

# The Treasury

## Budget 2017 Information Release

### Release Document July 2017

[www.treasury.govt.nz/publications/informationreleases/budget/2017](http://www.treasury.govt.nz/publications/informationreleases/budget/2017)

Key to sections of the Official Information Act 1982 under which information has been withheld.

Certain information in this document has been withheld under one or more of the following sections of the Official Information Act, as applicable:

[1]	to prevent prejudice to the security or defence of New Zealand or the international relations of the government	6(a)
[4]	to prevent prejudice to the maintenance of the law, including the prevention, investigation, and detection of offences, and the right to a fair trial	6(c)
[11]	to damage seriously the economy of New Zealand by disclosing prematurely decisions to change or continue government economic or financial policies relating to the entering into of overseas trade agreements.	6(e)(vi)
[23]	to protect the privacy of natural persons, including deceased people	9(2)(a)
[25]	to protect the commercial position of the person who supplied the information or who is the subject of the information	9(2)(b)(ii)
[26]	to prevent prejudice to the supply of similar information, or information from the same source, and it is in the public interest that such information should continue to be supplied	9(2)(ba)(i)
[27]	to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information - would be likely otherwise to damage the public interest	9(2)(ba)(ii)
[29]	to avoid prejudice to the substantial economic interests of New Zealand	9(2)(d)
[31]	to maintain the current constitutional conventions protecting collective and individual ministerial responsibility	9(2)(f)(ii)
[33]	to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials	9(2)(f)(iv)
[34]	to maintain the effective conduct of public affairs through the free and frank expression of opinions	9(2)(g)(i)
[36]	to maintain legal professional privilege	9(2)(h)
[37]	to enable the Crown to carry out commercial activities without disadvantages or prejudice	9(2)(i)
[38]	to enable the Crown to negotiate without disadvantage or prejudice	9(2)(j)
[39]	to prevent the disclosure of official information for improper gain or improper advantage	9(2)(k)
[40]	Not in scope	

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) and section 18 of the Official Information Act.



Reference: T2016/2353

CM-1-3-1-2-3

Date: 2 December 2016

To: Minister of Finance (Hon Bill English)  
Associate Minister of Finance (Hon Steven Joyce)  
Associate Minister of Finance (Hon Paula Bennett)

Deadline: Cabinet, 5 December 2016

### Aide Memoire: ACC Levies: EGI follow-up

This note aims to support Cabinet’s consideration of ACC levy rates for 2017/18 and 2018/19 by providing more information on issues discussed at EGI on 30 November:

- the impact of a Terranova settlement on ACC levies, and our recommendation that Terranova costs are not reflected in levy decisions now, and
- [40]

### We don’t recommend reflecting Terranova costs in levy rates now

Based on the settlement envelope agreed by Ministers, Terranova costs are projected to increase the Motor Vehicle levy by about \$16 (see Table 1). In theory, this would wipe out the \$16 reduction recommended for the 2017/18 and 2018/19 levy years.

Table 1: Projected impacts of Terranova settlement on ACC levies

TOTAL IMPACT ON EACH YEAR					
Accounts	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Earners (\$ Levy Rate)	\$0.02	\$0.02	\$0.02	\$0.02	\$0.02
Motor Vehicle (\$ Levy Rate)	\$16.84	\$16.63	\$16.40	\$16.26	\$16.14
Work (\$ Levy Rate)	\$0.00	\$0.01	\$0.01	\$0.01	\$0.01

FY2018 runs from 1 July 2017 to 30 June 2018

One approach would be to make provision for Terranova by reducing Motor Vehicle levies by less than \$16 now. However, we don’t recommend funding these impacts until levy decisions are next made in two years’ time:

- We’ve no particular reason to think that a \$16 Motor Vehicle levy increase will be, or necessarily should be, sought at the next levy round. Levy recommendations in two years’ time will reflect all the changes to economic factors, account solvency, claims experience and policy that will occur before then; we have no way of knowing how these will pan out.

- The actual impact of a Terranova settlement on ACC levy rates is unknown, given inherent uncertainties around the numbers [T2016/2190 refers] and the fact that impacts are based on the settlement envelope rather than actual costs. Waiting until the next levy round to build the impacts into levy rates makes it more likely that the right provision will be made (and clearer what the provision is for).
- The levy-funded accounts can easily absorb projected Terranova costs over the next two years.<sup>1</sup> As Table 2 shows, account solvency would reduce due to the expected impact on the outstanding claims liability (OCL). But, even taking solvency rates as at 30 June 2016 – a low point, reflecting post-Brexit pressures that have subsequently improved – Motor Vehicle Account solvency would remain comfortably within the target band of 100-110 per cent of reported solvency (and the Earners' and Work Accounts still above it).

**Table 2: Projected impacts of Terranova settlement on ACC solvency**

Non-Earners Account	Levied Accounts			Total	
	Motor Vehicle	Work	Earners		
<u>31 October 2016</u>					
Solvency Ratio at 31 Oct 2016	83.7 %	113.7%	121.0%	119.6%	96.8%
Change for OCL impact (1.067b)	-5.9%	-4.4%	-1.2%	-1.5%	-2.7%
Solvency ratio adjusted	77.8%	<b>109.4%</b>	<b>119.9%</b>	<b>118.0%</b>	94.0%
<u>30 June 2016</u>					
Solvency Ratio at 30 Jun 2016	80.2%	107.8%	117.2%	112.8%	92%
Change for OCL impact (1.067b)	-5.4%	-4.0%	-1.1%	-1.4%	-2.5%
Solvency ratio adjusted	74.8%	<b>103.9%</b>	<b>116.0%</b>	<b>111.4%</b>	89.5%
<u>31 March 2016</u>					
Solvency Ratio at 31 Mar 2016	87.7%	111.4%	123.3%	125.0%	97.8%
Change for OCL impact (1.067b)	-6.6%	-4.4%	-0.7%	-2.1%	-2.9%
Solvency ratio adjusted	81.0%	<b>107.0%</b>	<b>122.6%</b>	<b>122.9%</b>	94.9%

Under the Government funding policy, the solvency target for the levy-funded accounts is 100-110 per cent of reported solvency (midpoint 105 per cent). Reported solvency includes a risk margin.

<sup>1</sup> Impacts on the Non-Earners' Account are not considered here. Decisions about funding for the Non-Earners' Account will be made as part of Budget 17.

Similarly, we don't recommend reflecting Terranova impacts in Earners' and Work levy decisions now either. The projected levy impacts in these accounts are much smaller than in the Motor Vehicle Account.

[40]

**Helen Anderson**, Senior Analyst, Health, [39]  
**Ben McBride**, Manager, Health, [39]

---

[40]