

The Treasury

Budget 2017 Information Release

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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)
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[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: T2017/394

CM-1-3-112-1



Date: 28 February 2017

To: Minister of Finance
(Hon Steven Joyce)

Minister supporting Greater Christchurch Regeneration
(Hon Gerry Brownlee)

Deadline: None
(if any)

Aide Memoire: Southern Response - Expected Capital Request

The board of Southern Response Earthquake Services Limited (SRES) met on Friday 24 February 2017 to consider the company's capital requirements. The board determined that it required further information from its independent actuary (Finity). This follows the results of the company's sampling of AMI claims which are still with EQC.

Following a recent sampling exercise by SRES management, Finity has been asked to provide SRES with a view as to the number of claims projected to go over the cap of \$100,000 per event (under which these remain EQC's sole responsibility). This should enable the board to prepare a request for additional capital support from the Crown. We anticipate that the request will be submitted by the end of next week (i.e. by 10 March 2017).

[25], [37]

The Treasury is preparing a Cabinet paper for shareholding ministers to consider. A draft of this paper will be appended to a Treasury Report we expect to send to shareholding Ministers once a formal request for capital is received from the company.

Components of Treasury's estimate of the amount likely to be requested

Component 1: Support to meet capital requirement after the last valuation - \$126 million.

The 31 December 2016 valuation from the independent actuary resulted in a negative equity position \$126 million greater than the current Crown support arrangements.

Component 2: Projections for newly reported overcap claims – [25], [37], [38]

The 31 March 2017 and 30 June 2017 independent valuations of SRES's claims liability
[25], [37]

[25], [37]

Component 3: Complexity is lifting per claim cost – [25], [37], [38]

Independent actuary Finity has analysed the trend in valuation movements and the nature of claims. Finity has identified that the increasing proportion of outstanding claims involving complex issues is manifesting itself in a range of higher cost elements. These cannot be easily forecast but can be accounted for probabilistically.

The actuaries consider that it is appropriate to assume that other 'unexpected' events will emerge and should be provided for in the liability estimate. However, it is not including 'black swan' events or high impact, low probability binary events in the valuation.

[25], [37], [38]

[25], [37], [38]

Treasury expects to recommend increasing the uncalled capital facility provided by the Crown by the amount required to cover SRES's balance sheet deficit.

Difference between size of capital facility required to support the company and cash flow requirements in Crown forecasts

[25], [37], [38]

[25], [37], [38]

This does mean, however, that further appropriations will be required if the central estimate rises in future quarters.

David Stanley, Principal Advisor, Commercial Operations - Strategy & Policy ^[39]
Craig Weise, Manager, Commercial Operations - Strategy & Policy, ^[39]