

The Treasury

Budget 2017 Information Release

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[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: T2016/2142

CM-1-3-1-2-3

Date: 4 November 2016

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

cc: Acting Minister for ACC (Hon Nathan Guy)

Deadline: None

Aide Memoire: ACC Non-Earners' Account at Budget 17

You have requested further information about the potential increase for the ACC Non-Earners' Account at Budget 17, which was noted in our report T2016/2084.

Based on its assessment of net cost pressures, ACC estimates that the Non-Earners' Account would require an increase of over \$500m in 2017/18 (compared to 2017/18 baselines), with smaller increases in later years. This is shown in Table 1 below.

Table 1: ACC's assessment of the Non-Earners' Account for Budget 17 (\$m)

	2017/18	2018/19	2019/20	2020/21
Current baseline	1,310	1,417	1,417	1,417
Cost pressures (net of ACC management responses)	538	297	236	214
Total	1,847	1,714	1,653	1,631

This is an initial indication of the amount ACC will seek at Budget 17, other options will be presented to Ministers, including as a result of changes to the funding policy (discussed below). Any decision to treat a Non-Earners' Account increase outside budget allowances will impact on the net debt forecasts. There is no OBEGAL impact.

What the Non-Earners' Account is for

Post-2001 non-earners' claims are funded on a fully-funded basis. The totals in Table 1 represent ACC's estimate of the lifetime cost of non-earners' claims expected in each year. Of the \$1,847m that ACC estimates will be needed for the lifetime costs of 2017/18 claims:

- \$1,140m is for treatment, rehabilitation and compensation costs in the Non-Earners' Account,

- \$335m is for treatment, rehabilitation and compensation costs for non-earners' claims in the Treatment Injury Account,
- \$128m is for operating costs,
- \$(50)m management overlay for the benefit profile of strategic initiatives, and
- \$295m is for funding adjustments to return the Non-Earners' Account to the solvency target (i.e., the expected cost of claims, excluding a risk margin), based on the current funding policy for the Account. The Account is now slightly below the solvency target due to discount rate changes and expenditure not funded.

Drivers of ACC's cost pressures

ACC has given MBIE and Treasury a significant amount of supporting information on its cost pressures for Budget 17. We are working through this information, and will provide a further briefing outlining what it tells us about ACC's underlying cost drivers and performance. Table 2 below provides an initial summary of this information.

Table 2: ACC's assessment of Non-Earners' Account cost pressures in 2017/18¹

Description	2017/18 (\$m)	Comment
2016/17 baseline	1,231	
Cost pressures		
<i>Uncontrollable</i>	523	Driven by changes in discount rates, partly offset by positive movements in investment rate and base inflation. Reflects economic assumptions as at 30 June 2016. ²
<i>Influenced by ACC</i>	143	Includes changes in claim frequency and severity as well as policy/operational settings. Reflects the difference between expected and actual funding position. Underlying claims costs are also increasing.
<i>Sub-total</i>	666	
<i>Less ACC management initiatives</i>	(50)	ACC initiatives in areas such as injury prevention, elective surgery and social rehabilitation.
Net impact	616	
TOTAL	1,847	

In contrast to the Non-Earners' Account, ACC is still proposing reductions in two of its three levy-funded accounts. While similar factors drive costs across all of ACC's accounts, a key difference is that solvency in the levy-funded accounts is above the

¹ Compared to 2016/17 baselines. As requested by Treasury, ACC has provided its cost pressure information for Budget 17 relative to the approved 2016/17 appropriation.

² ACC's calculations also incorporate discount rate changes from 2015. As part of Budget 16, ACC sought a Non-Earners' Account increase for 2016/17 and out years that was not fully approved by Cabinet.

funding target, so levies need to be set below expected costs to reduce over-funding.³ This is not the case in the Non-Earners' Account, which is now slightly under-funded.

Impact of the Non-Earners' Account funding policy

The size of ACC's cost pressures partly reflects the existing funding policy for the Non-Earners' Account. Officials have been exploring options that would bring this policy more into line with the funding policy used for ACC's other accounts – although we think a different funding horizon is probably warranted [T2016/2039 refers].

Applying different funding policy assumptions (see Table 3 below) would significantly reduce ACC's estimated appropriation requirements across the forecast period. ACC is modelling the size of this impact. While changes to the funding policy make a big difference to the distribution of funding requests over time, they would not influence the funding requirements of the Non-Earners' Account over the long run.

Table 3: Impact of Non-Earners' Account funding policy

Existing Non-Earners' Account funding policy	Impact	Officials' recommendation
New year costs discounted at risk-free rates	<ul style="list-style-type: none"> Bias toward over-funding Inflates appropriations in the short to medium term 	Switch from risk-free rates to expected investment returns (as per levy-funded accounts)
Uses a 3-year funding horizon to address over/under-funding	<p>Compared to a longer horizon:</p> <ul style="list-style-type: none"> All else being equal, keeps appropriations higher in the short/medium term when the Account is in deficit (as it is now) A fall in funding position (as the Account has had) hits appropriations more quickly 	Officials have been exploring different horizon options, all of which would reduce estimated funding requirements for 2017/18 given the current funding position of the Non-Earners' Account (but this could change in future).

Next steps

- Ministers have not yet received any formal advice about ACC's assessment of cost pressures or likely funding request at Budget 17. Officials are working through the cost pressure information recently supplied by ACC, and will provide you with a further briefing on this.
- You are scheduled to meet Hon Guy on 16 November to discuss the Non-Earners' Account funding policy.
- As part of the Budget 17 process, we will assess and advise you on any Budget bid received for the Non-Earners' Account.

Helen Anderson, Senior Analyst, Health, ^[39]

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³ There are also timing differences: e.g., ACC's levy calculations for 2017-19 reflect March 2016 discount rates.