

# The Treasury

## Budget 2014 Information Release

### Release Document

### July 2014

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Key to sections of the Official Information Act 1982 under which information has been withheld.

Certain information in this document has been withheld under one or more of the following sections of the Official Information Act, as applicable:

- [1] 6(a) - to prevent prejudice to the security or defence of New Zealand or the international relations of the government
- [2] 6(c) - to prevent prejudice to the maintenance of the law, including the prevention, investigation, and detection of offences, and the right to a fair trial
- [3] 9(2)(a) - to protect the privacy of natural persons, including deceased people
- [4] 9(2)(b)(ii) - to protect the commercial position of the person who supplied the information or who is the subject of the information
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- [6] 9(2)(d) - to avoid prejudice to the substantial economic interests of New Zealand
- [7] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
- [8] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
- [9] 9(2)(h) - to maintain legal professional privilege
- [10] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice
- [11] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
- [12] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage
- [13] Not in scope
- [14] 6(e)(iv) - 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.

Where information has been withheld, a numbered reference to the applicable section of the Official Information Act has been made, as listed above. For example, a [3] appearing where information has been withheld in a release document refers to section 9(2)(a).

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

Reference: T2014/669

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**THE TREASURY**

Kaitohutohu Kaupapa Rawa

Date: 11 April 2014

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

Deadline: None  
(if any)

## Aide Memoire: ACC levies in Budget 2014 forecasts updated information

This aide memoire explains the error in the ACC levy scenarios contained in the aide memoire we provided to you last week (T2014/595 refers). The error relates to the calculation of the Unexpired Risk Liability (URL).

Last week we provided information on ACC levy scenarios, including the rates that ACC is planning to consult on, as well as alternative levy scenarios and their associated OBEGAL impacts. ACC informed us on Thursday 10 April that there had been an error in the calculation of the URL that substantially overstated its impact on OBEGAL. The table below shows the extent of that impact, and the revised totals of the alternative levy rates. An explanation of why the URL impact remains the same across the different Work Account levy rates is provided below.

**Table 1: 2014/15 OBEGAL impacts of alternative levy rates for 2015/16 corrected**

Account	Rate	2014/15 OBEGAL impact (\$M)					
		Levy revenue	URL provided last week	Corrected URL	Investment income	TOTAL original	Revised Total
Earners'	\$1.20	(16.800)	(16.762)	n/c	(0.071)	(33.633)	n/c
Work	\$0.80	10.350	31.049	23.347	0.001	41.400	33.697
	\$0.85	20.700	62.099	23.347	0.001	82.800	44.048
	\$0.90	31.049	93.148	23.347	0.002	124.199	54.398
	\$0.95 (existing rates)	41.399	124.197	23.347	0.003	165.599	64.749

These OBEGAL impacts reflect the difference to what is included in ACC's preliminary BEFU forecasts.

## **Why did the error in the URL occur?**

ACC has explained that the original error arose because they manually calculated the impact of different levy rate options instead of completely recalculating the full budget model (including profit & loss and balance sheet) for each different levy rate option.

When performing the manual calculation, ACC omitted a key assumption limiting the impact on the URL to \$23 million<sup>1</sup>. The calculations ACC performed did not include this restriction and allowed the URL to become negative. ACC detected the error when they then subsequently updated their full budget model for the levy scenarios as part of their submission to the Treasury.

Due to the complex modelling required, the Treasury relies on ACC to calculate the impact of levy rate adjustments, including URL and OBEGAL impacts. When ACC provided the levy options for inclusion in the aide memoire on Friday last week (T2014/595 refers), we queried the numbers as the total OBEGAL impact was much bigger than we were expecting. But as noted above, without having undertaken the detailed calculations ACC weren't aware of the error in the calculation of the URL.

## **Next steps**

At this point ACC has uploaded its forecasts with the indicative Work Account levy rate of \$0.95, rather than the indicative levy rate of \$0.75 that is included in the preliminary BEFU forecasts and is the rate ACC will consult on. We need confirmation from Ministers that the work levy rate of \$0.95 reflects their likely intentions. Cabinet will make a decision on levy rates after ACC has consulted in made its recommendations.

ACC is currently in the process of reviewing its assumptions and will confirm its forecasts on Monday. We will be meeting with ACC on Tuesday next week once this process has been completed to review their forecast assumptions and understand any movements since the preliminary forecasts.

**Ben McBride**, Manager, Health, Budget & Public Services, 04 917 6184

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<sup>1</sup> The URL cannot drop below zero (i.e. become an asset).