

The Treasury

Material Provided to the Public Inquiry into EQC Information Release

August 2021

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Key to sections of the Act under which information has been withheld:

- [23] 9(2)(a) - to protect the privacy of natural persons, including deceased people
- [25] 9(2)(b)(ii) - to protect the commercial position of the person who supplied the information or who is the subject of the information
- [26] 9(2)(ba)(i) - 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 to prejudice 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
- [31] 9(2)(f)(ii) - to maintain the current constitutional conventions protecting collective and individual ministerial responsibility
- [33] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
- [34] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
- [35] 9(2)(g)(ii) - to maintain the effective conduct of public affairs through protecting ministers, members of government organisations, officers and employees from improper pressure or harassment;
- [36] 9(2)(h) - to maintain legal professional privilege
- [37] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice
- [38] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
- [39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage

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Treasury Report: Earthquake Commission SOI 2014-2018 and SPE

Date:	10 September 2014	Report No:	T2014/1574
		File Number:	CM-1-3-15-2

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Bill English)	Note contents of this report	None
Minister Responsible for the Earthquake Commission (Hon Gerry Brownlee)	Note contents of this report	12 September 2014

Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
Aaron Gill	Senior Analyst, Commercial Advice	[39]	✓
Stacey Wymer	Manager, Commercial Advice	[39]	[23]

Actions for the Minister's Office Staff (if required)

Return the signed report to Treasury.
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Enclosure: No

Treasury Report: Earthquake Commission SOI 2014-2018 and SPE

Purpose of Report

1. The purpose of this report is to advise the Minister Responsible for the Earthquake Commission, the Hon Gerry Brownlee, that the Treasury has now received a revised draft Statement of Intent (SOI) and Statement of Performance Expectations (SPE) from the Earthquake Commission (EQC). We consider that these documents are now suitable for tabling in the House of Representatives.

Background

Timing of the SOI and SPE

2. Amendments to the Crown Entities Act in 2013, which effectively separated the SPE from the SOI, included a one off extension (for 2014 only) to the deadline for Crown Entities to submit a final SOI. This allowed Crown Entities to deliver their final SOI with their annual report (which is due no later than 30 September 2014). However, the extended time period for submission of the SOI did not apply to the SPE.
3. Under the Crown Entities Act, a final SPE is due by 30 June and a draft SPE or draft SOI before the due date of 1 May. These documents were not delivered as expected (refer Treasury Report T2014/1509). In January, Treasury highlighted the upcoming changes to reporting requirements and provided full guidance to EQC, including guidance on the SPE. When draft documents were not received in May, Treasury advised both EQC and Minister Brownlee's office of the breach in reporting requirements. EQC also notified Minister Brownlee (on 6 July) and the EQC Board of this breach.
4. EQC has advised that its failure to deliver the final SPE by 30 June 2014 arose from its planning team's confusion regarding the guidance provided, and in particular, the revised timeframes for the SPE and SOI (there are different final dates for each document).

Consultation on EQC's Draft SOI and SPE

5. On 7 August 2014 the Treasury received the draft SOI and SPE. The Treasury provided its comments on these documents to EQC's management on 14 August 2014. Subsequently, the EQC Board reviewed the SOI and SPE at its meeting on 19 August 2014 and provided the Treasury with revised drafts on 2 September 2014. We understand that the Minister Responsible for the Earthquake Commission also received the revised draft of these documents and did not have any comments.
6. The Treasury considers that the revised documents meet EQC's legislative requirements, and are now suitable to be tabled in the House of Representatives. EQC plans to release these documents on its website by 12 September 2014.

EQC Quarterly Monitoring

7. The Treasury has recently engaged with EQC's management and Chair with respect to establishing a quarterly monitoring report. The report will be similar to the quarterly reports which Treasury Commercial Operations currently receives from the SOEs and other Crown Companies. The expected content of the report is detailed in the Owner's Expectations Manual. The report will provide detail on EQC's financial performance, against its budgeted performance, and would also provide an update on other non-financial performance targets set out in EQC's SPE.

Analysis

8. As its focus for the four years EQC has identified the following six priorities:
- Completing its response to the Canterbury earthquakes and improving EQC as a result of the experience
 - Developing and maintaining exemplary relationships with its stakeholders
 - Ensuring its organisational capability is fit for purpose to achieve strategic objectives
 - Implementing 'customer centric' approach to service delivery and the resolution of claims
 - Contributing to competitive risk pricing and financing
 - Becoming a valued leader in natural disaster risk management nationally and internationally
9. The Treasury is comfortable with EQC's priorities. In the near future, EQC will need to undertake a significant transformation and downsizing of its current organisation to a level of capability that is appropriate to the post-Canterbury circumstances.

Budget

10. The following table summarises key items from budget:

	Annual Report		Budget	Forecast
	2013	2014	2015	2016
	\$m	\$m	\$m	\$m
Earned Premiums				
Gross earned premiums	241.7	274.1	282.3	285.1
Outward reinsurance Premium expense	(132.1)	(151.2)	(160.0)	(165.0)
Net Earned Premium Revenue	109.5	122.9	122.3	120.1
Unerwriting Movements				
Reinsurance and other (reductions)/recoveries	(127.5)	(123.2)	14.5	0.7
Claims reduction	167.4	271.5	124.4	(47.2)
Catastrophe response programme	(14.2)	(15.9)	(21.4)	(18.1)
Unexpired risk liability (increase)/reduction	67.8	(8.9)	1.4	70.1
Total Underwriting Movements	93.5	123.6	119.0	5.6
Surplus from Insurance Activities	203.0	246.5	241.3	125.7
Other Operating Income	0.3	0.2	0.0	0.0
Other Operating Costs				
Public education	(1.6)	(1.4)	(1.4)	(1.6)
Research (excluding GeoNet)	(5.2)	(7.1)	(9.0)	(9.6)
GeoNet programme	(9.7)	(9.5)	(9.2)	(9.4)
Total Operating Income and Costs	(16.2)	(17.7)	(19.7)	(20.5)
Surplus From Investment Activities	44.8	70.0	11.9	(0.6)
Crown underwriting Fee	(10.0)	(10.0)	(10.0)	(10.0)
Net Surplus	221.6	288.9	223.5	94.6
<i>Increase in Premium Income</i>		13.4%	3.0%	1.0%
<i>Increase in Reinsurance Expenditure</i>		14.4%	5.8%	3.1%
<i>Reinsurance % of Earned Premium</i>	54.7%	55.2%	56.7%	57.9%

11. EQC has forecast a modest increase in premium income over the next two years. Over the same time period the proportion of premium income used to purchase reinsurance is forecast to increase. Ultimately, it is the EQC Board who set the parameters for the reinsurance programme, which currently includes nationwide coverage for all perils covered by the Earthquake Commission Act 1993 (the Act). However, as noted in paragraph 16 there may be grounds, in the future, to take account of the Crown's risk preference.

Natural Disaster Fund (NDF) deficiency

12. EQC's financial statements included in the SPE show a negative closing cash position for 2015 and 2016. With respect to the negative cash position, EQC notes, in the SPE, that the Crown has confirmed, in writing, its obligation under Section 16 of the Act (the Crown Guarantee).
13. Under this commitment, the Crown will fund EQC as it requires cash to meet its claims obligations as they fall due. The first cash payment to EQC is expected to be required in March 2015. The following table shows EQC's forecast Crown cash funding requirements under Section 16 of the EQC Act.

Fiscal year	2014/15	2015/16
Forecast Crown cash funding requirement (from PREFU 2014 estimates) (\$ millions)	608.0	37.1

14. Under section 16 of the EQC Act, the Crown shall, by way of advance or grant, fund any NDF deficiency. However, an alternative option would be to provide EQC funds through an equity injection. The Treasury is currently evaluating these options.

Taking Account of the Crown's Risk Preference

15. While ultimately the Crown guarantees all EQC claims through the NDF Crown Guarantee, the balance between the level of costs being met from reinsurance or accumulated funds (NDF) will impact on the Crown's balance sheet and risk exposure should a major event occur.
16. All methods of prefunding potential claims costs, irrespective of type of asset, will result in a deterioration of the Crown's financial position should a major EQC claim event occur. However, reinsurance can reduce the Crown's risk exposure should a significant event occur.
17. Potentially under section 12 of the EQC Act the Minister may take account of the Crown's wider financial position and risk management settings in directing EQC with respect to the risk exposure the Crown is willing to take. This would then impact on the design of EQC's reinsurance programme. The Treasury intends to report on this issue, along with the options to meet the Crown Guarantee, in the coming months.

Recommended Action

We recommend that you:

- a **note** the Treasury has already provided EQC its comments on the draft Statement of Intent (SOI) and Statement of Performance Expectations (SPE), and
- b **note** the Treasury considers that the revised documents meet EQC's legislative requirements, and are now suitable to be tabled in the House of Representatives.

Stacey Wymer
Manager, Commercial Advice

Hon Bill English
Minister of Finance

Hon Gerry Brownlee
**Minister Responsible for the
Earthquake Commission**