

# The Treasury

## Budget 2015 Information Release

### Release Document July 2015

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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] 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.
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- [6a] 9(2)(ba)(ii) - to protect information, where the making available of the information would be likely otherwise to damage the public interest
- [7] 9(2)(d) - to avoid prejudice to the substantial economic interests of New Zealand
- [8] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
- [8a] 9(2)(f)(ii) - to maintain the current constitutional conventions protecting the collective and individual ministerial responsibility
- [9] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
- [10] 9(2)(h) - to maintain legal professional privilege
- [11] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice
- [12] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
- [13] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage
- [14] Not in scope

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 [4] 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.



## Minute of Decision

*This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.*

### 2015 Budget Package: Vote Revenue

#### Portfolio: Revenue

On 20 April 2015, Cabinet:

- 1 **approved** the Budget initiatives for the above Vote for inclusion in the 2015 Budget package, as listed in the summary below and detailed in the attached initiative documents;

#### Summary of initiatives included in the attached initiative documents:

##### Operating Initiatives (Impact on Operating Balance)

Initiative ID	Initiative Name	\$m - increase/(decrease)				
		2014/15	2015/16	2016/17	2017/18	2018/19
8955	Investing to Increase the Number of Engineering Graduates	-	0.012	0.042	0.104	0.462
8956	Set the Annual Maximum Fee Movement at 3% for 2016	-	(3.848)	(4.513)	(4.341)	(4.124)
8954	Maintain the Student Allowance Parental Income Threshold	-	0.027	0.436	1.537	2.261
8925 & 8946	KiwiSaver: Removal of Kickstart Payment	(16.810)	(174.920)	(126.000)	(106.000)	(107.000)
<b>Total Operating</b>		<b>(16.810)</b>	<b>(178.729)</b>	<b>(130.035)</b>	<b>(108.700)</b>	<b>(108.401)</b>

##### Capital Initiatives (Impact on Debt)

Initiative ID	Initiative Name	\$m - increase/(decrease)				
		2014/15	2015/16	2016/17	2017/18	2018/19
8955	Investing to Increase the Number of Engineering Graduates	-	-	(0.002)	(0.006)	(0.013)
8956	Set the Annual Maximum Fee Movement at 3% for 2016	-	0.002	0.085	0.317	0.667
8954	Maintain the Student Allowance Parental Income Threshold	-	-	-	(0.001)	(0.013)
<b>Total Capital</b>		<b>-</b>	<b>0.002</b>	<b>0.083</b>	<b>0.310</b>	<b>0.641</b>

- 2 **approved** the changes to appropriations to Inland Revenue to implement the initiatives, as set out in the attached initiative documents;
- 3 **approved** the additional recommendations to give effect to the initiatives, as set out in the attached initiative documents;
- 4 **agreed** that the proposed changes to appropriations for 2014/15 above be included in the 2014/15 Supplementary Estimates;
- 5 **authorised** the Minister of Finance and the Minister of Revenue to approve jointly any technical adjustments to baselines necessary to remove any errors or inconsistencies identified while finalising the 2014/15 Supplementary Estimates, the 2015/16 Estimates and the fiscal forecasts;
- 6 **noted** that all communications relating to the 2015 Budget are co-ordinated by a Budget communications committee, and that any requests for early announcement will need to have both the written approval of the Minister of Finance and sign-off from the Prime Minister's office;

Secretary of the Cabinet

Reference: CAB (15) 173

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**Initiative No: 8955****Vote:** Revenue**Title:** Investing to Increase the Number of Engineering Graduates**Description:** International comparisons suggest that New Zealand produces engineers at a rate significantly lower than the Organisation for Economic Co-operation and Development (OECD) average, impacting on economic opportunity. This initiative provides for an increase in the number of graduate engineers.**Appropriation Changes**

	<b>\$m - increase/(decrease)</b>					
	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>
Operating Balance Impact	-	0.012	0.042	0.104	0.462	0.338
Debt Impact	-	-	(0.002)	(0.006)	(0.013)	(0.031)
No Impact	-	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>0.012</b>	<b>0.040</b>	<b>0.098</b>	<b>0.449</b>	<b>0.307</b>

	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26 &amp; Out-years</b>
Operating Balance Impact	0.946	1.140	0.037	(0.128)	(0.134)	-
Debt Impact	(0.055)	(0.064)	(0.061)	(0.046)	0.012	-
No Impact	-	-	-	-	-	-
<b>Total</b>	<b>0.891</b>	<b>1.076</b>	<b>(0.024)</b>	<b>(0.174)</b>	<b>(0.122)</b>	<b>-</b>

	<b>\$m - increase/(decrease)</b>					
	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>
<b>Non-Departmental Other Expense:</b>						
Initial Fair Value Write-Down Relating to Student Loans	-	0.013	0.044	0.108	0.477	0.371
	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26 &amp; Out-years</b>
	0.990	1.224	0.159	-	-	-

**Additional Recommendations**

7 **noted** that as a result of this initiative there is a forecast increase (and decrease in 2024/25) in Student Loans receipts, as set out in the following table:

	\$m - increase/(decrease)					
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
<b>Capital Receipts:</b> Student Loans - Receipts	-	-	0.002	0.006	0.013	0.031
	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26 &amp; Out-years</b>
	0.055	0.064	0.061	0.046	(0.012)	-

8 **noted** that the debt impact reflected above is broadly assumed to be neutral over a ten year period and, as such, is not a charge against the Future Investment Fund;

9 **noted** that as a result of this initiative there is a forecast increase in interest collected from Student Loans, as set out in the following table:

	\$m - increase/(decrease)					
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
<b>Non-Tax Revenue:</b> Interest on Impaired Student Loans	-	0.001	0.002	0.004	0.015	0.033
	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26 &amp; Out-years</b>
	0.044	0.084	0.122	0.128	0.134	-

10 **noted** that there are associated initiatives in Vote Social Development (initiative number 8953 refers) and Vote Tertiary Education (initiative number 8725 refers);

## Initiative No: 8956

**Vote:** Revenue

**Title:** Set the Annual Maximum Fee Movement at 3% for 2016

**Description:** The Annual Maximum Fee Movement will be reduced from 4% to 3% for the 2016 calendar year.

### Appropriation Changes

	\$m - increase/(decrease)				
	2014/15	2015/16	2016/17	2017/18	2018/19 & Out-years
Operating Balance Impact	-	(3.848)	(4.513)	(4.341)	(4.124)
Debt Impact	-	0.002	0.085	0.317	0.667
No Impact	-	-	-	-	-
<b>Total</b>	-	<b>(3.846)</b>	<b>(4.428)</b>	<b>(4.024)</b>	<b>(3.457)</b>

	\$m - increase/(decrease)				
	2014/15	2015/16	2016/17	2017/18	2018/19 & Out-years
<b>Non-Departmental Other Expense:</b>					
Initial Fair Value Write-Down Relating to Student Loans	-	(3.947)	(4.960)	(5.173)	(5.363)
<b>Total Operating</b>	-	<b>(3.947)</b>	<b>(4.960)</b>	<b>(5.173)</b>	<b>(5.363)</b>
<b>Total Capital</b>	-	-	-	-	-

### Additional Recommendations

11 **noted** that as a result of this initiative there is a forecast decrease in Student Loans receipts, as set out in the following table:

	\$m - increase/(decrease)				
	2014/15	2015/16	2016/17	2017/18	2018/19 & Out-years
<b>Capital Receipts:</b>					
Student Loans - Receipts	-	(0.002)	(0.085)	(0.317)	(0.667)

12 **noted** that the debt impact reflected above is broadly assumed to be neutral over a ten year period and, as such, is not a charge against the Future Investment Fund;

**Initiative No: 8956**

- 13 **noted** that as a result of this initiative there is a forecast decrease in interest collected from Student Loans, as set out in the following table:

	<b>\$m - increase/(decrease)</b>				
	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19 &amp; Out-years</b>
<b>Non-Tax Revenue:</b>					
Interest on Impaired Student Loans	-	(0.099)	(0.447)	(0.832)	(1.239)

- 14 **noted** that there is an associated initiative in Vote Social Development (initiative number 8952 refers);

## Initiative No: 8954

**Vote:** Revenue

**Title:** Maintain the Student Allowance Parental Income Threshold

**Description:** The student allowance parental income threshold will be maintained at \$55,027.96 until 1 April 2017.

### Appropriation Changes

	\$m - increase/(decrease)				
	2014/15	2015/16	2016/17	2017/18	2018/19 & Out-years
Operating Balance Impact	-	0.027	0.436	1.537	2.261
Debt Impact	-	-	-	(0.001)	(0.013)
No Impact	-	-	-	-	-
<b>Total</b>	-	<b>0.027</b>	<b>0.436</b>	<b>1.536</b>	<b>2.248</b>

	\$m - increase/(decrease)				
	2014/15	2015/16	2016/17	2017/18	2018/19 & Out-years
<b>Non-Departmental Other Expense:</b>					
Initial Fair Value Write-Down Relating to Student Loans	-	0.027	0.444	1.623	2.520
<b>Total Operating</b>	-	<b>0.027</b>	<b>0.444</b>	<b>1.623</b>	<b>2.520</b>
<b>Total Capital</b>	-	-	-	-	-

### Additional Recommendations

15 **noted** that as a result of this initiative there is a forecast increase in Student Loans receipts, as set out in the following table:

	\$m - increase/(decrease)				
	2014/15	2015/16	2016/17	2017/18	2018/19 & Out-years
<b>Capital Receipts:</b>					
Student Loans - Receipts	-	-	-	0.001	0.013

16 **noted** that the debt impact reflected above is broadly assumed to be neutral over a ten year period and, as such, is not a charge against the Future Investment Fund;



**Initiative No: 8954**

- 17 **noted** that as a result of this initiative there is a forecast increase in interest collected from Student Loans, as set out in the following table:

	<b>\$m - increase/(decrease)</b>				
	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19 &amp; Out-years</b>
<b>Non-Tax Revenue:</b>					
Interest on Impaired Student Loans	-	-	0.008	0.086	0.259

- 18 **noted** that there is an associated initiative in Vote Social Development (initiative number 8920 refers);

**Vote:** Revenue

**Title:** Addressing Child Support Legacy Debt

**Description:** This initiative aims to address legacy child support debt and encourage liable parents to pay their child support by enabling Inland Revenue to reduce the burden of unfair, high and cumulative penalties currently faced by many liable parents.

### Additional Recommendations

- 19 **noted** that officials are currently revising the costs of the *Addressing Child Support Legacy Debt* initiative;
- 20 **noted** that this initiative aims to implement the following two proposals:
  - 20.1 extend the mandatory write-off of monthly incremental penalties for payment arrangements, subject to 26 week review, to payment arrangements where a liable person has not explicitly agreed to the arrangement;
  - 20.2 amend the discretionary penalty write-off tests to adopt a more pragmatic test based on “fair and reasonable”
- 21 **agreed** to the *Addressing Child Support Legacy Debt* initiative described, subject to the finalisation of costs before 24 April;
- 22 **authorised** the Minister of Finance and the Minister of Revenue to jointly approve any changes to forecasts and appropriations to give effect to the *Addressing Child Support Legacy Debt* initiative;

## Initiative No: 8946

**Vote:** Revenue

**Title:** KiwiSaver: Removal of Kickstart Payment

**Description:** This initiative removes the one-off \$1,000 Kickstart contribution paid to new enrollees. Legislative changes will be effective from 21 May 2015.

### Appropriation Changes

	\$m - increase/(decrease)				
	2014/15	2015/16	2016/17	2017/18	2018/19 & Out-years
Operating Balance Impact	(16.810)	(174.920)	(126.000)	(106.000)	(107.000)
Debt Impact	-	-	-	-	-
No Impact	-	-	-	-	-
<b>Total</b>	<b>(16.810)</b>	<b>(174.920)</b>	<b>(126.000)</b>	<b>(106.000)</b>	<b>(107.000)</b>

	\$m - increase/(decrease)				
	2014/15	2015/16	2016/17	2017/18	2018/19 & Out-years
<b>Departmental Output Expenses:</b>					
Services to Inform the Public About Entitlements and Meeting Obligations (funded by Revenue Crown)	0.133	0.056	-	-	-
Services to Process Obligations and Entitlements (funded by Revenue Crown)	0.057	0.024	-	-	-
<b>Benefit or Related Expense:</b>					
KiwiSaver: Kickstart Payment	(17.000)	(175.000)	(126.000)	(106.000)	(107.000)
<b>Total Operating</b>	<b>(16.810)</b>	<b>(174.920)</b>	<b>(126.000)</b>	<b>(106.000)</b>	<b>(107.000)</b>

### Additional Recommendations

- 23 **noted** that the KiwiSaver scheme induces little additional household saving at substantial fiscal cost and is therefore poor value-for-money;
- 24 **agreed** to remove the KiwiSaver Kickstart contribution paid to all new KiwiSaver members with effect from an announcement and bill on 21 May 2015;
- 25 **noted** that this proposal is likely to have limited effect on enrolment rates in KiwiSaver among the legislated target population as a result of other subsidies and employer contributions;

## Initiative No: 8946

26 **noted** that this initiative will generate fiscal savings as set out in the following table:

	\$m - increase/(decrease)				
	2014/15	2015/16	2016/17	2017/18	2018/19 & Out-years
<b>Removal of Kickstart Payment</b>	(17.000)	(175.000)	(126.000)	(106.000)	(107.000)

27 **noted** that there is a risk that a small number of entitlements from before 21 May 2015 will be paid in 2015/16;

28 **authorised** the Minister of Finance and the Minister of Revenue jointly to increase the appropriation as necessary to meet this risk, with the increase to be charged against the between-Budget operating contingency, established as part of Budget 2015;

29 **agreed** that any changes to appropriations approved under recommendation 28 above be included in the 2015/16 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply;

30 **agreed** to delegate to the Minister of Finance, Minister of Revenue and the Minister of Commerce the joint authority to make decisions on the detailed implementation of these recommendations;

31 **invited** the Minister of Revenue to issue drafting instructions for the necessary amendments for inclusion in a bill for introduction on 21 May 2015.