The Treasury

Budget 2014 Information Release

Release Document

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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

[5] 9(2)(ba)(i) - to prevent prejudice to 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.

[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: T2014/492 SH-4-6-0

Date: 21 March 2014

To: Minister of Finance (Hon Bill English)

Deadline: Budget Ministers Meeting #2 on 24 March 2014

Aide Memoire: Budget 2014 - Advice on the Timing of Freezing the Student Loan Repayment Threshold

This Aide Memoire provides you with information on the savings profile, fiscal impacts and timing issues of deferring the decision to freeze the Student Loan repayment threshold to 2014/15. A freeze of the Student Loan repayment rate to 1 April 2017 [7] is currently under active consideration by Ministers as part of the Vote Tertiary Education Budget 2014 package. The financial implications are outlined in the table below.

Operating impact ($m)	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18 & out-years**	**Reduces cost of lending (cents per $)**
Suspend the repayment threshold until 1 April 2017	(51.6)	(13.0)	(14.9)	(14.3)	(12.7)	0.66
[7]						

Background

Policy changes leading to savings in the student loan scheme have two types of operating impacts. Firstly, the cost of all new lending is reduced (initial fair value write-down), which leads to ongoing savings. Secondly, the value of existing student loans increases, leading to a one-off operating impact (a “negative impairment”). This latter impact is “booked” in the fiscal year when the decision is taken or forecasters become aware of intended future decisions.

Timing issues and fiscal impact for Budget 2014

If Ministers defer decisions on extending the threshold freeze until 2014/15, the one-off gain would have a positive operating impact in 2014/15. One-off operating savings in 2014/15 are only possible if Ministers decline to make the decision now.

If the decision is taken in July 2014 the only difference in the financial recommendations is to shift the impairment number from 2013/14 into 2014/15.[1] The magnitude of the impairment number is unchanged. Taking the decision later in 2014/15 would change the *mix* of savings in that year – reducing initial fair value write-down savings and increasing impairment savings in 2014/15.

Taking the decision in July 2014 would also have the following impact for Budget 2014:

- the one-off gain could not be included in calculating the forecast 2014/15 operating surplus/deficit in Budget 2014 documents
- neither the one-off gain or the ongoing annual savings could be applied to fund new initiatives in Budget 2014, so a given set of spending initiatives will have a greater net impact on the new spending allowances

The Treasury would need to consider including the freeze of the student loan repayment threshold as a positive fiscal risk in the specific fiscal risks chapter depending on the probability of the change. If the change has a high probability but is less than certain, it would need to be included as a (quantified) fiscal risk.

Effect on the 30 June 2014 Valuation

Should Ministers take the decisions in July 2014, the valuers of the student loan scheme (PwC) would produce a valuation as at 30 June 2014 which at the time it is produced would be known to be out of date.

In addition, the one-off “negative impairment” from the policy change will not offset any impairment in the final valuation report of the student loans scheme, which will likely be published in August. The forecast valuation report of the loan scheme at 30 June 2014 shows an impairment of $22 million, with a risk the final impairment will be larger. If the decision on a freeze of the student loan repayment is made in 2013/14, the one-off “negative impairment” from the policy change will offset the impairment as outlined in the final valuation report.

Pre-Election Period

While the caretaker convention does not apply in the pre-election period and Governments retain the right to govern until the election, Governments have chosen to restrict their actions to some extent during previous pre-election periods.
Ministers should consider whether they wish to take significant fiscal and policy decisions such as this in the three months before the election.

[8]

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[1] Assuming that CPI forecasts do not change, and the BEFU 2014 lending forecast remains the same as the preliminary BEFU 2014 lending forecast.