

The Treasury

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Release Document

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Date: 16 March 2012

To: Minister of Finance

Aide Memoire: Disparity between the Student Loans Budget Package and IRD's Portfolio Review

Purpose

You are meeting with Minister Joyce tomorrow (17 March). We understand he is likely to raise the issue of Inland Revenue's ability to implement changes to student loans as part of Budget 2012. This note provides you with information for that discussion.

Background

On Tuesday (13 March) you discussed Inland Revenue's 'Portfolio Review' with Minister Dunne and officials. [6]

Ministers Joyce and Dunne had a similar discussion on Wednesday (14 March). We understand that this included discussion of student loans and Inland Revenue's capacity to make changes in the coming Budget.

Treasury has subsequently seen the student loan and allowance Budget package agreed between Ministers Joyce and Dunne on Wednesday. **A number of the components of this package are not consistent with the messages coming out of your meeting with Minister Dunne; in particular as several of them have significant IT systems implications for Inland Revenue.**

This means that, in addition to things which have been taken off Inland Revenue's work programme following your meeting on Tuesday, it is likely that further cuts would need to be made in order to progress student loans priorities.

The allowances component of the package does not have implications for Inland Revenue. The loans components of the package underlined below would have significant systems implications.

Outline of student loans package (policies with systems implications underlined)

1. Introducing an annual 2.0 EFTS borrowing limit.
2. [6]
3. Increasing the repayment rate to 11 cents in the dollar for all New Zealand-based borrowers over the repayment threshold. This could only be implemented at the expense of other work currently being progressed.

4. Changes to the voluntary repayment bonus policy.
5. Broadening the definition of income for student loan repayments. This has systems implications, but these have been incorporated into Inland Revenue's portfolio review and can be progressed without jeopardising further work.
6. Information matching with Inland Revenue and the New Zealand Customs Service. This could only be implemented at the expense of other work currently being progressed.
7. [6]

The combined effect of agreeing to these policies as part of the student loans package would be to divert resources from the revised portfolio of work (still yet to be confirmed following a report on 29 March). This includes diverting resources away from Inland Revenue's Business Transformation programme and other initiatives that you have signalled as priorities – such as *Simplifying Filing Requirements*, *Crown Debt Offsetting* and *iGovt*.

As Inland Revenue has not yet provided us with information on exactly what the trade-offs are with progressing the student loans initiatives, we cannot advise you on this. We will let you know as soon as we have further information on this.

The changes proposed above largely represent changes around the edges of the student loans scheme to either reduce eligibility or increase repayments. There are alternatives to these options which have been assessed as part of the Budget policy development process. [6]

The list above represents policies which would address areas other than those that have already been addressed.

Treasury Comment

Treasury would emphasise that three items in the student loans package (increasing the repayment rate, an Inland Revenue/Customs information match and [6] have significant systems implications for Inland Revenue. They should be progressed only if you and Minister Dunne are willing to remove something else from the department's proposed portfolio of initiatives.

Treasury would also note that including these three items in the student loans Budget package would not leave time for Inland Revenue to meet the business case requirements for capital investments. [7]

We recommend that you discuss the above issues with Minister Joyce at your meeting tomorrow.

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