

# The Treasury

## Budget 2017 Information Release

### Release Document July 2017

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Reference: T2017/615

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Date: 15 March 2017

To: Minister of Finance (Hon Steven Joyce)

Cc: Minister for ACC (Hon Michael Woodhouse)

Deadline: None

## **Aide Memoire: Follow-up on ACC Budget 2017 initiative**

You met Minister Woodhouse on 9 March to discuss funding for ACC Non-Earners' appropriations at Budget 2017. This note provides further information on two issues raised at that meeting:

- how the scaled ACC Budget initiative of \$58m in 2017/18 – which seeks funding for treatment injury, GP and ambulance services – reconciles with the original initiative of \$182m in 2017/18, and

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This note supplements MBIE's briefing of 13 March (*ACC Budget 2017 bilateral: Breakdown of original and revised bids*), of which you have received a copy.

In summary, our view remains that we do not support a baseline increase for ACC non-earners' appropriations. Based on our assessment:

- negative pressures from the proposed new funding policy and ACC management initiatives outweigh the funding required for treatment injury, ambulance and GP services, and
- keeping baselines at their current level therefore provides sufficient funding for these initiatives – so it does not need to be sought again at a future Budget – and implicitly allows for a sizeable funding increase to improve solvency.

## **Reconciling the two versions of the ACC Budget initiative**

Table 1 overleaf compares the original Budget bid of \$182m in 2017/18 ('A') with its scaled version ('B'), and provides Treasury's view of the differences between them.

**Table 1: Breakdown of ACC Budget bid (\$m) – adapted from Annex 2 of MBIE briefing**

	Original bid (A): \$182m	Revised bid (B): \$58m	Treasury comment
<b>2017/18 claim costs</b>			
<b>1</b> GP	4.9	9	<i>Apply net increase</i> 4.9
<b>2</b> Operating costs	12.5	-	<i>Include – not</i> 12.5
Other claim costs – net	(45.8)	-	<i>dependent on</i> (45.8) <i>baseline increase</i>
<b>Subtotal</b>	<b>(28.4)</b>	<b>9</b>	<b>(28.4)</b>
<b>Treatment injury</b>			
Claims costs	(13.3)	(13.3)	(13.3)
Operating costs	0.5	0.5	0.5
<b>3b</b> Funding adjustment – reflects June 2016 discount rates	60.3	60.3	<i>Exclude –</i> - <i>solvency rebound</i> <i>+ consistency</i>
Pay As You Go	(0.2)	(0.2)	(0.2)
<b>Subtotal</b>	<b>47.3</b>	<b>47.3</b>	<b>(13)</b>
<b>Other</b>			
Ambulance funding	6	6	6
<b>4</b> Management response	(50)	(4)	<i>Include benefits in</i> (50) <i>keeping with</i> <i>(proposed) spend</i>
Pay As You Go	1	-	-
<b>Subtotal</b>	<b>(43)</b>	<b>2</b>	<b>(44)</b>
<b>Funding adjustment</b>			
<b>3a</b> Reflects June 2016 discount rates	206	-	<i>Exclude</i> -
<b>Total increase sought</b>	<b>182</b>	<b>58.3</b>	<b>(85.4)</b>

Compared to the original bid, the scaled bid:

- seeks more for GP services (see 1) – \$9m as against \$4.9m. We prefer the original bid of \$4.9m, which is ACC’s net cost pressure for GP services (the \$9m for free GP visits for under-13s, offset by funding policy changes and other negative pressures). Funding the gross pressure of \$9m, as requested in the scaled bid, does not allow for these offsets;

- excludes a reduction of \$33.3m in 2017/18 claims costs (see **2**). This reduction arises from the application of the proposed new funding policy, and should be deducted from the amount requested;
- excludes a requested increase of >\$200m to increase the solvency ratio for non-earners' claims, but includes the equivalent increase for non-earners' treatment injury claims (see **3a and 3b**). Both solvency adjustments reflect discount rates as at 30 June 2016, but discount rates and solvency have since improved. Given that improvement, and the removal of the >\$200m adjustment, we see no basis for funding the equivalent increase for treatment injury;
- appears to exclude a reduction of \$46m to account for the benefits of ACC management initiatives such as injury prevention (see **4**), though MBIE's briefing states that it is implicitly included. This reduction should be factored into the Budget initiative unless ACC is no longer planning to deliver these initiatives. We have had no indication that this is the case.

As Table 1 shows, we consider that no baseline increase is needed to fund treatment injury, GP and ambulance services. When the solvency adjustment based on 30 June 2016 data is taken out, negative pressures appear to far outweigh the funding required.

MBIE's briefing states that ACC has now recalculated the funding requirement at \$102m for 2017/18; we understand this increase is based on December discount rates. We have not seen this recalculation. We appreciate that some degree of solvency adjustment may be appropriate, but Table 1 suggests that keeping baselines where they are (rather than reducing them) implicitly allows for a significant solvency increase. We have no basis for recommending a larger one.

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### **Next steps**

We recommend no baseline increase for ACC non-earners' appropriations at Budget 2017. If this approach is agreed, we recommend you advise Minister Woodhouse that the funding required for treatment injury, GP and ambulance services at this time is allowed for in current baselines, and should not be added to future Budget requests.

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