

The Treasury

Budget 2011 Information Release

Release Document

June 2011

www.treasury.govt.nz/publications/informationreleases/budget/2011

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] 9(2)(a) - to protect the privacy of natural persons, including deceased people
- [2] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
- [3] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
- [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)(k) - to prevent the disclosure of official information for improper gain or improper advantage
- [6] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
- [7] 6(a) - to prevent prejudice to the security or defence of New Zealand or the international relations of the government
- [8] 9(2)(h) - to maintain legal professional privilege
- [9] 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
- [10] 9(2)(d) - to avoid prejudice to the substantial economic interests of New Zealand
- [11] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice.

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, an [8] appearing where information has been withheld in a release document refers to section 9(2)(h).

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.

Budget 2011: Making KiwiSaver More Cost-Effective

Portfolios: Finance / State Services / Revenue

On 11 April 2011, Cabinet:

Proposed changes

- 1 **agreed** to remove the Employer Superannuation Contribution Tax exemption for KiwiSaver and complying superannuation funds, with effect from 1 April 2012;
- 2 **agreed** to apply the progressive scale method to employer superannuation contribution tax calculations generally from 1 April 2012;
- 3 **noted** the following increase in tax revenue as a result of the decisions in paragraphs 1 and 2, with a corresponding impact on the operating balance:

Vote Revenue Minister of Revenue	\$m – increase/(decrease)				
	2010/11	2011/12	2012/13	2013/14	2014/15 & Outyears
Crown Revenue and Receipts: Tax revenue	-	44	196	212	226

* figures rounded to nearest million

- 4 **agreed** to halve the matching rate of the KiwiSaver Member Tax Credit to 50c per \$1 member contribution, with effect from 1 July 2011, for all KiwiSaver members;
- 5 **agreed** to halve the cap on the annual Member Tax Credit to \$521.43, with effect from 1 July 2011, for all KiwiSaver members;
- 6 **agreed** to increase the minimum KiwiSaver contribution rate for new and existing members from 2 per cent to 3 per cent of gross remuneration, with effect from 1 April 2013;
- 7 **agreed** to increase the default contribution rate for new members from 2 per cent to 3 per cent of gross remuneration, with effect from 1 April 2013;
- 8 **agreed** to raise the rate at which employers are required to contribute to their employees' KiwiSaver accounts from 2 per cent to 3 per cent of gross remuneration, with effect from 1 April 2013;

- 9 **approved** the following change to appropriations, with a corresponding impact on the operating balance, to reflect the decisions in paragraphs 4 to 8 above:

	\$m – increase/(decrease)				
Vote Revenue Minister of Revenue	2010/11	2011/12	2012/13	2013/14	2014/15 & Outyears
Benefits and Other Unrequited Expenses:					
KiwiSaver: Kickstart Payment	-	(6.277)	(4.262)	(2.147)	(2.114)
KiwiSaver: Tax Credit	-	(463.070)	(484.255)	(483.817)	(492.325)
Total Operating Impact	-	(469.347)	(488.517)	(485.964)	(494.439)

- 10 **approved** the following changes to departmental output expense appropriations in Vote Revenue for the administrative costs resulting from the decisions in paragraphs 1, 2 and 4 to 8 above, with a corresponding impact on the operating balance:

	\$m - increase/(decrease)				
Vote Revenue Minister of Revenue	2010/11	2011/12	2012/13	2013/14	2014/15 & Outyears
Departmental Output Expenses:					
Services to Inform the Public About Entitlements and Meeting Obligations (funded by Revenue Crown)	-	0.250	1.040	-	-
Services to Process Obligations and Entitlements (funded by Revenue Crown)	-	1.000	1.260	-	-
Total Operating Impact	-	1.250	2.300	-	-

Crown as Employer

- 11 **noted** that the estimated cost of central funding for State sector employer contributions to KiwiSaver, the State Sector Retirement Savings Scheme (SSRSS) and the Teachers Retirement Savings Scheme (TRSS) is \$822 million over the four year period from 2011/12 to 2014/15;
- 12 **noted** that the estimated additional cost of central funding for KiwiSaver, SSRSS and TRSS as a result of the decisions in paragraphs 1, 2 and 4 to 8 is \$86 million over the four year period from 2011/12 to 2014/15;
- 13 **agreed** that central funding for State sector employer contributions to KiwiSaver, SSRSS and TRSS be terminated from 1 July 2012;
- 14 **approved** the following change to appropriations, to reflect the termination of central funding for employer contributions to KiwiSaver, SSRSS and TRSS, with a corresponding impact on the operating balance:

	\$m – increase/(decrease)				
Vote State Services Minister of State Services	2010/11	2011/12	2012/13	2013/14	2014/15 & Outyears
Non Department Other Expense:					
KiwiSaver: State Sector Employer Contributions	-	-	(105.000)	(115.000)	(115.000)
State Sector Retirement Savings Scheme: State Sector Employer Contributions	-	-	(104.606)	(104.606)	(104.606)
Total Operating	-	-	(209.606)	(219.606)	(219.606)

- 15 **agreed** that as a general rule, State sector agencies will not be provided with additional funding to meet the cost of their employer contributions to KiwiSaver, SSRSS and TRSS;
- 16 **noted** that employer contributions to KiwiSaver, SSRSS and TRSS may create cost pressures in the education and health sectors, which can be managed through the Four-year Budget Plan process in future Budgets;

Implementation

- 17 **agreed** that the changes to KiwiSaver settings set out in paragraphs 1, 2, 4 and 5 should be announced as part of Budget 2011, and implemented through Budget day legislation;
- 18 **agreed** that the changes set out in paragraphs 6, 7 and 8 should be announced as part of Budget 2011, and implemented through the Taxation Bill scheduled to be introduced in August 2011;
- 19 **agreed** to announce as part of Budget 2011 the government's intention to consult on design options for a one-off enrolment exercise;
- 20 **agreed** that the removal of central funding for State sector employer contributions to KiwiSaver, SSRSS and TRSS in paragraph 13 be announced as part of Budget 2011;
- 21 **noted** that the State Services Commission and the Treasury will develop a process for consulting with State sector employers post-budget on the practical implications for giving effect to the removal of central funding in paragraph 13;
- 22 **noted** that after Budget 2011, the State Services Commissioner will consult with chief executives of government departments, including the Secretary for Education, on the future of SSRSS and TRSS;
- 23 **authorised** the Minister of Finance and the Minister of Revenue the authority to make decisions on the detailed implementation of these decisions;
- 24 **invited** the Minister of Revenue to instruct the Inland Revenue Department to draft the necessary amendments for inclusion in a Bill for introduction on 19 May 2011.

Secretary of the Cabinet

Reference: CAB (11) 188
