Land damage claims by the end of 2014

  (d) resolving all Contents claims by the end of 2013.

Figure 2: EQC Strategy Map



(e) working with a range of agencies involved in the rebuild effort (for example CERA, Territorial and Local Authorities, the Ministry of Social Development, the Ministry of Business, Innovation and Employment the Canterbury Earthquake Temporary Accommodation Service (CETAS), the Ministry of Civil Defence and Emergency Management, and the Treasury)

- **Government:** working with the Government to ensure that its liability for claims is well managed and providing certainty on claims risks and costs. Both contribute to the efficient pricing and financing of risk by reinsurers and the Government accurately forecasting its future claims liability

- **Insurers:** correctly apportioning the liability for damage to insurers

- **Reinsurance:** maintaining reinsurer's confidence in New Zealand's ability to manage natural disaster risks and claims

- **Performance reporting:** expanding the measurement and reporting of the impacts of our services and progress towards our strategic goals and outcomes. This includes:
    - developing a suite of impact and outcome measures and indicators , and
    - where necessary, enhancing our output measures to strengthen the 'measurement line of sight' from input to outcomes and our business plans (See 4.6 monitoring and reporting success for further details on expanding our measures).

4.2 What we do and with what results

4.2.1 Priorities and key results

Guiding the delivery of our services (or outputs) are five strategic priorities (SP):

1) the effective resolution of claims for damage to our homes (SP1)
2) the competitive pricing and financing of risk (SP2)
3) preparing for what my lie ahead - world class research and education (SP3)
4) exemplary stakeholder relationships (SP4)
5) fit for purpose organisational capabilities (SP5).

An important focus for our strategic priorities is the development of EQC as a connected, scalable and customer focused organisation - based on operational excellence. This is reflected in priorities SP4 and SP5 which relate to all outputs ('enabling priorities') and reinforce the development of EQC's customer focus. See 4.2.3 for details on SP4 and SP5.

'Key results' and their associated measures (under development) describe the combined intended impact of these priorities and their supporting outputs. Consequently, key results will help track progress towards our strategic goals as well as reporting value for money.

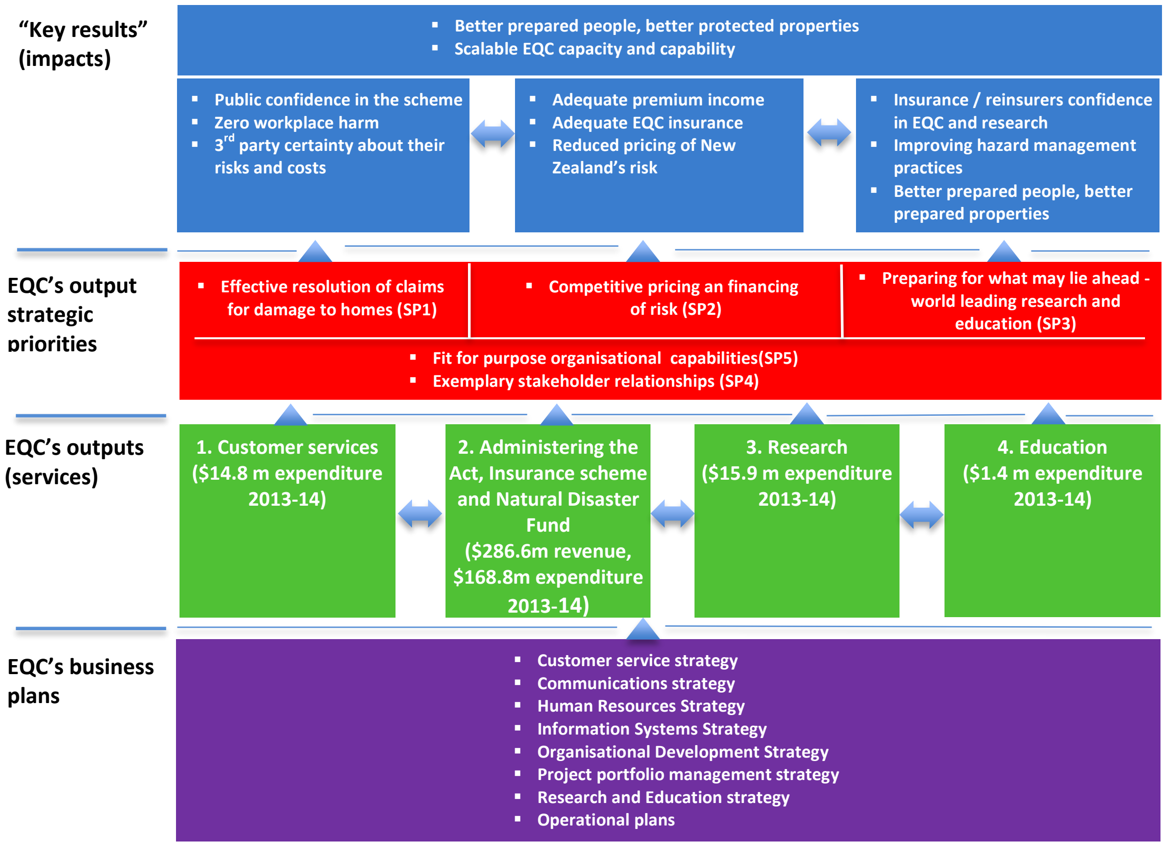
Figure 3 details how our outputs link to our strategic priorities and 'key results'. Detailed measures for our key results are currently under development.

4.2.2 Our services (outputs)

OUTPUT 1: Customer Services - managing claims

This output covers the efficient and effective handling of claims arising from a natural disaster and includes claims lodgement, assessment, settlement calculation and resolution (resolution includes reinstatement or cash settlement).

Figure 3: EQC key results, strategic priorities (SP) and outputs



The efficient and effective handling of claims contributes to:

- claimant and public confidence in the natural disaster insurance scheme and its administration
- increased certainty of reinsurance costs, risks and pricing (Strategic Objective 2)
- reinsurer confidence in EQC.

OUTPUT 2: Administering the Act, Insurance Scheme and Natural Disaster Fund (NDF):

Output 2 includes the natural disaster insurance that covers residential land, buildings and personal property damaged as a result of a natural disaster. Through premium payments, sound investment strategies and reinsurance, EQC obtains the pool of funds available to cover its liabilities arising from natural disaster, damage or loss. Both contribute to minimising the fiscal risk to the Crown associated with private property damage in natural disasters.

Particularly important to this output is:

- improved forecasting, monitoring and compliance of premium income
- the strengthening of relationships with reinsurers
- obtaining reinsurance cover at an affordable price.

The strategic priority guiding this output is the competitive pricing and financing of risk (SP2). Work programmes supporting this priority include reinsurance renewal and maintaining the confidence of the reinsurance market, premium income funds management and loss modelling.

OUTPUT 3: Research

A key statutory function for EQC is facilitating research and education on (for example) methods of reducing or preventing damage. The Christchurch earthquakes underline the need for New Zealand to have integrated disaster risk management. There are, however, opportunities to improve New Zealand's:

- integrated disaster risk management practice
- levels of awareness, understanding and sustained action by agencies, professionals and communities.

To prepare for what may lie ahead (strategic priority 3), support improvements in the state of knowledge about New Zealand's natural hazards (strategic objective 3) and insurers gaining greater certainty in their pricing of New Zealand risk (strategic objective 2), EQC funds a range of research such as:

- support for GeoNet - the national geohazard monitoring system
- expanding our knowledge of New Zealand's geological hazards and risks
- building science and practice capability
- facilitating partnerships and the sharing of knowledge and practices between those involved in managing New Zealand's geological risks.

OUTPUT 4: Education

EQC's education activities aim to:

- increase public awareness of the risk of natural hazards to residential property; and
- encourage people to take practical steps to make their homes safer from natural hazards.

Along with Output 3 (Research), education contributes to reducing the impact of disasters on people's lives, limiting the insurance liability and reducing the cost of reinsurance. This output also contributes to the achievement of:

- the efficient management and settlement of claims (Strategic Objective 1)
- improving the state of knowledge about New Zealand's natural hazards (Strategic Objective 3).

4.2.3 Enabling priorities

These priorities affect the whole business and support the delivery of all outputs.

Strategic Priority 4: Exemplary stakeholder relationships

Much of our work involves coordinating and working with customers and organisations with different interests and needs. Their confidence in us often reflects our ability to establish exemplary working relationships with them.

The strength of our stakeholder relationships drives how effectively we are able to collaborate on and address both individual and common objectives - whether it is settling claims, obtaining reinsurance or advising on improved hazard management practices. We are reinforcing this through work programmes, such as:

- continuously improving our service performance measures
- promoting key customer service behaviours
- developing enduring partnerships.

Strategic Priority 5: Fit for purpose organisational capabilities

Fit for purpose organisational capability supports our ability to operate as a connected, scalable and customer-focused organisation. This means developing and maintaining our ability to:

- provide certainty to customers
- appropriately scale our response to natural disasters
- maintain productive insurers / reinsurers relationships
- provide quality legal, operational and policy advice and influence changes in hazard risk management practices
- manage change and risk.

The work programmes supporting this priority include building a customer focused culture, business wide change management, continuous improvement, strengthening information systems, developing effective leaders, best practice Human Resources and achieving zero harm in the workplace (health and safety).

4.3 Maintaining a customer focused culture

Maintaining a responsive and customer focused culture - based on accepted behaviours and clear standards of service performance - supports EQC's ability to:

- effectively and sensitively resolve claims for damage to property in a complex and demanding environment

- minimise the potential for property owners to experience socially unacceptable distress and loss from a natural disaster
- maintain overall public confidence in EQC and the insurance scheme
- deliver on our strategic priorities - particularly SP4 exemplary stakeholder relationships.

Our culture, combined with our standards of integrity and conduct, supports:

- our ability to continuously improve
- constructive interactions with stakeholders and the media
- the secure and appropriate use of our systems, processes and information
- engagement with vulnerable claimants and the speedy settlement of their claims.

By focusing on the key behaviours driving customer satisfaction, we lay the foundations for the future. Therefore as part of our Organisational Development Plan (see Section 6) we have implemented a work programme to align EQC around a common purpose and behaviours incorporating internal and external customer service.

4.4 Monitoring and reporting performance

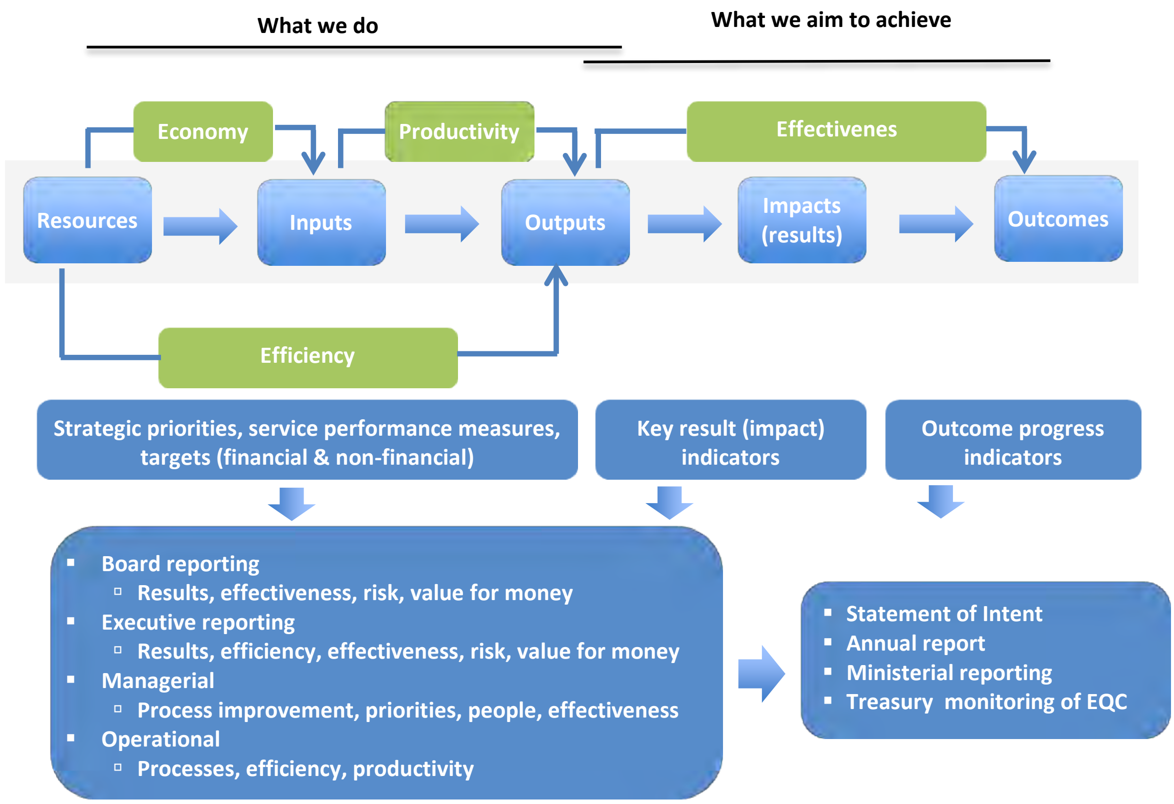
The measurement, monitoring and reporting of our performance covers:

- operating performance
- progress against our priorities, business plans effectiveness and key results
- progress towards our strategic goals.

In each of these areas, we focus on efficiency, effectiveness or value for money. The performance framework for our monitoring and reporting is shown in Figure 4. The key focus for our Executive Leadership Team and Board in monitoring performance is on:

- monitoring risk (operational, fiscal), performance and value for money
- balancing timeliness, quality and cost
- ensuring continuous improvement and the risk management of our claims settlement services
- maintaining the confidence of insurers and reinsurers
- improving our knowledge of and supporting improvements in New Zealanders' responses to natural disaster hazards.

Figure 4: EQC performance monitoring and reporting model



4.4.1 Improving our performance monitoring and reporting

In response to the Government's expectation of *"Informative and accurate financial and non-financial performance information …. demonstrating value for money"* we are enhancing our monitoring and reporting of performance. Over the coming year we will be expanding our suite of measures and indicators to strengthen our whole-of-business view of performance, in particular the monitoring and reporting of the:

- impact of our strategy on progress towards our outcomes
- impacts (key results) of all our business activities
- our service (output) performance.

This work includes expanding our ability to assess whether business activities are reinforcing each other and key results indicators for:

- public confidence in the scheme and its administration
- zero workplace harm (Safe6 programme)
- third party (insurers / reinsurers) certainty about their risks and costs
- adequate premium income
- adequate EQC reinsurance
- reduced pricing of 'New Zealand risk'
- sustained insurance / reinsurance market confidence in EQC, and use of research information
- improved hazard assessment, risk mitigation and natural disaster practices
- better prepared people, better prepared properties
- scalable EQC capacity and capability.

We expect that many of our current measures will remain and be incorporated into an expanded suite of measures.

5. Operating intentions for 2013/16

This section covers how we:

- intend to deliver our key results
- manage risks.

5.1 Key performance Areas

Figure 5 provides an overview of the main performance areas in our business plans and how they support our outputs and strategic priorities. Managing across these performance areas is an important part of:

- delivering services efficiently and effectively
- developing a scalable business, and
- balancing of timeliness (speed), quality, cost, risks and providing value for money.

Figure 5: EQC key performance areas

EQC Strategic priorities

EQC's strategic priorities & key performance areas

Effective resolution of claims for damage to homes (SP1)

Output 1:

Claims settlement

- Settlement of Canterbury earthquake claims
- Managing repair targets, budget and, in Canterbury, the costs of the CHRP with Fletcher Construction
- Safe repair or rebuild of properties (Safe6)

Customer satisfaction

- Communicating to customers EQC's intentions, activities and progress
- Coordinating with CERA, local authorities and private insurers

Competitive pricing and financing of risk (SP2)

Output 2:

Reinsurance

- Renewal of reinsurance
- Loss modelling - refining our hazard model
- Maintaining strong relationships with reinsurers

Insurance

- Working with insurers to correctly apportion claims
- Managing Premium income (EQC levy)

Preparing for what may lie ahead - research and education

Output 3:

Research

- Expanding our knowledge of natural disaster risks and their reduction
- Improving science to technical practice - informing public policy, building standards, land use, resource management

Output 4

- Sector professional development partnerships in risk assessment, planning, design and construction of the built environment
- Academic & Industry Partnerships - particularly engineering , land use planning

Exemplary stakeholder relationships (SP4) - enabling all outputs

- Stakeholder engagement and reputation management
- Maximising education / awareness opportunities
- Engaging with and supporting Ministers
- Policy and advice on preparing for and responding to natural disasters

Fit for purpose organisational capability (SP5) - enabling all outputs

- Developing leaders, talent and a work culture worth belonging to (see also Section 6 Organisational health and capability)
- Enterprise risk management (see also 5.2 Managing risks)
- Change management and continuous improvement
- Expanding of our business planning and performance reporting (see also 4.4 Monitoring and reporting performance)

a) Settlement of Canterbury claims

EQC's operating focus for Canterbury claims is:

- settling all eligible claims quickly and accurately, to standards acceptable to the public including:
  - reducing claims handling expenses
  - reducing the need to reassess claims - less re-work reduces claim handling costs and supports greater customer confidence in the claims processing. We do this by improving information flow to claimants, and by ensuring assessors are sufficiently trained in the identification of natural disaster damage
  - meeting our land settlement and assessment targets
- communicating EQC's intentions, activities and progress clearly and promptly
- managing the contract with Fletcher Construction for the repair and rebuild of Canterbury residential properties
- coordinating claims settlement and other activities with CERA, local authorities and private insurers
- balancing the various cash flow, economic and resource impacts of a large scale residential repair and rebuild programme on Christchurch, Canterbury and New Zealand.

(b) Reinsurance

Maintaining the confidence of reinsurers is crucial if EQC is to successfully negotiate adequate reinsurance cover. The confidence of reinsurers is linked to:

- the transparency, efficiency and effectiveness of claims assessment, apportionment and settlement
- our knowledge and information on natural disaster risk and portrayal of earthquake hazards.

We will therefore continue to maintain strong relationships with reinsurers and:

- work with insurers to correctly apportion claims
- expand our knowledge and information on local natural disaster risk and portrayal of earthquake and other natural disaster hazards
- educating New Zealanders on means of mitigating the risk of damage to their properties.

(c) Developing a scalable business

Any part of New Zealand could be affected by natural disasters. The unpredictability of their occurrence, magnitude and location means that EQC must maintain the capability and flexibility to scale its response so it can respond efficiently and effectively to claims. Maintaining scalable and efficient systems and processes and learning from its experiences in Canterbury will continue to be important.

(d) Continuous improvement

In response to the 2010-2011 Canterbury earthquakes, EQC has made significant changes to every aspect of its operations. We will continue our focus on embedding improved systems and processes in our business, with particular emphasis on:

- planning for the future wind-down of our involvement in Canterbury. This includes both learning from our experience in Canterbury and, strengthening our systems and processes
- development of our business planning and performance reporting capability
- implementation of our Information Technology plan
- embedding of risk management activities within all business groups and activities
- improving the consistency of risk assessment.

(e) Contributing to policy work

EQC also contributes to wider policy work on the Government's recovery plan for Canterbury, improved hazard assessment, risk mitigation and natural disaster practices, and the Treasury review of the EQC Act. This work includes:

- assessing insurance market reaction to the Canterbury events
- considering EQC's role within the market context in the aftermath of the Canterbury events
- identifying legislative and operational changes that would improve EQC's response to any future large scale event

- advice (in conjunction with the Treasury) on the on-going size, structure and investment profile of the NDF
- identifying lessons learned from EQC's response to the Canterbury events, applying them internally and sharing them with other Government entities and functions.

5.2 Managing risks

Like every business, EQC faces numerous risks. These risks have the potential to disrupt achievement of our business objectives and statutory obligations. We use risk management to make more informed and better decisions and improve the probability of achieving our strategic objectives and outcomes.

Our risk management approach applies a strong assurance focus to support governance, as well as supporting management and the Board to understand and adopt risk management, monitoring and reporting practices.

5.2.1 Policy

The principles under which our risk management policy operates include:

- the Executive Leadership Team being responsible for ensuring that appropriate frameworks are in place for the management of risks and ensure these are applied in a consistent manner
- each material risk has clear ownership, with those responsible having the skill, authority and resources to manage that risk
- the establishment of a risk management framework where our independent risk management team provides monitoring and reporting
- the development and implementation of appropriate supporting policies, systems, tools and training.

5.2.2 Governance

The Audit and Risk Committee of the Board has an important role to play in ensuring the integrity and transparency of risk management and risk reporting. It provides direction for our risk management and ensures that appropriate risk mitigation activities are functioning effectively.

This is achieved by:

- considering the robustness of activities adopted by management to mitigate key risks
- monitoring the effectiveness of risk management systems, processes and practices
- reviewing disaster management and business continuity activities
- reviewing the risk register quarterly.

5.2.3 Our approach to managing risk

Our risk management approach involves the systematic application of management policies, procedures and practices to identify, evaluate, manage and monitor risks. Figure 6 illustrates our risk management process.

Our overall approach has three lines of assurance (Table 1), these supporting the risk and assurance relationship between management and the EQC Board.

Figure 6: EQC risk management process

Table 1: Risk and Assurance Lines

Line	Who is Responsible	Responsibilities
First line	Business Unit	To provide assurance, across all areas of the business, as to the effective management of risk. Each business unit is accountable for managing risks associated with their activities.
Second line	Risk and Assurance Team	To provide advice on management of risk verification and oversight of the first line, that risks are being managed against agreed processes and controls. Provide transparent reporting on the management of risk.
Third line	Internal and External Audit	Independent review, monitoring and testing compliance with risk policies and procedures

5.2.4 How we monitor risk

With assistance from the Risk and Assurance Team, risks are reviewed on an on-going basis by business units and all critical and high risk matters are escalated as appropriate. Formal risk reviews are held with each business unit and the Executive Leadership Team on a quarterly basis, where all significant risks are reviewed, and the linkages between strategic objectives and risks are tested to ensure that focus is maintained on priority activities.

EQC's present top risks include:

- we may not deliver to our stakeholders
- our systems and infrastructure are unable to support our business needs
- our people may be unable to support our business needs
- poor management of Canterbury claims
- poor financial management
- inability to negotiate adequate or appropriate reinsurance
- we may not be prepared to respond to future major events
- our behaviours may not allow optimisation of the customer experience.

Our approach ensures that risk management continues to form a part of our everyday work and that risks are continually updated to reflect the environment in which we operate.

6. Organisational health and capability

This section details our organisation health and capability activities for developing EQC as a connected, scalable and customer-focused organisation.

The unprecedented volume and complexity of claims for damage from the Canterbury earthquakes has challenged our people, policies, processes and systems. We have responded to the largest claims programme in New Zealand's history by rapidly expanding our capacity and capability. Learning from this experience will contribute to the development of an organisation better able to rapidly respond to natural disasters.

Therefore, to ensure the EQC can deliver now and for the future, we will continue to focus on:

- practical and cost effective improvements
- retaining valuable knowledge and skills and learning from our experiences (in the absence of comparable external claims settlement programmes)
- constructive engagement with customers
- strengthening our business systems and processes for the longer term e.g. the interoperability of the insurance sector and EQC systems.

6.1 What we want to achieve

To achieve our strategic priorities, EQC requires the capacity and capability to work as a connected, scalable and customer focused organisation, one based on operational excellence. Our organisation capability development programmes strengthen our ability to ensure that we can:

- adjust our response to natural disasters efficiently, effectively and at short notice
- anticipate the likely number of customers that may eventuate and their needs
- provide secure, responsive and transparent claims services
- maintain fit-for-purpose systems and processes
- maintain a productive, flexible and safe work culture
- provide knowledge and expertise in reinsurance and disaster response.

Individually and in combination, our organisation development, health and safety programmes, Information technology, change management systems, human resources and the risk management programmes that contribute to ensuring that EQC is a strong and capable organisation.

6.1.1 Organisational development (OD)

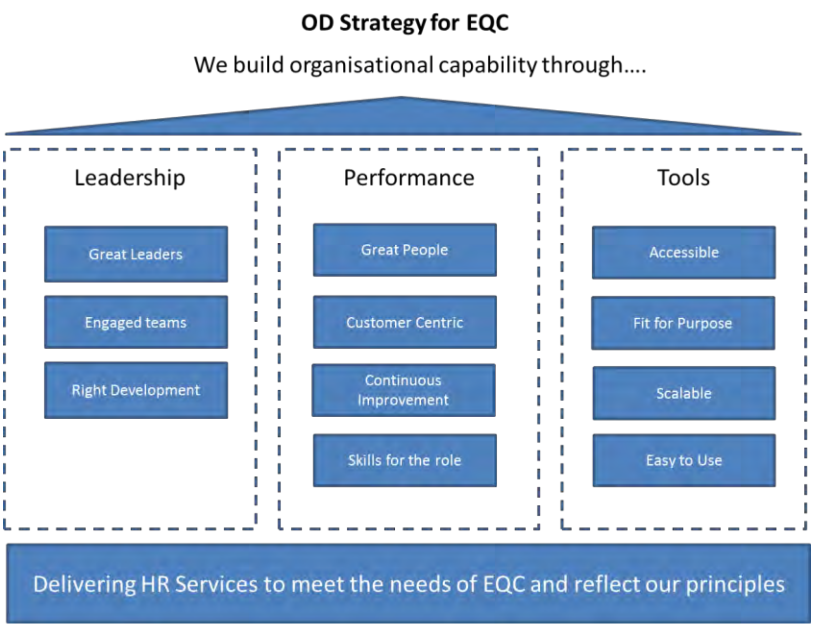
Our OD strategy underpins all our strategic priorities and service performance. Supporting the OD strategy is the organisation's fit-for-purpose Human Resources (HR) services. For an overview of our OD strategy see Figure 7 p.23.

6.1.2 Information systems (IS)

Our IS Strategy sets out the plans and programmes required to ensure EQC can effectively and efficiently operate today, address our core functions and strategic priorities, and can prepare for what may lie ahead. The principles that drive the IS Strategy are:

- Any place, any time - accessing core systems remotely
- elastic capability - scalable systems that enable a quick response to an event
- no paper - where possible capture data electronically at source to enable ease of reporting, storage and retrieval
- leverage Government - using government shared solutions and infrastructure
- IT industry standard - choosing products and suppliers that are commonly used, enabling systems scaling, EQC and insurer interoperability.

Figure 7: EQC Organisational Development Strategy



6.1.3 Change governance and continuous improvement

Our Project Portfolio Management (PPM) business group facilitates and strengthens change management and continuous business improvement across EQC. The benefits include enhanced project management capabilities, consistency addressing change and continuous improvement and reinforcing our focus on meeting our strategic priorities. A key role for PPM is facilitating:

- whole of organisation view of change and continuous improvement
- executive level prioritisation and approval for what activities continue, cease or commence
- benefits realisation
- the effective integration of change within the business.

Prioritisation of activity within the PPM Business group has focused on:

- the efficient management and settlement of claims
- the efficient pricing and financing of risk
- improving knowledge of New Zealand's natural hazards
- stakeholder expectations
- legislative responsibility
- scalable organisation resources.

6.2 Organisational health and capability programmes

Table 2 provides an overview of key organisational health and capability work programmes.

Table 2: Key Organisational Health and Capability Programmes

Organisational development	
Objective	**Key programmes**
Leadership Develop strong and effective leaders	▪ developing a leadership framework and competencies ▪ introducing performance feedback initiatives

Organisational development	
Objective	**Key programmes**
	such as 360 degree feedback for leaders ▪ ensuring all managers have a professional development plan ▪ introducing mentoring and coaching for success or managing improved performance frameworks ▪ identifying training and professional development options around leadership competencies ▪ including leadership performance measures for all managers in their performance agreements
Health and safety Safe 6 programme - achieve "zero harm" in the workplace	▪ Providing training to all managers on their responsibilities under the Health and Safety in Employment Act 1992 ▪ Providing training to members of the Health and Safety Committee ▪ Developing standard operating procedures for field staff ▪ Evaluating the health and safety policies and procedures of third party providers ▪ Developing and setting key performance indicators for managers, staff, and contractors
Performance and culture Create a culture where high performance and great customer service is the norm	▪ Building on our people capability, processes and frameworks, to enhance the customer experience ▪ Providing our people with the skills and tools needed to do their job ▪ Supporting people with career planning tools and techniques
HR tools Develop services to ensure that responses to business priorities and context is provided in a positive, value added and fit for purpose way	▪ Ensuring that information, such as policies, is accessible for staff and that they know what is expected from them ▪ Implementing an HR Information system that is scaleable, and able to respond to rapid growth and reduction and provide meaningful reporting. ▪ Improving our frameworks to ensure that they meet business needs and are easy to use ▪ Implementing an online Manager Toolkit to ensure that key organisational policies and procedures are easily accessible ▪ Developing a robust individual performance management system where objectives and behaviours link to the strategic direction of EQC and salary progression is tied to performance

Information systems	
Objective	**Key programmes**
Customer Services	▪ ClaimCenter (CMS) application reorganisation ▪ Interoperability between the CMS and other sources and systems ▪ Enhancement of our disaster recovery systems
Research and Education Enhance EQC's ability to predict loss / damage across multiple and differing events	▪ Expand access of Minerva to multiple EQC business units
EQC support Strengthen existing support systems	▪ Finance system upgrade ▪ Data warehouse - proof of concept
Infrastructure Continuously improve the efficiency of existing infrastructure	▪ Wide and local area network development

7. Forecast Statement of Service Performance

This section details our service performance measures.

As we continuously improve our performance measures (See also Section 4.5 Measuring our success), we are combining, modifying or superseding our measures so that they better reflect our performance. In the service performance tables that follow, we have indicated where measures have been:

- improved e.g. by rewording or new measures developed; and / or
- corrected - for a small number of errors in the 2012-13 targets. These errors were not significant to overall performance.

In March and April 2013 EQC's information technology systems were shut down following privacy breaches. The shutdown of EQC's systems is expected to affect planned activities, progress and reporting for a few performance measures. At the time of writing we anticipate the following impact:

- short term targets (for Canterbury claims) relating to apportionment and, progress of the under $15,000 claims can no longer be achieved
- for the Canterbury Home Repair Programme (CHRP), our original target of completion by 2015 remains.

Our forecast output service performance for 2012-13 is reported as the expected end of year position for the 2012-13 targets. The forecast takes into account the actual cumulative performance to 31 March 2013 (Quarter 3). Forecast performance for each measure is described as being:

- on track to meet the target
- target met
- target exceeded; and
- not currently on track.

We will report full year, ***actual*** service performance in our 2012-2013 Annual Report.

The full year reporting period for service performance measures is 1 July 2012 to 30 June 2013.

7.1 Output 1: Customer Services (claims handling, Catastrophe, Response Programme)

The number of claims handled by EQC can vary dramatically, from a few thousand to hundreds of thousands following catastrophes like the Canterbury earthquakes. The rate of settlement of claims following a natural disaster event reflects the resources that can be marshalled to assess and handle the claims, the nature of the event and the complexities of each claim's assessment, apportionment and settlement.

The customer service experience with EQC is almost entirely related to claims handling. This involves:

- lodgement - receiving and validating a claim from the owner of damaged residential property
- assessment - quantifying loss
- apportionment of claims between EQC and insurers
- settlement
- resolution - settlement (by payment, replacement, relocation or reinstatement) and closure.

Our claims handling focus is:

- providing customers with the necessary information and tools to enable them to lodge claims with EQC within the statutory period
- assessing and resolving claims within a timeframe and to standards of fairness acceptable to the Government, public and reinsurers, and in accordance with the Act
- improving customer satisfaction for the service delivered
- delivering the CHRP quickly, safely, properly and at best possible price.

The costs of the Canterbury earthquakes have already been accounted for in EQC's liability for this event. We have forecast a total reduction in claims liability plus claims handlings expenses of $3.15bn for the 2014 fiscal year as a result of the Canterbury earthquakes. Consequently Output 1 has a budgeted expenditure of $14.8

million for EQC's operating costs - not claims costs.

OUTPUT 1.1 MEASURES: QUANTITY

MEASURES			TARGET	ACTUAL AS AT 31 MARCH 2013	TARGET	
			2012-13	2012-13	2013-14	2014-15
Claims Settlement, repairs and costs						
Lodgement	Lodgement of claims after 90 day deadline		<1%	On track	<1%	<1%
Assessment	For events with fewer than 10,000 claims, loss is quantified within 90 days of claim lodged with EQC		90%	On track	92%	95%
	For events with an estimated 10,000-100,000 claims, and initial assessment of the loss is quantified within 180 days of the claim being lodged with EQC		90%	No new events	92%	95%
	For events estimated to result in over 100,000 claims, loss is quantified within 270 days of claim lodgement		90%	No new events	92%	95%
Resolution (resolution means that EQC has determined its settlement position and has either paid the customer the full settlement amount or, has completed the repairs)	**Non-Canterbury claims**	Claims are settled within one year of quantification of loss	100%	On track	100%	100%
	Canterbury Claims	Urgent repairs completed within 10 days of validation[1] by EQC	95%	On track	95%	95%
		CHRP repairs resolved costing more than $50,000 [2]	100%	Not currently on track	100% by Dec. 2013	
		New measure: Proportion of dwelling claims resolved for claims greater than $50,000 and less than maximum entitlement		50%	95%	100%
		Proportion of contents claims resolved	100%	On track	-	-
		Proportion of all dwelling claims resolved	40%	Target exceeded	65%	90%
		New measure: Proportion of all dwelling claims resolved by cash payment and through the managed repair programme		50%	85%	100%
		Proportion of land claims resolved	90%	Not currently on track[3]	75%	100%

[1] Excludes insurer verification.

[2]. Homes in this category are expected to be settled by the end of December 2013. For future years a new measure will be included to cover those cases where EQC is managing the repair and therefore directly reflect EQC's performance.

[3] To ensure all legal and technical considerations are properly addressed we expect that all land claims will be assessed by December 2013 and resolved by December 2014.

OUTPUT 1.2 MEASURES: QUALITY

MEASURES (For the reporting period)		TARGET 2012-13	ACTUAL AS AT 31 MARCH 3013 2012-13	TARGET 2013-14	TARGET 2014-15
Lodgement	Claims validated within 10 days of receipt of the first notice of loss.	85%	Data unavailable	90%	92%
	Rate of accepted claims declared by EQC as invalid	15%	Data unavailable	12%	10%
Assessment	Reassessment arising from customer dispute where variance is found to be greater than 10 per cent	15%	Data unavailable	15%	15%
	Average Variance between EQC's "Assessed[4.] Claim Value" and quoted repair/replacement costs. (Deleted measure for 2013-2016. Replaced by the 3 new assessment measures below that allow a more detailed understanding of quality)	less than 20%	On track		
	New measure: Land damage claims (in aggregate) - the average variance between the cost of settling the claims (measured by the latest complete assessment[4.] of the claims costs), and the *actual final cost* of settling the claims			Not greater than 20%	
	New measure: Cash settled dwelling claims - The average variance between the latest complete assessment[4.] of the cost to settle the claim, and the *actual final cost* of settling the claim			Not greater than 20%	
	New measure: Dwelling claims settled by managed repair - The average variance between the latest complete assessment[4.] of the cost to settle the claim, and the *actual final cost* of settling the claim (new measure)			Not greater than 20%	
Resolution	EQC managed repairs that meet relevant building standards on first post-repairs inspection[5.]	100%	On track	100%	100%
	Recorded[6.] disputes resolved prior to third-party mediation (measure reworded for clarity)	95%	On track	96%	97%
Overall	Customer (claimant) satisfaction[7.] with EQC's claim handling process - average rating	70%	Not currently on track	70%	70%
Safe repair or rebuild of properties					
CHRP	Workplace harm (Safe6 programme commenced 2013)			Zero workplace harm	

[4.] The assessment that precedes the contractor's review of the scope and price of the repair.
[5.] In future years this measure will be expanded to provide a detailed view of the quality of repairs.
[6.] Disputes recorded in EQC's dispute management system.
[7.] Claimants surveyed include people with claims for different types of natural disaster events in New Zealand.

The disruption to customers' lives from the Canterbury earthquakes along with an unprecedented volume and complexity of claims, (e.g. technical and legal issues. for land and apportionment) provides a challenging customer service environment for EQC.

OUTPUT 1.3 MEASURES: COST

MEASURE		TARGET / BUDGET (B)	ACTUAL AS AT 31 MARCH 2013	TARGET / BUDGET (B)	
		2012-13	2012-13	2013-14	2014-15
Managing Budget and CHRP costs					
Overall	Budget claims handling expenses (CHE)	$255m	On track	$240m (B)	$165m (B)
	Claims handling expenses as a proportion of claims paid over the life of the programme (Based on the June 2012 ILVR report)	10%	Not currently on track[8.]	10%	
CHRP	Labour and materials costs	No more than 1.5 times the corresponding annual CPI rate	On track	No more than 1.5 times the corresponding annual CPI rate	
	PMO cost managed within budget	100%	On track	100%	100%
	Repair cost managed within assessed cost	100%	On track	100%	100%

[8.] Estimated full year output for 2012-13 is circa 14% as a result of lower claims payments than expected.

7.2 Output 2: Administration of the Act, Insurance Scheme and Natural Disaster Fund (risk funding)

This output involves administration of the Natural Disaster Fund (NDF), including collection of the premiums payable, protection of the Fund's value through the investment of money held in the Fund and reinsurance in respect of the whole or part of the insurance provided under the Act.

Premium is calculated and collected on behalf of the Commission by insurance companies via the fire insurance policies they issue or renew or, in rare cases, directly by the Commission for cover issued under Section 22 of the Act.

EQC places a large reinsurance programme with reinsurance companies and Lloyd's syndicates. This cover protects the Fund against a pay-out that would threaten its viability following a major natural disaster. The programme is placed through, and with advice from, reinsurance brokers.

The sell-down of EQC's investments in international equities was completed in 2012. A return to equity investments is not forecast to resume within the lifespan of this SOI. Consequently, performance measures relating to investment performance are not applicable for the time being. Premium income from the EQC Levy (which itself was increased from 1 February 2012) now accounts for a substantially larger proportion of income than previously.

As a result, EQC will increase its focus on forecasting, monitoring and compliance to ensure premium income increases as expected. EQC monitors a number of risk areas that may impact on forecast income. EQC's forecast premium income is based on an average increase of housing stock of one per cent per annum, based on Statistics New Zealand's Mean Estimated Private Dwellings, with a June 2011 base of 1,735,000 dwellings. It is also assumed that there is static uptake by households of home and contents insurance, paying full premiums.

Operationally, this output is managed through:

- monitoring revenue receipts
- coordinating and monitoring stakeholder relationships
- provision of information and guidance on levy calculation to the Insurance Industry
- improving the collection and quality of levy payer information.

Key drivers of premium income include:

- the amount of housing stock; and
- insurance coverage.

For the administration of the Act, Insurance Scheme and the NDF our focus is ensuring:

- EQC's forecast gross premium (EQC levy income) meets targets;
- EQC's administration of the scheme and management of any claims against the scheme, together with EQC's research output, reduces the pricing of the New Zealand risk by the world's reinsurance companies
- EQC is able to renew its reinsurance programme so that, together with the NDF assets, this is sufficient to meet the maximum probable loss.

Output 2 has budgeted EQC Levy revenue of $268.6 million and expenditure of $167.8 million for 2013-14. Expenditure includes the $10 million payable to the Crown for the Crown Guarantee and $157.8 million budgeted to pay to reinsurers for renewing the scheme.

OUTPUT 2.1 MEASURES: QUANTITY

MEASURE		TARGET 2012-13	ACTUAL AS AT 31 MARCH 2013	TARGET 2013-14	TARGET 2014-15
EQC Levy	Forecast Gross Premiums	$240.5m	On track	$268.2m	$274.5m
Reinsurance	Amount secured per event with reinstatement	$2.5 billion	Target met	$2.5 billion	$2.5 billion
Reinsurance	Ratio of capital against reinsurance for all but probably maximum loss event (Discontinued target: This target no longer relevant - EQC's capital in the NDF is depleted from recent natural disasters)	1:2			

OUTPUT 2.2 MEASURES: QUALITY

MEASURE		TARGET 2012-13	ACTUAL AS AT 31 MARCH 2013	TARGET 2013-14	TARGET 2014-15
EQC Levy (Premium)	Collection of gross premiums declared by insurers and brokers	100%	On track	100%	100%
Reinsurance renewal	Coverage	Nationwide coverage for the perils covered in the EQC Act	On track	Nationwide coverage for the natural disasters covered in the EQC Act	

OUTPUT 2.3 MEASURES: COST

MEASURE		TARGET 2012-13	ACTUAL AS AT 31 MARCH 2013	TARGET 2013-14	TARGET 2014-15
EQC Levy	Premium collection costs as a percentage of premium collected (Measure amended for 2014-16 below)	Less than 2.6%	On track		
EQC Levy	**Reworded measure:** EQC levy - Premium collection costs as a percentage of total cash premiums collected			Less than 2.6%	Less than 2.6%
Reinsurance renewal	Cost of securing	Sufficient reinsurance at a price consistent with the direction provided by the Board	Target met	EQC obtains sufficient reinsurance at an affordable price to protect the value of the Fund	

7.3 Output 3: Research

Activity for this output covers:

- the creation of new science and engineering knowledge and supporting the development of critical science capabilities
- the national geo-hazard monitoring system (Geonet); and
- the uptake of science into professional practice.

Active investment in research and sector education contributes to:

- improving the management of New Zealand's natural hazard risks
- the reduction of damage and disruption following a natural disaster; and reduced uncertainty for the insurance / reinsurance market. In funding research we are focused on ensuring that:
- the body of knowledge of natural hazard risk in New Zealand is strengthened
- building standards, regulations, local authority requirements, district plans and practitioner guidelines embody relevant EQC-funded research results
- international catastrophe loss models embody relevant EQC-funded research results thereby contributing to a reduction of uncertainty associated with New Zealand natural disaster risk.

Output 3 has a budgeted cost of $15.9 million for 2013-14.

OUTPUT 3.1 MEASURES: QUANTITY

<table>
<tr><th colspan="2" rowspan="2">MEASURE</th><th>TARGET</th><th rowspan="2">FORECAST ACTUAL</th><th colspan="2">TARGET</th></tr>
<tr><th>2012-13</th><th>2013-14</th><th>2014-15</th></tr>
<tr><td colspan="6">Expanding our knowledge of natural disaster risks and their reduction</td></tr>
<tr><td rowspan="4">Research Capability</td><td>Biennial grants</td><td>All grant applications of sufficient merit are awarded funding within budget</td><td>On track</td><td colspan="2">All grant applications of sufficient merit are awarded funding within budget</td></tr>
<tr><td>Post-Graduate students</td><td>All post-graduate applications of sufficient merit are awarded funding within budget</td><td>On track</td><td colspan="2">All post-graduate applications of sufficient merit are awarded funding within budget</td></tr>
<tr><td>Scholarships and Awards offered on merit (wording updated for 2013-16 see reworded below)</td><td>Three [9.]</td><td>On track</td><td></td><td></td></tr>
<tr><td>Reworded measure: All scholarship and awards of merit are funded within budget</td><td></td><td></td><td>3</td><td>3</td></tr>
<tr><td rowspan="2">Science-to-Practice</td><td>Post-disaster investigation reports and lessons learned published within 12 months of event</td><td>100%</td><td>No investigations [10.]</td><td>100%</td><td>100%</td></tr>
<tr><td>Funded reports are presented in sector print media and/or presented at conferences or stakeholder workshops</td><td>100%</td><td>On track</td><td>100%</td><td>100%</td></tr>
</table>

[9.] Corrected target - previously 4.

[10.] It is now greater than 12 months since last event.

OUTPUT 3.2 MEASURES: QUALITY

<table>
<tr><th colspan="2" rowspan="2">MEASURE</th><th>TARGET</th><th>FORECAST</th><th colspan="2">TARGET</th></tr>
<tr><th>2012-13</th><th>ACTUAL</th><th>2013-14</th><th>2014-15</th></tr>
<tr><td rowspan="5">Research Capability</td><td>Completed research supports at least one peer-reviewed, academic paper or report within one year of completion</td><td>90%</td><td>On track</td><td>90%</td><td>90%</td></tr>
<tr><td>Completed research is published in a peer-reviewed, academic journal within one year of completion
(Measure ceases for 2013-16, duplicates the measure above)</td><td>80%</td><td>On track</td><td></td><td></td></tr>
<tr><td>GeoNet achieves all contracted objectives</td><td>100%</td><td>On track</td><td>100%</td><td>100%
100%</td></tr>
<tr><td>Research and capability grants meet all contracted objectives</td><td>100%</td><td>On track</td><td>100%</td><td>100%</td></tr>
<tr><td>University-specific grants meet all contracted objectives
(Discontinued measure: Measure ceases for 2013-16 duplicates the measure above)</td><td>100%</td><td>On track</td><td></td><td></td></tr>
<tr><td rowspan="3">Science-to-Practice</td><td rowspan="2">Funded activities achieve all contracted objectives</td><td>Demonstrated collaboration with local government</td><td>On track</td><td colspan="2">Demonstrated collaboration with local government</td></tr>
<tr><td>Demonstrated collaboration across agencies and professional disciplines</td><td>On track</td><td colspan="2">Demonstrated collaboration across agencies and professional disciplines</td></tr>
<tr><td>Engineering Lifelines Programme</td><td>Participation of utility providers and local government in annual technical forum</td><td>On track</td><td colspan="2">Participation of utility providers and local government in annual technical forum</td></tr>
</table>

OUTPUT 3.3 MEASURES: COST

<table>
<tr><th rowspan="2">MEASURE</th><th>TARGET ($, 000s)</th><th rowspan="2">FORECAST ACTUAL</th><th colspan="2">TARGET ($, 000s)</th></tr>
<tr><th>2012-13</th><th>2013-14 [11.]</th><th>2014-15</th></tr>
<tr><td>GeoNet</td><td>9,217</td><td>On track</td><td>9,068</td><td>9,164</td></tr>
<tr><td>Research Capability</td><td>1636 [12.]</td><td>On track</td><td>883</td><td>883</td></tr>
<tr><td>Science-to-Practice</td><td>883 [13.]</td><td>On track</td><td>1,177</td><td>977</td></tr>
</table>

11. Funding for future years is indicative only and is assessed and approved by the Board annually on the basis of merit and prevailing priorities.

12. Corrected measure - previously 883.

13. Corrected measure - previously 1202.

7.4 Output 4: Education

The main purposes of EQC's public education activities are to:

- improve the levels of knowledge of and activity by New Zealanders to make their homes safer from natural perils; and
- to improve the levels of understanding of EQC's role.

The prime responsibility for being prepared lies with home owners but they need information and guidance on the most effective and prudent measures to take to mitigate the risk of damage and physical harm, and on what to expect of EQC should they experience natural disaster damage.

EQC's legislation does not permit EQC to carry out mitigation activities for home owners, so EQC cannot directly affect levels of disaster mitigation activity. Instead, EQC pursues nationwide and regional education initiatives. The immediacy and directness these convey improve New Zealanders' knowledge of mitigation activities and of EQC. One of the primary features of EQC's education efforts has been its focus on school children, who can more effectively transfer newly acquired knowledge into their homes, thereby influencing homeowner behaviour.

The Canterbury earthquakes have provided an opportunity to harness the lessons learned for the future and take advantage of increased public interest in natural hazards. We are therefore assessing opportunities to enhance our education activities. Consequently, a review of EQC's education activities will be undertaken in the first half of 2013- 14 financial year. This review will identify opportunities to enhance public awareness and lead to a longer term strategy to influence public behaviour in mitigating natural hazard risk. Consequently, the targets established for 2013-2015 should be considered indicative of a steady-state only.

In providing our education activities we are focused on enhancing:

- New Zealanders' awareness of earthquake safety and natural hazard mitigation measures
- home owners' understanding of EQC's role should they experience natural disaster damage.

Output 4 has a budgeted cost of $1.4 million for 2013-14.

OUTPUT 4.1 MEASURES: QUANTITY

MEASURE	DESCRIPTION	TARGET 2012-13	FORECAST ACTUAL	TARGET 2013-14	TARGET 2014-15
Awareness	Participating schools in the Regional Schools Programme * ** The regional schools programme ended in 2012. New programme with measures being developed*	40			
	Number of students participating in Virtual Field Trips	2,700	On track	2,700	2,700
	Student participation in EQC Schools Fund (Te Papa visits)	500	Data unavailable 14.	500	500

14. Data will be available for reporting in the 2012-13, EQC Annual Report.

OUTPUT 4.2 MEASURES: QUALITY

MEASURE	DESCRIPTION	TARGET 2012-13	FORECAST ACTUAL	TARGET 2013-14	TARGET 2014-15
Awareness	Student understanding of natural hazard safety in the home (average test score) (measure amended to better reflect public awareness)	80%			
	Amended measure: % of New Zealanders are knowledgeable of natural hazard safety in the home		Data unavailable 14.	At least 45%	At least 45%
	Secondary student understanding of EQC role in natural disaster recovery (average test score) (measure amended to better reflect public awareness - see next measure)	80%			
	Amended measure: % of New Zealanders are knowledgeable of natural hazard mitigation in the home		Data unavailable 15.	At least 70%	At least 70%

15. Data will be available for reporting in the 2012-13, EQC Annual Report.

OUTPUT 4.3 MEASURES: COST

MEASURE	DESCRIPTION	TARGET 2012-13	FORECAST ACTUAL	TARGET 2013-14	TARGET 2014-15
Awareness	Regional Schools Programme *(The regional schools programme ended in 2012-13. New programme with measures is being developed)*	$80,000			
	Virtual Field Trips	$32,500	On track	$32,500	$32,500
	EQC Schools Fund (Te Papa visits)	$15,000	On track	$15,000	$15,000

8. Prospective Financial Statements

PROSPECTIVE STATEMENT OF COMPREHENSIVE INCOME
For the years ending 30 June 2014 and 30 June 2015

	Budget 2014 $(000)	Forecast 2015 $(000)
Earned premium		
Gross earned premiums	268,641	274,536
Outward reinsurance premium expense	(157,800)	(162,534)
Net earned premium revenue	**110,841**	**112,002**
Underwriting revenue		
Reinsurance and other recoveries	29,017	9,730
Claims expense (including amortisation of risk margin)	174,999	6,349
Catastrophe Response Programme	(14,838)	(12,448)
Movement in unexpired risk liability	1,409	1,423
Total underwriting revenue	**190,587**	**5,054**
Surplus from underwriting activities	**301,428**	**117,056**
Other operating costs		
Public education	(1,359)	(1,389)
Research (excluding GeoNet)	(7,250)	(7,313)
GeoNet programme	(8,656)	(9,330)
Total operating costs	**(17,265)**	**(18,032)**
Investment activities		
Investment income	(314)	4,613
Risk funding costs	(710)	(627)
Interest on cash balances	17,956	7,037
Surplus from investment activities	**16,932**	**11,023**
Crown underwriting fee	**(10,000)**	**(10,000)**
New surplus for the year and total comprehensive income	**291,095**	**100,047**

PROSPECTIVE STATEMENT OF CHANGES IN EQUITY
As at 30 June 2014 to 30 June 2015

	Budget 2014 $(000)	Forecast 2015 $(000)
Capitalised reserves		
Opening balance at 1 July	1,500,000	1,500,000
Movement for the year	-	-
Closing balance at 30 June	**1,500,000**	**1,500,000**
Retained earnings		
Opening balance at 1 July	(2,861,456)	(2,570,361)
New surplus for the year and total comprehensive income	291,095	100,047
Closing balance at 30 June	**(2,570,361)**	**(2,470,314)**

PROSPECTIVE STATEMENT OF FINANCIAL POSITION
As at 30 June 2014 and 30 June 2015

	Budget 2014 $(000)	Forecast 2015 $(000)
Natural Disaster Fund		
Capitalised reserves	1,500,000	1,500,000
Retained earnings	(2,570,361)	(2,470,314)
Total equity	**(1,070,361)**	**(970,314)**
Assets		
Cash at bank	460,357	(234,305)
Premiums receivable	53,976	54,515
Reinsurance and other recoveries	1,377,930	327,373
Other receivables	47,525	26,154
Prepayments	39,954	39,954
Investments	704,523	(26)
Property, plant and equipment	18,045	12,464
Intangible assets	6,678	7,358
Total assets	**2,708,988**	**233,487**
Liabilities		
Trade and other payables	(35,520)	(35,098)
Provision for employee entitlements	(502)	(25)
Outstanding claims liability	(3,504,327)	(929,678)
Unearned premium liability	(143,046)	(144,470)
Unexpired risk liability	(95,954)	(94,530)
Total liabilities	**(3,779,349)**	**(1,203,801)**
New liabilities	**(1,070,361)**	**(970,314)**

PROSPECTIVE STATEMENT OF CASH FLOWS
For the years ending 30 June 2014 and 30 June 2015

	Budget 2014 $(000)	Forecast 2015 $(000)
Cash flows from operating activities		
Cash was provided from:		
Interest	84,637	26,095
Premiums	267,036	275,420
Dividends	-	-
Reinsurance and other recoveries	1,266,702	1,060,288
Net cash flow from GST	-	21,372
Cash was disbursed to:		
Outward reinsurance	(157,800)	(162,534)
Crown underwriting fee	(10,000)	(10,000)
Claims settlements and handling costs	(3,195,297)	(2,568,299)
Employees and other operating expenses	(6,245)	(4,852)
GeoNet operating expense	(8,656)	(9,330)
Research grants	(7,250)	(7,313)
Net cash flow to GST	(12,313)	-
Net cash outflow from operating activities	**(1,779,186)**	**(1,379,153)**
Cash flows from investing activities		
Cash was provided from:		
Sale of investments	749,113	690,104
Sale of property, plant and equipment	-	-
Cash was applied to:		
Purchase of investments	-	-
Purchase of property, plant and equipmnet	(5,987)	(3,284)
Purchase of intangibles	(2,742)	(2,329)
Net cash inflow from investing activities	**740,384**	**684,491**
Net decrease in cash	**(1,038,802)**	**(694,662)**
Add opening cash brought forward	1,499,159	460,357
Ending cash carried forward	**460,357**	**(234,305)**

NOTE 1 PROSPECTIVE OPERATING EXPENDITURE EXCLUDING CLAIMS COSTS

For the years ending 30 June 2014 and 30 June 2015

	Budget 2014 $(000)	Forecast 2015 $(000)
Advertising and publicity	599	799
Fees paid to the auditor		
Audit of the financial statements	124	128
Commissioners' fees	221	221
Depreciation and amortization of intangibles	4,368	5,337
Employee remuneration and benefits	6,535	5,808
Grants for earthquake research	3,319	3,319
GeoNet operating costs	5,891	6,000
Investment and Custodial expenses - third party	141	104
Office rental	454	454
Sponsorships	550	550
Other adminstration cost	10,611	8,387
Total operating expenditure excluding claims costs	**32,813**	**31,107**
Expenditure grouped by function		
Catastrophe response programme	14,838	12,448
Public education	1,359	1,389
Research (excluding Geonet)	7,250	7,313
GeoNet programme	8,656	9,330
Risk funding costs	710	627
Total expenditure by function excluding claims costs	**32,813**	**31,107**

NOTE 2 CLAIMS EXPENSE

For the years ending 30 June 2014 and 30 June 2015

	2014 Current Year $(000)	2014 Prior Years $(000)	2014 Total $(000)	2015 Current Year $(000)	2015 Prior Years $(000)	2015 Total $(000)
Gross claims - undiscounted	(50,000)		(50,000)	(50,000)		(50,000)
Movement in discount		(89,140)	(89,140)		(28,929)	(28,929)
Amortisation of risk margin		314,139	314,139		85,278	85,278
Gross claims discounted	**(50,000)**	**(89,140)**	**174,999**	**(50,000)**	**56,349**	**6,349**

9. Statement of Accounting Policies For the years ending 30 June 2014 and 30 June 2015

REPORTING

The Earthquake Commission (the Commission) is a Crown Entity as defined by the Crown Entities Act 2004 and is domiciled in New Zealand. The Commission's ultimate parent is the New Zealand Crown. The Commission's primary objectives are to administer the insurance against natural disaster damage as provided for under the Earthquake Commission Act 1993 (the Act), facilitate research and education about matters relevant to natural disaster damage, and to manage the Natural Disaster Fund including the arrangement of reinsurance. Accordingly, for purposes of New Zealand Equivalents to International Financial Reporting Standards (NEW ZEALAND IFRS), it qualifies as a public benefit entity.

The reporting period covered by these prospective financial statements are for the years ending 30 June 2014 and 30 June 2015.

BASIS OF PREPARATION

Measurement Base

The prospective financial statements have been prepared on a historical cost basis modified by the measurement of financial instruments at fair value through the Statement of Comprehensive Income, and the measurement of insurance liabilities and reinsurance recoveries at present value as set out below.

Functional and Presentation Currency

These prospective financial statements are presented in New Zealand dollars, which are the functional currency of the Commission, and are rounded to the nearest thousand dollars.

Going Concern

Actuarial estimates of the Commission's claims liabilities indicate that total liabilities exceed its assets after accounting for reinsurance. The Crown has confirmed in writing to the Commission, its intention to meet its obligation under Section 16 of the Act to ensure the Commission can meet all its liabilities as they fall due. Section 16 states: "If the assets of the Commission (including the money for the time being in the Fund) are not sufficient to meet the liabilities of the Commission, the Minister shall, without further appropriation than this section, provide to the Commission out of public money such sums by way of grant or advance as may be necessary to meet the deficiency upon such terms and conditions as the Minister determines."

The Board therefore adopted the going concern assumption in preparing these prospective financial statements.

Statement of Compliance

These prospective financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice. They comply with FRS 42 and other applicable financial reporting standards, as appropriate for public benefit entities. The accounting policies set out below have been applied consistently to all periods presented in these prospective financial statements.

Accounting Judgements and Major Sources of Estimation

The preparation of prospective financial statements in conformity with FRS 42 requires judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these assumptions.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised (if the revision affects only that period) or in the period of the revision and future periods (if the revision affects both current and future periods).

The actuarial judgements and estimations involved in measuring insurance liabilities and reinsurance recoveries are key areas of estimation where the assumptions made may have a significant effect on the financial statements, with a significant risk of material adjustment in future periods. The magnitude and number of Canterbury earthquakes have resulted in a higher than usual level of uncertainty associated with this measurement

SIGNIFICANT ACCOUNTING POLICES

Insurance

Premium Income

Premium income is recognised using the 24ths method to approximate the contract period over which the premiums are earned. The underlying assumption of the 24ths method is that all premiums booked during a particular month can be approximated by an annual policy that incepts during the middle of the month. Premiums not earned at balance date are disclosed in the Statement of Financial Position as unearned premium liability. Premiums receivable are reported net of discounts paid to collecting agencies.

Reinsurance Premiums

Premiums paid to reinsurers are recognised by the Commission as reinsurance premium expense in the Statement of Comprehensive Income from the attachment date over the period of indemnity of the reinsurance contract, in accordance with the expected pattern of the incidence of risk. Prepaid reinsurance premiums are included in prepayments in the Statement of Financial Position.

Reinsurance and Other Recoveries

Reinsurance recoveries are the expected reimbursement of claims settlements and claims handling costs that the Commission can recover under its reinsurance contracts. Other recoveries comprise of reimbursement of expenditure incurred on behalf of other parties (predominantly Crown or Crown entities).

Reinsurance and other recoveries received or receivable on paid claims, reported claims not yet paid, claims incurred but not reported (IBNR), and claims incurred but not enough reported (IBNER) are recognised as revenue in the Statement of Comprehensive Income. They are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

Claims Expenses

Claims expenditure represents payments for claims, claims handling costs and the movement in the liability for outstanding claims.

The outstanding claims liability is recognised at balance date as the central estimate of the present value of the expected future payments for claims incurred to balance date, with an additional risk margin to allow for the inherent uncertainty in the central estimate. The expected future payments for claims include those in relation to claims reported but not yet paid, IBNR, IBNER and claims handling costs.

The outstanding claims liability, comprising all unpaid claims and claims handling expenses related to claims incurred prior to the end of the reporting period, is valued in accordance with the Professional Standard No 4 (General Insurance Business) of the New Zealand Society of Actuaries.

Unexpired Risk Liability

At balance date, the Commission assesses the adequacy of the unearned premium liability by applying the liability adequacy test. The liability adequacy test determines whether the Commission’s unearned premiums at balance date are sufficient to cover future claims arising from existing contracts.

The central estimate is the present value of the expected future cash flows relating to claims arising from the rights and obligations under current insurance contracts, with an additional risk margin included to allow for the inherent uncertainty exceeds the value of the unearned premium, the deficiency is recognised in net in the Statement of Comprehensive Income and recorded in the Statement of Financial Position as an unexpired risk liability.

Asset Backing Insurance Liabilities

All assets of the Commission back its insurance liabilities in accordance with Section 13(3) of the Act 1993, which states: 'All money in bank accounts established by the Commission, and all investments and other assets of the Commission, shall be deemed to form part of the Fund'.

Grant Payments

The Commission provides discretionary grants for earthquake research and research dissemination. Discretionary grants are those where the Commission has no obligation to award on receipt of the grant application and are recognised as expenditure when a contract is executed to ensure the performance criteria, on which approval of the grant was based, are met.

Foreign Currency

Foreign currency transactions are translated into New Zealand dollars using the exchange rates prevailing at the transaction date. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at year-end exchange rates of foreign currency monetary assets and liabilities, are recognized in the Statement of Comprehensive Income.

Taxation

The Commission is exempt from the payment of income tax in terms of the Income Tax Act 2007. Accordingly, no charge of income tax has been provided for.

Goods and Services Tax (GST)

All items in the prospective financial statements are presented exclusive of GST, except for receivables and payables, which are presented on a GST-inclusive basis. Where GST is not recoverable it is recognised as part of the related asset or expense.

Net GST receivable or payable at balance date is included in receivables or payables in the Statement of Financial Position as appropriate. Commitments and contingencies are disclosed exclusive of GST.

The net GST paid, or received, including the GST relating to investing and financing activities, is classified as an operating cash flow in the Statement of Cash Flows.

Investments

Interest

Interest income is accrued using the effective interest method.

Dividends

Dividend income from investments is recognised when the Commission's rights as a shareholder to receive payment have been established.

Realised Gains and Losses

Income from investments includes realised gains and losses on all investments, including gains and losses on currency or the sale of assets.

Unrealised Gains and Losses

Income from investments includes unrealised gains and losses on all investments, including currency gains and losses.

Financial Instruments

A financial instrument is recognised if the Commission becomes a party to the contractual provisions of the instrument. A financial asset is derecognised if the Commission's contractual rights to the cash flows from the financial asset expire or if the Commission transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Purchases and sales of financial assets are accounted for at the date that the Commission commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Commission's obligations specified in the contract expire or are discharged or cancelled.

Cash at bank

Cash at bank comprises cash balances; cash in transit and bank call deposits. The carrying amount of cash approximates its fair value.

Investments

All investment assets held by the Commission back insurance liabilities and are therefore designated at fair value through profit or loss.

Fair values or quoted investments are based on current bid prices. If the market for a financial asset is not active, fair values for initial recognition and, where appropriate, subsequent measurement are established by using valuation techniques.

Derivative Financial Instruments

The Commission uses derivative financial instruments to hedge its exposure to interest rate and foreign exchange risks arising from operational, financing and investment activities. In accordance with the treasury policy, the Commission does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments. Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, derivative financial instruments are re-measured at balance date. The gain or loss on re-measurement to fair value is recognised immediately in the Statement of Comprehensive Income.

Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the Statement of Comprehensive Income.

Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables with a maturity date within twelve months of the reporting date are recognised in current assets in the Statement of Financial Position while those with maturities greater than twelve months are recognised as non-current assets. Receivables are carried at amortised cost using the effective interest method less any impairment.

Other Financial Assets

Other non-derivative financial assets are initially measured at fair value and subsequently measured at amortised cost using the effective interest method, less any impairment losses.

Trade and Other Payables

Trade and other accounts payable are recognised when the Commission becomes obliged to make future payments resulting from the purchase of goods and services.

Property, Plant and Equipment

Overview

Property, plant and equipment are recorded at cost less accumulated depreciation and accumulated impairment losses.

Additions

The cost of an item of property, plant and equipment is recognised as an asset only when it is probable that future economic benefits or service potential associated with the item will flow to the Commission and the cost of the item can be measured reliably. Where an asset is acquired at no cost, or for a nominal cost, it is recognised at fair value when control over the asset is obtained.

Disposals

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses are included in the Statement of Comprehensive Income.

Subsequent Costs

Costs incurred subsequent to initial acquisition are capitalised only when it is probable that the future economic benefits or service potential associated with the item will flow to the Commission and the cost of the item can be measured reliably.

The costs of day-to-day servicing of property, plant and equipment are recognised in the Statement of Comprehensive Income as they are incurred.

GeoNet Assets

GNS Science administers the design, engineering, operation and maintenance of New Zealand's geological hazard monitoring system (GeoNet) under a ten-year agreement with the Commission. The services performed by GNS Science include the purchase, testing, installation and commissioning of capital equipment of behalf of the Commission.

The GeoNet assets, comprising buildings, computer equipment and other equipment, remain the property of the Commission and are included in the Commission's property, plant and equipment in the Statement of Financial Position.

Realised gains and losses arising from the disposal of property, plant and equipment are recognised in the Statement of Comprehensive Income in the period in which the transaction occurs.

Depreciation

Depreciation is charged on a straight-line basis at rates calculated to allocate the cost or valuation of an item of property, plant and equipment, less any estimated residual value, over its estimated useful life. The estimated useful lives or different classes of property, plant and equipment are reviewed annually and are typically as follows:

Furniture and equipment	3-12 years
GeoNet buildings	25 years
GeoNet computer equipment	3 years
GeoNet other equipment	8 years
Canterbury event furniture and equipment*	3 years

* Canterbury event assets are capitalised and amortised over their useful lives, which is currently estimated to be 3 years

Intangible Assets

Intangible assets are recorded at cost less accumulated amortisation and accumulated impairment losses.

Research and Development

Expenditure on research activities, undertaken with the prospect of gaining new scientific knowledge or understanding, is recognised in the Statement of Comprehensive Income when incurred. The Commission does not undertake development or new products or processes other than software referred to below.

Software Acquisition and Development

Software development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Commission intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour, and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognised when incurred.

Capitalised software development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

Intangible assets are amortised on a straight-line basis over the following useful lives:

Computer software applications and licences	2-9 years

Impairment of Non-Financial Assets

The carrying amounts of the Commission's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For intangible assets that are not yet available for use, the recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the Statement of Comprehensive Income.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. Value in use is depreciated replacement cost for an asset where the future economic benefits or service potential or the asset are:

a) not primarily dependent on the asset's ability to generate net cash inflows
b) the Commission would, if deprived of the asset, replace its remaining future economic benefits or service potential.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Leases

Operating leases, where the lessor substantially retains the risks and rewards of ownership, are recognised in a systematic manner over the term of the lease. Lease incentives received are recognised evenly over the term of the lease as a reduction in lease expense.

Liabilities (Other than Insurance)

The Commission recognises a liability when there is a present obligation (legal or constructive) as the result of a past event, it is probable that expenditure will be required to settle the obligation, and a reliable estimate can be made of the obligation. Where the timing or amount of the obligation is uncertain the obligation is recognised as a provision.

Employee Entitlements

Employee entitlements to salaries and wages, annual leave, long service leave and other similar benefits are recognised in the Statement of Comprehensive Income when they accrue to employees. Employee entitlements to be settled within 12 months are reported at their undiscounted nominal value. The liability for long service leave is calculated based on the present value of likely future entitlements accruing to employees, based on years of service, years to entitlement and the likelihood that employees will reach entitlement and contractual entitlements information.

Other Liabilities and Provisions

Other liabilities and provisions are recorded at the estimated fair value of the expenditure required to settle the obligation. Liabilities and provisions to be settled beyond 12 months are recorded at their discounted value. The increase in a discounted provision due to the passage of time is recognised as a finance cost.

Contingent Liabilities

A contingent liability is disclosed when a possible obligation arises from past events, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Commission. A contingent liability is also disclosed when a present obligation arising from past events is not recognised because it is not probable that settlement of the obligation will result in a cost to the Commission, or the amount of the obligation cannot be measured with sufficient reliability.

Superannuation Scheme

Defined Contribution Scheme

Obligations for contributions to the KiwiSaver and the State Sector Retirement Savings Scheme (SSRSS) are accounted for as defined contribution superannuation schemes and are recognised as an expense in the Statement of Comprehensive Income on an accruals basis.

Cost Allocation

Expenditure of the Commission is allocated across its four main functions: claims, research (excluding GeoNet), education and investment management. Expenditure is allocated to these functions by directly attributing costs as far as possible and by the apportioning of indirect costs based on the number of full time equivalents employed in each function.

Changes in Accounting Policies

Accounting policies are changed only if the change is required by a standard or interpretation, or otherwise provides more reliable and more relevant information. There have been no accounting policy changes in the 2014-2015 prospective financial statements.

Standards, Amendments and Interpretations issued that are not yet effective and have not been early adopted

Note that the Commission is a public benefit entity subject to the new four tier multi-standards framework. The Commission will not adopt the framework until the 30 June 2015 financial statements. At that time, the opening balance sheet as at 1 July 2013 may require restatement for comparative purposes. This work has not yet been undertaken but is not expected to have a material effect on the financial statements of the Commission. Accordingly, currently no standards, amendments or interpretations that have been issued, but are not yet effective, have been applied.

DISCLOSURES IN RELATION TO PROSPECTIVE FINANCIAL STATEMENTS

Major assumptions underlying the prospective financial statements

- Cash returns of 2.5% per annum.
- Weighted average yields New Zealand Government Stock

	Current Redemption Yield	June 2014 Market Yield
New Zealand Government Stock	5.77%	4.11%

New Zealand Government Inflation Indexed Stock	5.19%	2.00%

- Claims costs directly related to the occurrence of major events, and the claims they produce, have not been forecast. $50 million per annum has been provided for other claims settlements and fees.
- Growth in the residential housing stock of 1% per annum.
- No change in Government policy in respect of Crown Fees, Taxation or Dividend.
- Reinsurance costs are based on Management estimate prior to the 2013/14 round of negotiations.
- Estimates for Canterbury events claim expenses, liabilities and cash flows are based on the June 2012 actuarial update prepared by Melville Jessup Weaver, issued 13 September 2012.
- The following actuarial assumptions were used in determining the claims liability at that date:

Weighted average term to settlement	0.4 to 1.8 years
Claims inflation rate per annum	2.5%
Demand surge per annum	0% to 10%
Discount rate per annum	2.44% to 3.55%
Risk margin	14%
Claims handling expense ratio	7%

- The central estimate value plus net risk margin has been used for claims cash flows.

Purpose of prospective financial statements

These prospective financial statements have been prepared for internal management purposes and for inclusion in the Statement of Intent.

Degree of uncertainty attaching to prospective financial statements

(a) Return rates on New Zealand Government Securities are based on data provided by the New Zealand Treasury but actual results are subject to market variables.

(b) No estimate for future major events, or costs directly associated with them, has been made, due to the high level of uncertainty in any estimate.

(c) Some key sources of actuarial uncertainty in relation to Canterbury estimates include: the impact of multiple events on Commission coverage, severe land damage, a complex claims environment from both an engineering and legal perspective, and the potential for construction costs to exceed expectations.

Factors that may lead to material differences between prospective financial statements and the actual financial results prepared in future reporting period.

(a) The occurrence of further earthquakes or other natural disasters covered by the Commission could significantly impact on future actual financial statements.

(b) Movements in the domestic fixed interest market could impact future actual financial returns.

(c) Changes in any of the actuarial assumptions noted above could result in changes to the Commission's Claims Liability.

(d) Reinsurance premiums are based on estimates made prior to renewal of contracts for the 2013-14 year and actual premiums paid may differ from estimates due to changes in rates charged by reinsurers and levels of cover achieved.

Cautionary Note

Actual financial results achieved for the period covered are likely to vary from the information presented, and the variations may be material.

Responsibility and Approval

The prospective financial statements were approved by the Board of the Commission on 12 April 2013.

The Board of the Commission is responsible for the prospective financial statements presented, including the appropriateness of the assumptions underlying the prospective financial statements and all other required disclosures.

Actual financial results are not incorporated in the prospective financial statements. The Commission does not intend to update the prospective financial statements subsequent to presentation.

FRS42

These prospective financial statements comply with FRS42.

Statement of Service Performance for the year ending 30 June 2014

Output Class	**Revenue**	**Expenditure**
1: Claims handling and the Catastrophe Response Programme	Nil	$14.8million
2: Research	Nil	$15.9million
3: Public Education	Nil	$1.4million
4: Risk Funding	$286.6million	$168.8million