

other rehabilitation costs, weekly compensation and rising costs in the pay-as-you-go portion of the Treatment Injury Account.

- 12 With the exception of the Treatment Injury Account, the deficit that has arisen, and the cost pressures that have occurred, are all new and have arisen since the 2007/08 adjustment in government appropriations. The deficit in the Treatment Injury Account is due to a failure to create an appropriate funding policy for this Account. As discussed above, the Department raised this issue with the former Minister last year, and Cabinet directed officials to rectify this.
- 13 The Government could choose not to fully-fund the Non-Earners' Account for claims after 1 July 2001. This would reduce the immediate funding requirements, however, it would only push costs on to future generations. Also as ACC's liabilities are also the Crown's liabilities, not funding the liability would be fiscally neutral i.e. this would still increase Government debt.

Treasury engagement

- 14 Officials from The Treasury have been kept informed of the situation as the Department of Labour became aware of it. Formal advice was provided in the form of a letter from the Minister for ACC to the Minister of Finance on 22 October 2008.
- 15 Treasury officials have confirmed that the proposed \$297 million increase in appropriations has not been included in the Pre-Election Fiscal Update. This is because The Treasury forecasts do not include allowances for Cabinet decisions which have not yet been made.
- 16 The Treasury have confirmed that cost pressures in ACC, including the proposed \$297 million increase in appropriations, have been raised with the incoming Minister of Finance in its briefing early last week.

Timing of Cabinet paper

- 17 A Cabinet paper on updated appropriation requirements would normally be sent to Cabinet at the same time that October Baseline Updates are considered. Due to the Pre-Election Economic and Fiscal Update, the deadline for baseline updates was brought forward. This meant that there was not enough time, following the 30 June review of liabilities, for ACC's actuaries to calculate the required appropriations. The former Minister agreed that the Cabinet paper instead be aligned with the levies paper in December 2008.
- 18 Because the issue is of significant consequence, the Department subsequently advised the former Minister to wait until after the General Election period to present the proposed increase in appropriations to Cabinet. This aligns with advice contained in Cabinet Office Circular Constitutional Procedures after the General Election (CO (08)7) of 6 October 2008.
- 19 ACC will continue to receive the currently approved levels of appropriation and has sufficient funds to meet short-term cashflow requirements until March 2009. ACC would therefore require Cabinet to address this issue by mid-February 2009.