

**OFFICE OF THE MINISTER
FOR ECONOMIC DEVELOPMENT**

The Chair
CABINET EXPENDITURE CONTROL COMMITTEE

REVERSING UNFUNDED BUDGET 2008 COMMITMENTS FOR ET: INNOVATION

PROPOSAL

- 1 This paper outlines how pre-commitments made by the previous Government against Budgets 2009, 2010 and 2011 under the Economic Transformation (ET) package may be unwound and the implications of doing so.
- 2 Cabinet agreement is sought to unwind the previous Government's unfunded commitments to ensure that the Government has the full \$1.75 billion operating allowance available to fund policy priorities.

EXECUTIVE SUMMARY

- 3 The previous Government funded part of its Budget 2008 ET: Innovation package through charges against future Budgets. The pre-commitment amounts to \$668 million over the next four years in the Economic Development, Tertiary Education and Research, Science and Technology (RS&T) portfolios. This paper proposes savings of \$668 million over the next four years to unwind the pre-commitment.
- 4 Consideration has first been given to the implications of discontinuing or scaling back Budget 2008 ET: Innovation initiatives. For initiatives that directly align with this Government's priorities, this paper recommends that funding be maintained. Where the required savings could not be found from within the ET: Innovation package, savings from initiatives outside of the ET: Innovation package have been recommended.
- 5 Savings totalling \$521 million over the next four years are proposed for Tertiary Education. Of this, \$458 million is from areas that were funded through Budget 2008 (CPI adjustments to a number of funds; strategic leadership in Industry Training Organisations; literacy, language and numeracy programmes; and Tertiary Education Commission (TEC) operating funding, funding innovation and capability projects in Tertiary Education Institutions, and three scholarship programmes). A further \$63 million of funding for relatively low priority programmes is offered from other parts of the portfolio (Adult and Community Education, regulatory compliance qualifications, Skill Enhancement, and a number of small funds with relatively high compliance costs).
- 6 These savings are designed to protect frontline services, and will improve the efficiency and effectiveness of the tertiary sector. The scale of the savings means, however, that some lower value services will be affected (for example Adult and Community Education). In addition, there will be considerable

concern from tertiary providers in response to the change in direction (which has been, to date, to increase funding at each Budget to meet a wide range of costs), and a small number of providers may face viability issues.

- 7 In total, the savings proposed from Vote RS&T amount to \$120.2 million over four years. The savings from Vote RS&T comprise two components – savings from Budget 2008 initiatives and savings identified from reductions within the Foundation for Research, Science and Technology's investments. The savings from Budget 2008 RS&T initiatives result from maintaining funding at 2008/9 levels and total \$87.0 million over the next four years. This funding was directed at initiatives to maintain core research capability and enhance the commercialisation of research. The Minister of Research, Science and Technology considers that the majority of these initiatives align closely with the intent of the new Government's pre-election RS&T policy statement, and is resubmitting these initiatives into the process for Budget 2009. Savings from reductions within Foundation for Research Science and Technology (FRST) investments of \$33.2 million have been identified.
- 8 Savings totalling \$26.7 million over the next four years are proposed for Economic Development. Of this, \$3.9 million has been found by scaling back four initiatives that were partly funded through the ET Innovation package. The scaled back initiatives are: Beachheads programme expansion, NZTE website development and maintenance, Major Events Development Fund and Better by Design programme extension. The balance of \$22.8 million of proposed savings has been found from other parts of Vote Economic Development (reduced funding for NZTE strategic initiatives and sector projects, marketing and communication, and investment facilitation services).

BACKGROUND

- 9 In preparation for Budget 2009, the Minister of Finance invited the Minister for Economic Development to lead a process with the Minister for Tertiary Education and the Minister for Research, Science and Technology to bring a proposal to Cabinet in early February 2009. This proposal was to outline how the previous Government's pre-commitment against Budgets 2009, 2010 and 2011 for the ET: Innovation package might be unwound and the implications for doing so.
- 10 Budget 2008 included the pre-commitment against future budgets to fund ET: Innovation initiatives as follows:

Table 1: ET: Innovation - Pre-commitment (\$million)

| | 2009/10 | 2010/11 | 2011/12 | 2012/13 and outyears | 4-year total |
|-------------|---------|---------|---------|----------------------------|-----------------|
| Budget 2009 | 93.0 | 100.0 | 100.0 | 100.0 | 393.0 |
| Budget 2010 | - | 75.0 | 75.0 | 75.0 | 225.0 |
| Budget 2011 | - | - | 25.0 | 25.0 | 50.0 |
| Total | 93.0 | 175.0 | 200.0 | 200.0 | 668.0 |

- 11 The pre-commitment was not explicitly linked to a specific subset of the ET: Innovation package. In addition, some of the initiatives in the package align with this Government's priorities. As a consequence, the focus of the exercise is on achieving the required savings in total, rather than unwinding particular initiatives.
- 12 The ET: Innovation package appropriated funding for initiatives in Economic Development (4 percent of the package); Research, Science and Technology (18 percent); and Tertiary Education (78 percent).
- 13 In proportion to the total funding allocated to each area from Budget 2008 ET: Innovation, the required savings over the four years following Budget 2009 would be \$521.0 million from Tertiary Education; \$120.2 million from Research, Science and Technology; and \$26.7 million from Economic Development.
- 14 *[Information withheld – under consideration]*

COMMENT

- 15 Officials have identified the required savings. The profile of the proposed savings from year to year does not match the phasing of the pre-commitment, and the savings in outyears exceed the outyear savings required.

Table 2: Savings by area (\$million)

| | 2009/10 | 2010/11 | 2011/12 | 2012/13 and outyears | 4 year total |
|----------------------------------|---------------|----------------|----------------|----------------------------|-----------------|
| Tertiary education | 47.304 | 126.396 | 167.702 | 179.638 | 521.040 |
| Research, Science and Technology | 37.366 | 20.748 | 31.168 | 30.918 | 120.200 |
| Economic Development | 3.700 | 7.000 | 8.000 | 8.000 | 26.700 |
| Total savings | 88.370 | 154.144 | 206.870 | 218.556 | 667.940 |
| <i>Cf Total Pre-commitment</i> | <i>93.000</i> | <i>175.000</i> | <i>200.000</i> | <i>200.000</i> | <i>668.000</i> |

- 16 The following sections explain the initiatives identified for unwinding or scaling back in each area and the associated implications.

Tertiary Education

- 17 The table at Appendix 1 details the tertiary education funding allocated at Budget 2008, and the savings proposals for this package. In line with the amount allocated at Budget 2008, savings have been identified that amount to 78% of the unfunded allocation.¹
- 18 In some areas savings do not start until 2011, in order to reduce the legal risk associated with altering existing contracts (in particular, agreed Plans for the period 2008 to 2010). However, the savings reach the required total for the four years, and exceed the level required in the final outyear.

Rationale

- 19 This paper proposes a substantial reduction in tertiary education funding. Together with reductions in tertiary education spending offered through the line by line review, these savings amount to 5% of tertiary funding by 2012/13. The package was developed based on the principle that all areas at Budget 2008 should be reduced, taking into account the following risks:
- a Savings could not be provided if it would create a legal risk. This mainly affected funding covered by agreements in place until the end of 2010.
 - b Savings should not be provided if the funding is required to meet Manifesto commitments. This mainly affects Student Loans and Allowances proposals, and areas of Student Achievement Component-funded provision.
 - c Savings are highly undesirable if it would affect frontline services. This means, requiring a reduction in the volume of enrolments or reduce the level of research from 2008/09 levels.
- 20 The line by line review for Vote Education was developed in parallel with this package. This review identified areas of low value spending, some of which are included in this package in order to reach the required total savings.
- 21 An option was considered that drew all savings from the Budget 2008 spending areas. Taking account of the risks in paragraph 19 above, it could only be done by holding Student Achievement Component funding rates to 2009 levels.
- 22 This would have the merit of being more transparently linked to the need to reduce funding (i.e. the unfunded elements of the Innovation allocation), but would require alterations to funding that the sector considers agreed (as part of agreements in place covering 2008 to 2010), and could trigger a debate

¹ The Vote Education line by line review provides more detail on tertiary education funds and savings proposals.

with the sector about the fundamentals of the tertiary funding system. In particular, it would provoke stronger concerns within the sector about tuition fee controls and funding levels for tertiary education overall.

- 23 This is an important discussion, but the Minister for Tertiary Education considered that it is better held in the broader context of a other matters such as eligibility for government-funded tuition, and lifting sector performance.
- 24 Therefore, it was decided that a package that looks first to areas funded at Budget 2008, but then scans more widely for areas of low value, was most effective in the circumstances. This also allows the impact to be spread most widely across the sector, reducing the impact on any one provider type.

Consumer Price Index Adjustments

- 25 At Budget 2008, the following funds were adjusted according to 2009, 2010, and 2011 forecast CPI growth: Student Achievement Component, Tertiary Education Organisation (TEO) Component, Performance-based Research Fund, Industry Training Fund, Modern Apprenticeships, and Adult and Community Education.
- 26 The proposals would remove 2011 CPI adjustment for all these funds. The 2009 CPI adjustment is retained for all funds, to avoid the need to decrease any funding rates. It is also proposed that 2010 CPI adjustment be removed from the Industry Training Fund, Modern Apprenticeships, and Adult and Community Education, because these are being reviewed and there will be changes to them anyway.
- 27 As discussed above in paragraph 22 above, it is recommended that the 2010 CPI adjustment for Student Achievement Component, TEO Component, and the Performance-based Research Fund be retained, although it is to be adjusted from 2.5% to 1.95% in line with latest forecasts.
- 28 Note that there is a Budget bid to redirect part of the funding from the Research & Development tax credit to the Performance-based Research Fund. If this bid is approved, the net impact on the Performance-based Research Fund will be an increase of around \$13 million per year.

Table 3: Funding proposals for CPI adjustment (\$m, GST exclusive)

| | | 2009/10 | 2010/11 | 2011/12 | 2011/13 | 4 year total | Capital 4 year total |
|------------------------|---|---------|---------|---------|---------|--------------|----------------------|
| Funding at Budget 2008 | CPI adjustment for 2009, 2010 and 2011 | 86.762 | 141.423 | 166.124 | 166.124 | 560.433 | - |
| Reductions proposed | Remove CPI adjustment for 2011 (and 2010 for Industry Training and Adult and Community Education) | -7.700 | -43.100 | -70.300 | -70.300 | -191.400 | - |
| Remaining funding | | 79.062 | 98.323 | 95.824 | 95.824 | 369.033 | - |
| Further savings | None | | | | | | |

Student Achievement Component and TEO Component

- 29 In addition to the CPI adjustment described above, four other changes were made to Student Achievement Component and TEO Component funding at Budget 2008 funding.
- 30 Firstly, the Student Achievement Component was increased to fund additional enrolments at universities and Institutes of Technology and Polytechnics.² This funding has not been offered as savings, because of the priority to protect frontline services and particularly in light of the increases in demand arising from the recession.
- 31 The second increase at Budget 2008 was to the university tripartite adjustment fund, to help universities offer academic salaries that are internationally competitive. Legal advice was not available in time to confirm these savings as part of this Cabinet paper, but they have been included in the Vote Education line by line review.
- 32 Thirdly, an increase was made to the Industry Training Organisation Strategic Leadership Fund. This fund supports leadership capability and the development of qualifications at intermediate levels on the National Qualifications Framework. Savings have been offered that return the funding invested at Budget 2008, and reduce funding slightly further, in light of the lower priority placed on capability building initiatives.
- 33 Finally, in addition to the CPI adjustment discussed in paragraphs 25 to 27 above, a further \$0.119 million was added to the Performance-based Research Fund in 2009/10 to increase it to \$250 million. This funding was not considered, because this fund is considered to be operating relatively effectively, and relatively little funding is involved.
- 34 In addition to the areas funded at Budget 2008, additional savings were identified in three low value areas.
- 35 Two TEO Component funds have been offered for savings. It is proposed to remove the whole Priorities for Focus fund for universities from 2011, which supports university projects in areas of government priority. It is also proposed to halve the Encouraging and Supporting Innovation fund from 2010, which funds innovation and collaboration projects across the tertiary sector.
- 36 The third proposal is to remove Student Achievement Component funding for regulatory compliance qualifications from 2011. This funding pays for short courses to address regulatory requirements (much of the training is in the agriculture sector, or to address workplace health and safety requirements). This training would be provided regardless of government funding, and indeed the presence of government support tends to mask the true cost of the applicable regulations. A project during 2008 explored the implications of this change across government (for example on the Ministry of Agriculture and Forestry and Accident Compensation Corporation), and education officials will

² The cost of this initiative included flow-on costs to Student Loans and Allowances, and an increase to the TEO Component to maintain proportionality with the Student Achievement Component.

follow up with affected agencies over the coming months to discuss transition issues.

Table 4: Funding proposals for Student Achievement Component and TEO Component (\$m, GST exclusive)

| | | 2009/10 | 2010/11 | 2011/12 | 2011/13 | 4 year total | Capital 4 year total |
|------------------------|---|---------|---------|---------|---------|--------------|----------------------|
| Funding at Budget 2008 | Student Achievement Component: Access in Priority Areas | 30.320 | 27.913 | 13.362 | 13.362 | 84.957 | 2.961 |
| | Priorities for Focus: Strengthening Universities | 15.000 | 15.000 | 15.000 | 15.000 | 60.000 | |
| | Supporting an Industry Training Organisation Strategic Leadership Fund | 2.250 | 2.250 | 2.250 | 2.250 | 9.000 | |
| | Increasing the Performance-based Research Fund | 0.119 | | | | 0.119 | |
| | Total | 47.689 | 45.163 | 30.612 | 30.612 | 154.076 | 2.961 |
| Reductions proposed | Supporting an Industry Training Organisation Strategic Leadership Fund | | -1.750 | -3.500 | -3.500 | -8.750 | |
| Remaining funding | | 47.689 | 43.413 | 27.112 | 27.112 | 145.326 | 2.961 |
| Further savings | TEO Component - Encouraging and Supporting Innovation | -4.000 | -8.000 | -8.000 | -8.000 | -28.000 | |
| | TEO Component - Priorities for Focus | | -5.000 | -10.000 | -10.000 | -25.000 | |
| | Student Achievement Component-funded regulatory compliance qualifications | | -4.000 | -8.000 | -8.000 | -20.000 | |
| | Total | -4.000 | -17.000 | -26.000 | -26.000 | -73.000 | |

Skills and training

- 37 In addition to the investment in CPI adjustments for Industry Training and Modern Apprenticeships, funding was provided in two areas at Budget 2008.
- 38 A substantial literacy, language and numeracy package was approved. Literacy, language and numeracy skills are associated with a range of social and economic benefits, including higher employment and earnings, and higher productivity. However, due to the need to unwind the 2008 Budget package, but protect frontline services, savings are offered that largely hold provision at 2008/09 levels.³ The current baseline allows participation to rise from 24,700 students in 2008/09 to 36,000 in 2012/13, whereas the proposed savings would see student numbers reduce slightly to 23,600 by 2012/13.

³ [information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]

- 39 The changes would mean that development of literacy, language and numeracy skills would rely upon mainstream TEOs (particularly Industry Training Organisations and Institutes of Technology and Polytechnics) addressing these needs as part of their normal provision, rather than relying upon the more specialised (but more expensive) dedicated literacy, language and numeracy programmes.
- 40 Note that a separate Budget bid seeks \$5.5 million in each of 2009/10 and 2010/11 to support over 3,000 additional places in workplace literacy programmes, to increase provision whilst mainstream services become more established.
- 41 *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
- 42 In addition to the areas funded at Budget 2008, savings have been offered through the removal of the Skill Enhancement programme. Skill Enhancement provides vocational training for young Māori and Pacific people at level 3 and above on the National Qualifications Framework. This programme has not met its targets in recent years, and the purpose of it is similar to other programmes (and hence could be achieved by broadening eligibility criteria in other areas). Funding has been progressively reduced over time.

Table 5: Funding proposals for skills and training (\$m, GST exclusive)

| | | 2009/10 | 2010/11 | 2011/12 | 2011/13 | 4 year total | Capital 4 year total |
|------------------------|----------------------------------|---------|---------|---------|---------|--------------|----------------------|
| Funding at Budget 2008 | Literacy, Language and Numeracy | 38.383 | 48.128 | 50.128 | 50.128 | 186.767 | |
| | Skills Strategy Programme Office | 1.240 | | | | 1.240 | |
| | Total | 39.623 | 48.128 | 50.128 | 50.128 | 188.007 | |
| Reductions proposed | Literacy, Language and Numeracy | -8.600 | -23.730 | -27.280 | -34.690 | -94.300 | |
| Remaining funding | | 31.023 | 24.398 | 22.848 | 15.438 | 93.707 | |
| Further savings | Skill Enhancement | -2.154 | -4.308 | -4.308 | -4.308 | -15.078 | |

Adult and Community Education

- 43 CPI adjustments for Adult and Community Education funding are discussed in paragraphs 25 and 26. There were no other increases to Adult and Community Education funding at Budget 2008.
- 44 However, savings were considered for that part of Adult and Community Education funding that is directed to hobby courses. Some Adult and Community Education courses are likely to be of economic and social benefit, for example literacy, language and numeracy courses, or programmes supporting employment and life skills (such as computing).

- 45 However, a large part of funding supports hobby courses. These courses are mainly delivered at schools (e.g. for dance, drawing, woodwork, pottery, etc), but also Tertiary Education Institutions (e.g. university seminars for people who want to know more about the culture of the place they will go on holiday).
- 46 These courses represent relatively poor value for money, because of the limited social and economic benefits of the investment, and because the average student is able to meet the full costs of the course themselves.
- 47 Adult and Community Education courses are not classified according to whether they are for hobby purposes, but rather according to subject. Some subject categories are rather broad, and encompass some courses that are likely to be for hobby purposes, and some that are not. A crude estimate is that around half of provision is for hobby purposes (with the remainder covering literacy).

[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]

- 49 Only part of the Adult and Community Education savings have been included in this paper (i.e. enough to reach the total savings required). The remaining savings have been included in the Vote Education line by line review.

Table 6: Funding proposals for Adult and Community Education (\$m, GST excl)

| | | 2009/10 | 2010/11 | 2011/12 | 2011/13 | 4 year total | Capital 4 year total |
|------------------------|--------------------------------------|---------|---------|---------|---------|--------------|----------------------|
| Funding at Budget 2008 | Nil | | | | | | |
| Further savings | Adult and Community Education (part) | -4.778 | -10.256 | - | - | -15.034 | - |

Student Support

- 50 Four changes were made to student support at Budget 2008.
- 51 Two changes increased eligibility for Student Allowances: a 10% increase to the parental income threshold and a reduction in the age limit for Student Allowance parental income testing by one year. These changes were consistent with the Manifesto commitment to move, over time, to expand eligibility for student allowances. Therefore, they were not considered for savings.
- 52 A further change was made to increase the Student Loan Living Cost Component to \$155 per week. This was not considered for savings because of the related Manifesto commitment to maintain the CPI indexation of loans for living costs.
- 53 The final change made was to increase the number of Bonded Merit Scholarships. This has been offered for savings, as part of a proposal to remove three scholarships programmes (see below).

- 54 Student support funding is high in New Zealand compared to other countries (for example, it costs the government 39 cents for every dollar lent for Student Loans), and in most cases is well above the level at which it would affect a person's decision to study. Therefore, savings were sought that were comparable to the total additional investment in student support at Budget 2008, but in areas consistent with Manifesto commitments.

[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]

- 56 The remaining student support funds are for scholarships programmes. Because interest-free Student Loans reduce financial barriers to study for all students, these scholarships are likely to have very little impact upon enrolment decisions. The scholarships that are offered are:

- a Top Achiever Doctoral Scholarships, which provide high performing doctoral students with up to \$25,000 per year for up to three years;
- b Step Up Scholarships, which help young Student Allowance recipients to pay for degree-level study in areas of skill shortage (mainly medical and engineering qualifications); and
- c Bonded Merit Scholarships, which help second-year degree students who have achieved well in their first year to meet the cost of their tuition fees.

- 57 These savings include a reduction in StudyLink administration costs (Tertiary Education Commission administration costs for Top Achiever Doctoral Scholarships are addressed as part of their separate savings item below). Current recipients of these scholarships will retain their eligibility, and the phase-out of administration funding has been designed to ensure their ongoing management.

- 58 The savings from these scholarships are net of the flow-on costs that arise due to increased borrowing through the Student Loans Scheme. This flow-on cost also has a capital component. Because there are no available capital savings to offset these costs, additional operating savings have been allowed for to the same level.

Table 7: Funding proposals for student support (\$m, GST exclusive)

| | | 2009/10 | 2010/11 | 2011/12 | 2011/13 | 4 year total | Capital 4 year total |
|------------------------|--|---------|---------|---------|---------|--------------|----------------------|
| Funding at Budget 2008 | Expansion of Bonded Merit Scholarship Scheme | 2.831 | 4.243 | 4.866 | 4.866 | 16.806 | -4.350 |
| | Increasing the Student Allowance Parental Income Threshold by 10 percent | 8.431 | 8.854 | 9.260 | 9.260 | 35.805 | -8.223 |
| | Increasing the Student Loan Scheme Living Cost Component to \$155 Per Week | 5.233 | 6.072 | 6.187 | 6.187 | 23.679 | 63.682 |
| | Lowering the Age Limit for Student Allowance Parental Income Testing by One Year | 17.806 | 19.043 | 20.300 | 20.300 | 77.449 | -20.427 |
| | Total | 34.301 | 38.212 | 40.613 | 40.613 | 153.739 | 30.682 |
| Reductions proposed | Bonded Merit Scholarships | -4.370 | -8.544 | -12.744 | -14.131 | -39.789 | 10.226 |
| Remaining funding | | 29.931 | 29.668 | 27.869 | 26.482 | 113.950 | 40.908 |
| Further savings | Top Achiever Doctoral Scholarships | -2.776 | -5.308 | -7.852 | -10 | -25.936 | |
| | Step Up Scholarships | -3.739 | -7.198 | -10.069 | -11.358 | -32.364 | 6.99 |

Tertiary education agencies

- 59 The savings offered for the Tertiary Education Commission are equivalent to the total increase in operating funding received at Budget 2008, including both the stand-alone bid (of \$29.5 million over four years), and additional operating funding to support the implementation of the literacy, language and numeracy strategy. This will require changes to the Tertiary Education Commission's functions and hence organisational change.
- 60 The New Zealand Qualifications Authority received \$0.75 million in 2008/09 only to manage the transition to a new credit fee structure, and hence this is outside the period covered by the proposals in this paper.

Table 8: Funding proposals for tertiary education agencies (\$m, GST exclusive)

| | | 2009/10 | 2010/11 | 2011/12 | 2011/13 | 4 year total | Capital 4 year total |
|------------------------|---|---------|---------|---------|---------|--------------|----------------------|
| Funding at Budget 2008 | Tertiary Education Commission: Policy Advice and Leadership of Tertiary Reforms | 7.075 | 7.075 | 7.075 | 7.075 | 28.300 | |
| Reductions proposed | TEC operating funding | -9.300 | -7.375 | -7.375 | -7.375 | -31.425 | |
| Remaining funding | | -2.225 | -0.300 | -0.300 | -0.300 | -3.125 | |
| Further savings | Nil | | | | | | |

Other savings areas

- 61 One further area was funded as part of the tertiary education package at Budget 2008. \$0.450 million per year was provided for international education promotions. Whilst it is not considered for savings in this paper, international education funding is addressed in the Vote Education line by line review.
- 62 However, an additional cross-cutting savings proposal was developed. Small funds (chosen to be those less than \$2 million per year) carry high overheads for both providers and government, and hence must make a relatively substantial contribution if they are to offer good value for money. There are 15 small funds, of which five are proposed for savings in this paper, and a further six are offered for savings in the line by line review (to allow for further investigation before a final decision was reached). The five funds cover capability building initiatives (for social science research and Adult and Community Education), and a pilot programme to support transitions to further education which is due to finish at the end of 2009.

Table 9: Other funding proposals (\$m, GST exclusive)

| | | 2009/10 | 2010/11 | 2011/12 | 2011/13 | 4 year total | Capital 4 year total |
|------------------------|---|---------|---------|---------|---------|--------------|----------------------|
| Funding at Budget 2008 | International Education Promotions | 0.450 | 0.450 | 0.450 | 0.450 | 1.800 | |
| | Savings identified in Vote Education (Tertiary) | -3.500 | -3.500 | -3.500 | -3.500 | -14.000 | |
| Reductions proposed | Nil | | | | | | |
| Further savings | Small funds (less than \$2 million) | -1.861 | -3.762 | -3.802 | -3.802 | -13.227 | |

Impact of these savings

- 63 The options presented do not have any legislative or Treaty of Waitangi implications. They have also been designed to minimise legal risk by minimising the need to renegotiate existing agreements (most of which apply until the end of 2010). The options also protect frontline services.
- 64 There are, however, substantial risks of adverse public comment. Providers will be concerned about the move away from ongoing funding increases, particularly for providers such as universities, which are restricted in their ability to increase tuition fees. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
- 65 A handful of community organisations and Private Training Establishments will be affected by the removal of small funds and Skill Enhancement. A number of Institutes of Technology and Polytechnics will be affected by the removal of funding for regulatory compliance qualifications and Adult and Community Education. The Tertiary Education Commission will monitor the impacts and report to the Minister on any affected providers.

Research, Science and Technology

- 66 The ET: Innovation allocation of Budget 2008 included \$205.4 million of additional funding over four years for RS&T (18% of the ET: Innovation package). This funded the building and retention of core science capabilities in NZ and initiatives to enhance value creation from RS&T as follows:
- a joint initiative between the Foundation for Research, Science and Technology and the Science Directorate of the European Union (EU) aligned to environmental research to strengthen the connection between New Zealand and European research and leverage the opportunity created by the signing of a NZ-EU Science and Technology Cooperation Agreement in 2008;
 - b additional funding for renewable energy research, reflecting the recommendations of the New Zealand Energy Strategy 2007;
 - c additional funding for the development of energy technologies as a Transformational RS&T area (TRST);
 - d targeted funding for New Zealand's nationally significant RS&T databases and collections ("backbone funding"), to restore and retain their viability;
 - e additional funding for the Marsden Fund to retain and enhance our world class basic research capability, especially in universities;
 - f additional funding for the Pre Seed Accelerator Fund which assists CRIs and universities to commercialise research;
 - g funding for new High Technology Platforms to support the growth of new high technology export sectors characterised by niche areas of competitive advantage; and
 - h additional funding for long term outcome based investments. .These investments provide support and secure funding for capability in Crown Research Institutes (CRIs) and are related to environmental outcomes of importance to New Zealand. For example: research into bio-security improvements, the eradication of evasive weeds and pests and investigations into understanding and improving the productivity of New Zealand's soils. The additional funding is needed to ensure that existing core research capability will not be lost following the interim reviews of the contract outcomes. The loss of core capability part way through the contract durations would jeopardise the attainment of the outcomes sought.
- 67 In addition, a four-year total of \$33.2 million of additional one-off savings have been identified as part of the line by line review for Budget 2009. This consists of reduced funding for future investment in a number of the Foundation for Research, Science and Technology's schemes covering economic and environmental areas and grants to business, where demand is lower than expected.

68 The summary of savings proposed from Vote Research, Science and Technology is as follows:

Table 10: Proposed RS&T Savings (\$ million, GST exclusive)

| Initiative | 2009/10 | 2010/11 | 2011/12 | 2012/13 | 4-year total |
|---|---------------|---------------|---------------|---------------|----------------|
| A joint initiative between FRST and EU, aligned to environmental research | 1.500 | 1.500 | 1.500 | 1.500 | 6.000 |
| Renewable Energy (core capability) | 0 | 1.000 | 1.000 | 1.000 | 3.000 |
| Energy TRST | 1.500 | 3.500 | 7.500 | 7.500 | 20.000 |
| RS&T databases and collections (backbone) | 2.000 | 2.000 | 2.000 | 2.000 | 8.000 |
| Marsden Fund | 0 | 1.000 | 4.000 | 4.000 | 9.000 |
| Pre Seed Accelerator Fund | 3.000 | 3.000 | 3.000 | 3.000 | 12.000 |
| High Technology Platforms | 0 | 5.000 | 7.000 | 7.000 | 19.000 |
| Negotiation of long term outcome based Investments | 2.500 | 2.500 | 2.500 | 2.500 | 10.0 |
| One-off savings | 26.866 | 1.248 | 2.668 | 2.418 | 33.200 |
| Total | 37.366 | 20.748 | 31.168 | 30.918 | 120.200 |
| <i>Target</i> | <i>16.700</i> | <i>31.500</i> | <i>36.000</i> | <i>36.000</i> | <i>120.200</i> |

69 It is proposed to remove all increases in Budget 2008 funding over 2008/09 levels, and resubmit these initiatives into the process for Budget 2009, as part of the government's indicated package of RS&T investment.

70 *[Information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

Economic Development

71 The ET: Innovation allocation at Budget 2008 included \$50.3 million of additional funding for Vote Economic Development over four years (of which \$2.3 million was an expense transfer from 2007/08). This funding was used to partly fund the following initiatives. The remaining funding was provided by reprioritisations within the Vote.

72 The initiatives funded from the ET: Innovation Allocation were:

- \$0.655 million in 08/09 and \$1.4m in outyears (\$4.855m over 4 years) for the Major Events Development Fund, to ensure ongoing operation of the Fund, which would otherwise would have ceased to operate from 2009/10;

- \$0.9 million per annum (\$3.6m over 4 years) for Business Capability Tool, to ensure the implementation and operation of this tool;
- \$0.7 million per annum (\$2.8m over 4 years) for Seed Co-Investment Fund and New Zealand Venture Investment Fund, to address operating funding pressures to ensure ongoing effectiveness of the funds;
- \$6 million per annum to address cost pressures NZTE was facing in its offshore offices (for example rent increases and inflation), and \$3 million to redesign their onshore and offshore websites so that the websites, and as a consequence NZTE's services, could be used more effectively (totalling \$36m over 4 years);
- \$0.5 million in 2008/09 for the Investment Forum and Capital Markets Taskforce work, which involved private stakeholders and officials in developing recommendations for Ministers for improvements to New Zealand's capital markets (i.e. \$0.5m over 4 years);
- \$0.25 million in 2008/09 as a contingency for a Fund of Funds proposal, which has since been disestablished (i.e. \$0.25m over 4 years);
- \$2.3 million in 2008/09 for transition work for an NZTE Globally Competitive Firms initiative (i.e. \$2.3m over 4 years).

73 In line with the amount allocated, savings have been identified that amount to 4% of the unfunded allocation as follows.

74 All of the ET: Innovation package initiatives in the economic development area were considered for savings:

- a In Budget 2008 the Major Events Development Fund received \$0.655 million in the current financial year increasing to \$5.244 million in 2009/10 and \$4.128 million in 2010/11 and outyears. The baseline increase extended the duration of the Fund, for which funding was scheduled to cease in 2008/09, and supported the establishment of an international event bidding programme based within New Zealand Major Events. The Fund provides financial support for major events that deliver economic, social, cultural and international profiling benefits to New Zealand.

Unwinding the pre-commitments relating to the Major Events Development Fund is not recommended. It is likely to be an important source of funding to support Rugby World Cup activities, and this is a current Government priority. Funding from the event bidding programme or other major events supported by the Fund may be reprioritised, to focus on Rugby World Cup activities;

- b The other Budget 2008 ET budget initiatives for Vote Economic Development have the same funding in all years and have been considered for savings. New Zealand Trade and Enterprise received \$13m per annum additional funding to meet increasing costs of

operating offshore, develop a website that provides user-friendly and accessible advice to internationalising firms, expand its Beachheads advisory service to firms offshore and to increase its presence in growing Asian markets for New Zealand goods.

- c Significantly unwinding these initiatives is not recommended, in light of our trade policy goal of focusing NZTE assistance on services for offshore firms. However some scaling back of these initiatives is proposed.
- d Retaining the other small economic development initiatives is also proposed. Apart from the Business Capability Assessment Tool, the funding for these initiatives is needed to ensure effective continuation of current programmes and services, or to meet high demand. Funding for the Business Capability Assessment Tool is required to implement the tool. These will, however, be considered with other Vote Economic Development expenses in the Value for Money review process.

Consideration of other parts of Vote Economic Development

75 The remaining savings proposed come from three areas of savings identified in the Ministry of Economic Development's initial line-by-line review of the Vote. These relate to savings from NZTE's strategic initiatives/sector projects and investment facilitation, along with savings from NZTE's marketing and communications services. A fuller review of these and other Vote expenses is being conducted through the Value for Money process.

Summary of proposed savings

76 The summary of savings proposed from Vote Economic Development is as follows:

Table 11: Proposed Economic Development Savings (\$million)

| Initiative | 2009/10 | 2010/11 | 2011/12 | 2012/13 | 4-year total |
|---|---------|---------|---------|---------|--------------|
| Savings from unwinding of Budget 2008 initiatives: | | | | | |
| Scale back expansion of Beachheads programme expansion | 0.2 | 0.2 | 0.2 | 0.2 | 0.8 |
| Scale back budget funding for NZTE website development and maintenance | - | 0.5 | 0.5 | 0.5 | 1.5 |
| Scale back budget funding for Major Events Development Fund | 0.2 | 0.2 | 0.2 | 0.2 | 0.8 |
| Scale back expansion of Better by Design programme | 0.2 | 0.2 | 0.2 | 0.2 | 0.8 |
| Sub-total: | 0.6 | 1.1 | 1.1 | 1.1 | 3.9 |
| Savings from other parts of Vote Economic Development (from initial line-by-line | | | | | |

| | | | | | |
|---|-----|-----|-----|-----|------|
| analysis) | | | | | |
| Reduction in funding for NZTE strategic initiatives and sector projects | 2.6 | 4.0 | 5.0 | 5.0 | 16.6 |
| Reduction in funding for NZTE marketing and communications | 0.5 | 0.8 | 1.0 | 1.0 | 3.3 |
| Reduction in funding for NZTE investment facilitation services | 0.0 | 1.1 | 0.9 | 0.9 | 2.9 |
| Sub total: | 3.1 | 5.9 | 6.9 | 6.9 | 22.8 |
| Total | 3.7 | 7.0 | 8.0 | 8.0 | 26.7 |
| Target | 3.7 | 7.0 | 8.0 | 8.0 | 26.7 |

CONSULTATION

77 The following departments and agencies have been consulted: Ministry of Research, Science and Technology; Ministry of Education; The Treasury; Tertiary Education Commission; New Zealand Trade and Enterprise and the Foundation for Research, Science and Technology. In addition, the Ministry of Education has consulted the Department of Labour and the Ministry of Social Development on changes to language, literacy and numeracy funding and scholarships.

FISCAL IMPLICATIONS

78 This paper has financial implications. The proposed savings would have a positive impact on the Government's operating balance. The savings proposed are \$88.370 million in 2009/10, \$154.144 million in 2010/11, \$206.870 million in 2011/12 and \$218.556 million in 2012/13 and outyears.

HUMAN RIGHTS

79 There are no human rights implications.

LEGISLATIVE IMPLICATIONS

80 There are no legislative implications.

REGULATORY IMPACT ANALYSIS

81 Not required.

PUBLICITY

82 Tertiary Education: As discussed above, the decisions about tertiary education spending will attract adverse public comment, particularly from some providers. These decisions will require tailored communications with tertiary education organisations and student groups. This will be managed by the Minister for Tertiary Education.

83 Related to the tertiary savings offered in this paper, note that allocations for Priorities for Focus funding for universities in 2009 and 2010 are to be announced shortly. This paper proposes abolishing this funding from 2011, but earlier allocations are to proceed in order to avoid legal risks.

- 84 Research, Science and Technology: Unwinding the outyear pre-commitments for Vote RS&T would attract significant adverse public comment from research organisations including Universities and Crown Research Institutes, given these commitments have been previously indicated. However, this will be mitigated to the extent that these initiatives are able to be incorporated within the government's signalled package of RS&T investment.
- 85 Economic Development: as the savings relate to scaling back or reductions in funding of programmes, rather than any programme closures or significant cut-backs, no publicity about the savings is proposed.

RECOMMENDATIONS

- 86 It is recommended that the Committee

- 1 **Note** that the previous Government's Budget 2008 ET: Innovation initiatives were partly funded by charges against future Budgets as follows:

| | 2009/10 | 2010/11 | 2011/12 | 2012/13 and outyears | 4-year total |
|-------------|---------|---------|---------|----------------------------|--------------|
| Budget 2009 | 93.000 | 100.000 | 100.000 | 100.000 | 393.000 |
| Budget 2010 | - | 75.000 | 75.000 | 75.000 | 225.000 |
| Budget 2011 | - | - | 25.000 | 25.000 | 50.000 |
| Total | 93.000 | 175.000 | 200.000 | 200.000 | 668.000 |

- 2 **Note** that the Minister of Finance invited the Minister for Economic Development to lead a process with the Minister for Tertiary Education and the Minister for Research, Science and Technology to bring a proposal to Cabinet in early February 2009 outlining how this pre-commitment may be unwound and the implications for doing so;

- 3 **Note** that the total savings identified in each expenditure area is as follows:

| | 2009/10 | 2010/11 | 2011/12 | 2012/13 & outyears | year total |
|-------------------------------------|---------------|----------------|----------------|-----------------------|----------------|
| Tertiary Education | 47.304 | 126.396 | 167.702 | 179.638 | 521.040 |
| Research, Science and Technology | 37.366 | 20.748 | 31.168 | 30.918 | 120.200 |
| Economic Development | 3.700 | 7.000 | 8.000 | 8.000 | 26.700 |
| Total Savings | 88.370 | 154.144 | 206.870 | 218.556 | 667.940 |
| <i>Cf Total Pre-commitment</i> | <i>93.000</i> | <i>175.000</i> | <i>200.000</i> | <i>200.000</i> | <i>668.000</i> |

- 4 **Note** that the impact on the operating balance and debt is as follows:

| | \$m – increase/(decrease) | | | | |
|--------------------------|---------------------------|----------|-----------|-----------|-----------------------|
| | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 & Outyears |
| Operating Balance Impact | - | (90.344) | (158.032) | (212.398) | (224.382) |

| | | | | | |
|--------------|---|-----------------|------------------|------------------|------------------|
| Debt Impact | - | 1.974 | 3.888 | 5.528 | 5.826 |
| No Impact | - | - | - | - | - |
| Total | | (88.370) | (154.144) | (206.870) | (218.556) |

- 5 **Note** that the total savings over the next four years match the required total savings, and the savings in outyears exceed the outyear savings required, but the profile of the proposed savings from year to year differs from the phasing of the pre-commitment;

Tertiary Education

- 6 **Note** that tertiary education savings options have been provided that focus in the areas funded at Budget 2008 whilst protecting frontline services and Manifesto commitments, and that further savings have been identified in areas of relatively low value where necessary to reach the total savings required;
- 7 **Note** that these savings options do not have any legislative or Treaty of Waitangi implications, and that legal risk has been managed by minimising the need to renegotiate existing agreements;
- 8 **Agree** to amend the Consumer Price Index adjustments to tertiary education funding as follows:
- 8.1 remove the adjustment to the Student Achievement Component and Tertiary Education Organisation Component in 2011;
- 8.2 reduce the adjustment to the Student Achievement Component and Tertiary Education Organisation Component in 2010 from 2.5% to 1.95%, to reflect the latest forecasts;
- 8.3 remove the adjustment to the Industry Training Fund and Adult and Community Education in 2010 and 2011;
- 8.4 correct the funding levels for Modern Apprenticeships (which do not currently allow for a 2009 adjustment beyond the end of 2008/09);

- 9 **Approve** the following changes to appropriations to put into effect the decisions in recommendation 8, with a corresponding impact on the operating balance:

| Vote Education Minister for Tertiary Education | \$m – increase/(decrease) | | | | |
|---|---------------------------|----------------|-----------------|-----------------|--------------------|
| | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 & Outyears |
| Non-Departmental Output Expenses: Tertiary Education: Student Achievement Component | - | (4.400) | (27.500) | (46.200) | (46.200) |
| Training for Designated Groups | - | (1.500) | (5.700) | (7.600) | (7.600) |
| Non-Departmental Other Expenses: Tertiary Education Organisation Component – Capability Fund | - | (0.700) | (4.700) | (8.000) | (8.000) |
| Tertiary Education Organisation Component – Performance-Based Research Fund | - | (0.700) | (4.100) | (6.900) | (6.900) |
| Adult and Community Education | - | (0.400) | (1.000) | (1.400) | (1.400) |
| Tertiary Education Grants and Other Funding | - | - | (0.100) | (0.200) | (0.200) |
| Total Operating | - | (7.700) | (43.100) | (70.300) | (70.300) |

- 10 **Approve** the following changes to appropriations to reduce the Industry Training Organisation Strategic Leadership Fund from 2011, with a corresponding impact on the operating balance:

| Vote Education Minister for Tertiary Education | \$m – increase/(decrease) | | | | |
|--|---------------------------|---------|---------|---------|--------------------|
| | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 & Outyears |
| Non-Departmental Other Expense: Tertiary Education Organisation Component – Capability Fund | - | - | (1.750) | (3.500) | (3.500) |

- 11 **Approve** the following changes to appropriations to halve the Encouraging and Supporting Innovation fund from 2010, with a corresponding impact on the operating balance:

| Vote Education Minister for Tertiary Education | \$m – increase/(decrease) | | | | |
|--|---------------------------|---------|---------|---------|--------------------|
| | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 & Outyears |
| Non-Departmental Other Expense: Tertiary Education Organisation Component – Capability Fund | - | (4.000) | (8.000) | (8.000) | (8.000) |

- 12 **Approve** the following changes to appropriations to remove Priorities for Focus funding for universities from 2011, with a corresponding impact on the operating balance:

| Vote Education Minister for Tertiary Education | \$m – increase/(decrease) | | | | |
|---|---------------------------|----------------|----------------|----------------|-----------------------------------|
| | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 & Outyears |
| Non-Departmental Other Expense: Tertiary Education Organisation Component – Capability Fund | - | - | (5.000) | (10.000) | (10.000) |

- 13 **Approve** the following changes to appropriations to reduce the growth in funding for literacy, language and numeracy programmes from 2009/10, with a corresponding impact on the operating balance:

| Vote Education Minister for Tertiary Education | \$m – increase/(decrease) | | | | |
|---|---------------------------|----------------|-----------------|-----------------|-----------------------------------|
| | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 & Outyears |
| Non-Departmental Output Expenses: Training for Designated Groups | - | - | (1.600) | (1.600) | (2.600) |
| Managing the Government's Investment in the Tertiary Education Sector | - | (1.100) | (1.950) | (2.300) | (5.010) |
| Benefits and Other Unrequited Expenses: Tertiary Scholarships | - | (0.500) | (1.780) | (1.980) | (1.980) |
| Non-Departmental Other Expenses: Adult and Community Education | - | (7.000) | (16.400) | (21.400) | (25.100) |
| Tertiary Education Organisation Component - Capability Fund | - | - | (2.000) | - | - |
| Total Operating | - | (8.600) | (23.730) | (27.280) | (34.690) |

- 14 **Approve** the following changes to appropriations to close off the approval of new Top Achiever Doctoral Scholarships after the final applications round closes in May 2009, with a corresponding impact on the operating balance:

| Vote Education Minister for Tertiary Education | \$m – increase/(decrease) | | | | |
|---|---------------------------|----------------|----------------|----------------|-----------------------------------|
| | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 & Outyears |
| Benefits and Other Unrequited Expenses: Tertiary Scholarships | - | (2.776) | (5.308) | (7.852) | (10.000) |

- 15 **Agree** to cease awarding new scholarships under the Step-up and Bonded Merit scholarship programmes after the current round of scholarships in 2009, and that current recipients of these scholarships will retain their eligibility.

- 16 **Note** that the funding implications of ceasing funding for Step-Up scholarships for Vote Social Development are:

| Vote Social Development | \$m – increase/(decrease) | | | | |
|--------------------------|---------------------------|----------------|----------------|----------------|--------------------|
| | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 & Outyears |
| Operating Balance Impact | - | (3.739) | (7.161) | (9.955) | (11.137) |
| Debt Impact | - | 0.803 | 1.651 | 2.348 | 2.647 |
| No Impact | - | - | - | - | - |
| Total | - | (2.936) | (5.510) | (7.607) | (8.490) |

- 17 **Note** that the funding implications of ceasing funding for Step-Up Scholarships for Vote Revenue are:

| Vote Revenue | \$m – increase/(decrease) | | | | |
|--------------------------|---------------------------|---------|----------------|----------------|--------------------|
| | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 & Outyears |
| Operating Balance Impact | - | - | (0.037) | (0.114) | (0.221) |
| Debt Impact | - | - | (0.043) | (0.137) | (0.279) |
| No Impact | - | - | - | - | - |
| Total | - | - | (0.080) | (0.251) | (0.500) |

- 18 **Approve** the following changes to appropriations to cease funding for the Step Up Scholarships programme:

| Vote Social Development Minister for Social Development and Employment | \$m – increase/(decrease) | | | | |
|--|---------------------------|----------------|----------------|----------------|--------------------|
| | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 & Outyears |
| Departmental Output Expenses (General): Management of Student Support (funded by Revenue Crown) | | (0.617) | (0.746) | (0.828) | (0.849) |
| Benefits and Other Unrequited Expenses: Study Scholarships and Awards | - | (3.429) | (7.047) | (10.026) | (11.301) |
| Other Expenses to be Incurred by the Crown: Debt Write-downs | - | 0.326 | 0.670 | 0.954 | 1.075 |
| Capital Expenditure: Student Loans | - | 0.833 | 1.712 | 2.436 | 2.746 |
| Total Operating | - | (3.720) | (7.123) | (9.900) | (11.075) |
| Total Capital | - | 0.833 | 1.712 | 2.436 | 2.746 |

- 19 **Note** that the funding implications of ceasing funding for Bonded Merit scholarships for Vote Social Development are:

| Vote Social Development Minister for Social Development and Employment | \$m – increase/(decrease) | | | | |
|---|---------------------------|----------------|----------------|----------------|-----------------------|
| | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 & Outyears |
| Operating Balance Impact | - | (4.370) | (8.489) | (12.581) | (13.808) |
| Debt Impact | - | 1.171 | 2.342 | 3.513 | 3.865 |
| No Impact | - | - | - | - | - |
| Total | - | (3.199) | (6.147) | (9.068) | (9.943) |

- 20 **Note** that the funding implications of ceasing funding for Bonded Merit scholarships for Vote Revenue are:

| Vote Revenue Minister of Revenue | \$m – increase/(decrease) | | | | |
|-------------------------------------|---------------------------|---------|----------------|----------------|-----------------------|
| | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 & Outyears |
| Operating Balance Impact | - | - | (0.055) | (0.163) | (0.323) |
| Debt Impact | - | - | (0.062) | (0.196) | (0.407) |
| No impact | - | - | - | - | - |
| Total | - | - | (0.117) | (0.359) | (0.730) |

- 21 **Approve** the following changes to appropriations to cease funding for the Bonded Merit Scholarships programme:

| Vote Social Development Minister for Social Development and Employment | \$m – increase/(decrease) | | | | |
|---|---------------------------|----------------|----------------|-----------------|-----------------------|
| | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 & Outyears |
| Departmental Output Expenses (General): Management of Student Support (funded by Revenue Crown) | | (0.318) | (0.385) | (0.426) | (0.437) |
| Benefits and Other Unrequited Expenses: Study Scholarships and Awards | - | (4.500) | (9.000) | (13.500) | (14.850) |
| Other Expenses to be Incurred by the Crown: Debt Write-downs | - | 0.476 | 0.951 | 1.427 | 1.570 |
| Capital Expenditure: Student Loans | - | 1.215 | 2.430 | 3.645 | 4.010 |
| Total Operating | - | (4.342) | (8.434) | (12.499) | (13.717) |
| Total Capital | - | 1.215 | 2.43 | 3.645 | 4.010 |

- 22 **Agree** to reduce the operating baseline for the Tertiary Education Commission, with a corresponding impact on the operating balance:

| Vote Education Minister for Tertiary Education | \$m – increase/(decrease) | | | | |
|---|----------------------------------|----------------|----------------|----------------|-----------------------------------|
| | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 & Outyears |
| Non-Departmental Output Expenses: Managing the Government's Investment in Tertiary Educations Sector | - | (4.608) | (3.583) | (3.583) | (3.583) |
| Ownership Monitoring of Tertiary Education Institutions | - | (2.408) | (1.908) | (1.908) | (1.908) |
| Tertiary Education and Training Policy Advice | - | (2.284) | (1.884) | (1.884) | (1.884) |
| Total Operating | - | (9.300) | (7.375) | (7.375) | (7.375) |

- 23 **Agree** to remove the following small funds (each of less than \$2 million per year) in order to reduce administration costs in tertiary education:

23.1 Building Research Capacity in Social Sciences;

23.2 Targeted Education and Training Grants;

23.3 Pathfinders;

23.4 ACE Innovation and Development Fund; and

23.5 Community Learning Aotearoa New Zealand;

- 24 **Approve** the following changes to appropriations to give effect to the decision in recommendation 23 with a corresponding impact on the operating balance:

| Vote Education Minister for Tertiary Education | \$m – increase/(decrease) | | | | |
|---|----------------------------------|----------------|----------------|----------------|-----------------------------------|
| | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 & Outyears |
| Non-Departmental Output Expenses: Centres of Research Excellence | - | (0.667) | (1.333) | (1.333) | (1.333) |
| Training for Designated Groups | - | (0.605) | (1.211) | (1.211) | (1.211) |
| Non-Departmental Other Expenses: Tertiary Education Grants and Other Funding | - | (0.500) | (1.000) | (1.000) | (1.000) |
| Adult and Community Education | - | (0.089) | (0.178) | (0.178) | (0.178) |
| Benefits and Other Unrequited Expenses: Targeted Education and Training Grants | - | - | (0.040) | (0.080) | (0.080) |
| Total Operating | - | (1.861) | (3.762) | (3.802) | (3.802) |

- 25 **Approve** the following changes to appropriations to withdraw Student Achievement Component funding for regulatory compliance qualifications from 2011, with a corresponding impact on the operating balance:

| Vote Education Minister for Tertiary Education | \$m – increase/(decrease) | | | | |
|---|---------------------------|---------|----------------|----------------|--------------------|
| | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 & Outyears |
| Non-Departmental Output Expense: Tertiary Education Student Achievement Component | - | - | (3.094) | (6.188) | (6.188) |
| Non-Departmental Other Expense: Tertiary Education Organisation Component – Capability Fund | - | - | (0.906) | (1.812) | (1.812) |
| Total Operating | - | - | (4.000) | (8.000) | (8.000) |

- 26 **Approve** the following changes to appropriations to cease funding for Skill Enhancement from 2010, with a corresponding impact on the operating balance:

| Vote Education Minister for Tertiary Education | \$m – increase/(decrease) | | | | |
|--|---------------------------|---------|---------|---------|--------------------|
| | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 & Outyears |
| Non-Departmental Output Expense: Training for Designated Groups | - | (2.154) | (4.308) | (4.308) | (4.308) |

- 27 **Approve** the following changes to appropriations to reduce Adult and Community Education funding for schools and community groups from 2010, with a corresponding impact on the operating balance:

| Vote Education Minister for Tertiary Education | \$m – increase/(decrease) | | | | |
|--|---------------------------|---------|---------|---------|--------------------|
| | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 & Outyears |
| Non-Departmental Other Expense: Adult and Community Education | - | (4.778) | (8.209) | - | - |

Research, Science and Technology

- 28 **Agree** that the following initiatives from Budget 2008 should be unwound or scaled back:
- a A joint initiative between the Foundation for Research, Science and Technology and the Science Directorate of the European Union aligned to environmental research.
 - b Increased funding for renewable energy to maintain existing capability
 - c Energy Transformational Research, Science and Technology
 - d Increased funding for nationally significant RS&T databases and collections
 - e Increased funding for the Marsden Fund

- f Increased funding for the Pre-Seed Accelerator Fund
- g High Tech Platforms Transformational Research, Science and Technology
- h Increased long-term funding for Outcome Based Investments
- 29 **Agree** to make savings identified from the line-by-line review of expenditure in Vote Research, Science and Technology in the following areas:
- a Environmental Research
- b Marsden Fund
- c New Economy Research Fund
- d Research for Industry
- e Sustainable Energy Development
- f Pre-Seed Accelerator Fund
- g International Investments Opportunities Fund
- h Technology New Zealand
- 30 **Approve** the following changes in appropriations to put into effect the decisions in paragraph 28 and 29:

| Vote Research, Science and Technology Minister of Research, Science and Technology | \$m - increase/(decrease) | | | | |
|---|---------------------------|-----------------|-----------------|-----------------|-------------------|
| | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13& Outyears |
| Non-Departmental Output Expenses: | | | | | |
| <i>Environmental Research</i> | - | (13.888) | (6.000) | (6.000) | (6.000) |
| <i>Marsden Fund</i> | - | - | (1.000) | (4.000) | (4.000) |
| <i>New Economy Research Fund</i> | - | (1.778) | (5.000) | (7.000) | (7.000) |
| <i>Research for Industry</i> | - | (8.611) | (4.998) | (6.918) | (6.918) |
| <i>Sustainable Energy Development</i> | - | - | - | (4.000) | (4.000) |
| Non-Departmental Other Expenses | | | | | |
| <i>Pre-Seed Accelerator Fund</i> | - | (3.000) | (3.000) | (3.000) | (3.000) |
| <i>International Investments Opportunities Fund</i> | - | (0.889) | - | - | - |
| <i>Technology New Zealand</i> | - | (9.200) | (0.750) | (0.250) | - |
| Total Operating | - | (37.366) | (20.748) | (31.168) | (30.918) |
| Total Capital | - | - | - | - | - |

Economic Development

- 31 **Agree** that the following initiatives from Budget 2008 should be scaled back:
- Expansion of Beachheads programme
 - NZTE website development and maintenance
 - Additional funding for Major Events Development Fund
 - Expansion of Better by Design programme
- 32 **Agree** to make savings identified from the line-by-line review of expenditure in Vote Economic Development in the following areas:
- NZTE strategic initiatives and sector projects;
 - NZTE marketing and communications;
 - NZTE investment facilitation services;
- 33 **Approve** the following changes in appropriations to put into effect the decisions in paragraphs 31 and 32:

| Vote Economic Development Minister for Economic Development | \$m - increase/(decrease) | | | | |
|---|---------------------------|---------|---------|---------|--------------------|
| | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 & Outyears |
| Non Departmental Output Expenses: Identification and Coordination of International Market Opportunities | | (0.700) | (1.500) | (1.700) | (1.700) |
| International Investment Facilitation Services | - | - | (1.100) | (0.900) | (0.900) |
| Regional and Sector Development Services | - | (2.800) | (4.200) | (5.200) | (5.200) |
| Non Departmental Other Expense: Major Events Development Fund | - | (0.200) | (0.200) | (0.200) | (0.200) |
| Total Operating | - | (3.700) | (7.000) | (8.000) | (8.000) |

Hon Gerry Brownlee
Minister for Economic Development

Date signed:

Appendix: Tertiary education funding at Budget 2008, and savings proposed in this paper (\$m, GST exclusive)

| | Spending at Budget 2008 | | | | | | Savings proposed for Budget 2009 | | | | | |
|--|-------------------------|---------|---------|---------|--------------|----------------------|----------------------------------|---------|---------|---------|--------------|----------------------|
| | 2009/10 | 2010/11 | 2011/12 | 2011/13 | 4 year total | Capital 4 year total | 2009/10 | 2010/11 | 2011/12 | 2012/13 | 4 year total | Capital 4 year total |
| CPI adjustment | | | | | | | | | | | | |
| CPI adjustment for 2009, 2010 and 2011 to Student Achievement Component, Performance-based Research Fund, TEO Component, Industry Training Fund, and Adult and Community Education | 86.762 | 141.423 | 166.124 | 166.124 | 560.433 | | -7.700 | -43.100 | -70.300 | -70.300 | -191.400 | |
| Student Achievement Component and TEO Component | | | | | | | | | | | | |
| Student Achievement Component: Access in Priority Areas | 30.320 | 27.913 | 13.362 | 13.362 | 84.957 | 2.961 | | | | | | |
| Priorities for Focus: Strengthening Universities | 15.000 | 15.000 | 15.000 | 15.000 | 60.000 | | | | | | | |
| Supporting an Industry Training Organisation Strategic Leadership Fund | 2.250 | 2.250 | 2.250 | 2.250 | 9.000 | | | -1.750 | -3.500 | -3.500 | -8.750 | |
| Increasing the Performance-based Research Fund | 0.119 | | | | 0.119 | | | | | | | |
| TEO Component - Encouraging and Supporting Innovation | | | | | | | -4.000 | -8.000 | -8.000 | -8.000 | -28.000 | |
| TEO Component - Priorities for Focus | | | | | | | | -5.000 | -10.000 | -10.000 | -25.000 | |
| Student Achievement Component-funded regulatory compliance qualifications | | | | | | | | -4.000 | -8.000 | -8.000 | -20.000 | |
| Skills and training programmes | | | | | | | | | | | | |
| Literacy, Language and Numeracy | 38.383 | 48.128 | 50.128 | 50.128 | 186.767 | | -8.600 | -23.730 | -27.280 | -34.690 | -94.300 | |
| Skills Strategy Programme Office | 1.240 | | | | 1.240 | | | | | | | |
| Skill Enhancement | | | | | | | -2.154 | -4.308 | -4.308 | -4.308 | -15.078 | |
| Adult and Community Education | | | | | | | | | | | | |
| Adult and Community Education (part) | | | | | | | -4.778 | -8.209 | | | -12.987 | |
| Student Support | | | | | | | | | | | | |
| Expansion of Bonded Merit Scholarship Scheme | 2.831 | 4.243 | 4.866 | 4.866 | 16.806 | -4.350 | -4.370 | -8.544 | -12.744 | -14.131 | -39.789 | 10.226 |
| Increasing the Student Allowance | 8.431 | 8.854 | 9.260 | 9.260 | 35.805 | -8.223 | | | | | | |

| | | | | | | | | | | | | |
|--|---------|---------|---------|---------|-----------|---------|---------|----------|----------|----------|----------|--------|
| Parental Income Threshold by 10 percent | | | | | | | | | | | | |
| Increasing the Student Loan Scheme Living Cost Component to \$155 Per Week | 5.233 | 6.072 | 6.187 | 6.187 | 23.679 | 63.682 | | | | | | |
| Lowering the Age Limit for Student Allowance Parental Income Testing by One Year | 17.806 | 19.043 | 20.300 | 20.300 | 77.449 | -20.427 | | | | | | |
| Top Achiever Doctoral Scholarships | | | | | | | -2.776 | -5.308 | -7.852 | -10.000 | -25.936 | |
| Step Up Scholarships | | | | | | | -3.739 | -7.198 | -10.069 | -11.358 | -32.364 | 6.990 |
| Tertiary education agencies | | | | | | | | | | | | |
| Tertiary Education Commission: Policy Advice and Leadership of Tertiary Reforms | 7.075 | 7.075 | 7.075 | 7.075 | 28.300 | | -9.300 | -7.375 | -7.375 | -7.375 | -31.425 | |
| Other | | | | | | | | | | | | |
| International Education Promotions | 0.450 | 0.450 | 0.450 | 0.450 | 1.800 | | | | | | | |
| Savings identified in Vote Education (Tertiary) | -3.500 | -3.500 | -3.500 | -3.500 | -14.000 | | | | | | | |
| Small funds (less than \$2 million) | | | | | | | -1.861 | -3.762 | -3.802 | -3.802 | -13.227 | |
| Total | 212.400 | 276.951 | 291.502 | 291.502 | 1,072.355 | 33.643 | -49.278 | -130.284 | -173.230 | -185.464 | -538.256 | 17.216 |