

Treasury Report: Tertiary Education - Budget 2010

Date:	19 March 2010	Report No:	T2010/439
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Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Bill English)	note the contents of this report and indicate whether you would like to discuss the tertiary education package with the Minister for Tertiary Education.	22 March 2010

Contact for Telephone Discussion (if required)

Name	Position	Telephone		1st Contact
[deleted – privacy]	Analyst, Workforce Attachment and Skills	[deleted – privacy]	[deleted – privacy]	✓
Simon MacPherson	Manager, Workforce Attachment and Skills	[deleted – privacy]	[deleted – privacy]	

Minister of Finance's Office Actions (if required)

None.

Enclosure: No

Treasury Report: Tertiary Education - Budget 2010

Executive Summary

This report briefs you on the Budget 2010 package for tertiary education. The Minister for Tertiary Education is presenting his budget package to Cabinet Strategy Committee (STR) on Monday 22 March, although we understand you are unable to attend.

We understand that the STR meeting is intended to be the main form of Ministerial consultation on the student support changes proposed as part of the tertiary education budget package, prior to the student support changes being formally considered by Cabinet Social Policy Committee (SOC) on 31 March. Accordingly, if you have concerns about the proposals, we recommend that you contact the Minister for Tertiary Education early next week.

We support the changes proposed in the student support package, and the removal of capability funding from the system that is included in the broader budget package. However, we do not support the price adjustment to tuition subsidies or all of the proposed additional funded EFTS. We recommend that you discuss the tertiary education budget package with the Minister for Tertiary Education, either at Fiscal Issues on 25 March or a separate bilateral held before that. Alternatively, you could accept the tertiary budget package subject to final costings and a balanced overall package.

Recommended Action

We recommend that you:

- a **note** that the Minister for Tertiary Education is presenting his tertiary education budget package to STR on Monday 22 March.
- b **note** that we understand that this will be the primary Ministerial consultation on the student support package, prior to it being considered by SOC on 31 March.
- c **note** that if you have concerns with the student support package, we recommend that you raise these with the Minister for Tertiary Education early next week
- d **note** that we support the proposed student support changes, and the removal of the majority of capability funding from the tertiary system (that are included in the broader budget package)
- e **note** that we do not support the price adjustment to tuition subsidies or all the proposed increased funded EFTS places
- f *either*
 - i. **discuss** with the Minister for Tertiary Education the tertiary education Budget 2010 package at Fiscal Issues on 25 March 2010 or a separate bilateral before that; or

Agree/disagree.

ii. **accept** the tertiary education budget package, subject to finalisation of costings and an overall balanced package

Agree/disagree.

Simon MacPherson
**Manager, Workforce Attachment and Skills
for Secretary to the Treasury**

Hon Bill English
Minister of Finance

Treasury Report: Treasury Report T2010/439: Tertiary Education - Budget 2010 (19 March 2010)

Purpose of Report

1. The Minister for Tertiary Education, Hon Steven Joyce will be presenting his Budget package to STR on Monday 22 March. We understand that this is to allow Ministerial feedback on his package, prior to the student support component of the package being considered by SOC on 31 March.
2. As we understand that you are not able to attend STR on Monday 22 March, we have summarised the proposed student support package below. If you have concerns about the student support package, we recommend that you raise these with the Minister for Tertiary Education early next week to allow these to be included in the SOC paper for 31 March.
3. We have also summarised the remainder of the tertiary education Budget package, and highlighted where the Treasury view differs from the proposed package. A Baseline Analysis Proposal has not been submitted for tertiary education, and therefore our analysis is based on our understanding of what is included. We support the savings proposed, but do not support the price adjustment to tuition subsidies or all of the proposed additional funded EFTS places. We recommend that you discuss the tertiary education package with the Minister for Tertiary Education, either at Fiscal Issues on 25 March or at a separate bilateral before that. Alternatively, you may wish to accept the tertiary education budget, subject to final costings and an overall balanced package.

Student Support Package

4. The Minister for Tertiary Education will be taking a paper to SOC on 31 March proposing changes to the student loan scheme, along with some minor changes to the student allowance scheme. These would then be announced as part of Budget 2010.
5. The Budget 2010 student support package proposes the following changes:
 - Introduce a performance element in the student loan scheme, requiring borrowers to pass half their courses.
 - Introduce a 2-year stand-down for permanent residents and Australians for student loans.
 - Introduce a life-time limit of 7EFTS for access to student loans.
 - Increase the StudyLink administrative fee from \$50 to \$100.
 - Tighten and clarify student allowance eligibility for those at secondary school and to exclude those receiving superannuation.
6. There is also a proposal to introduce an ongoing administration fee of \$40 for loan accounts held by IRD. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

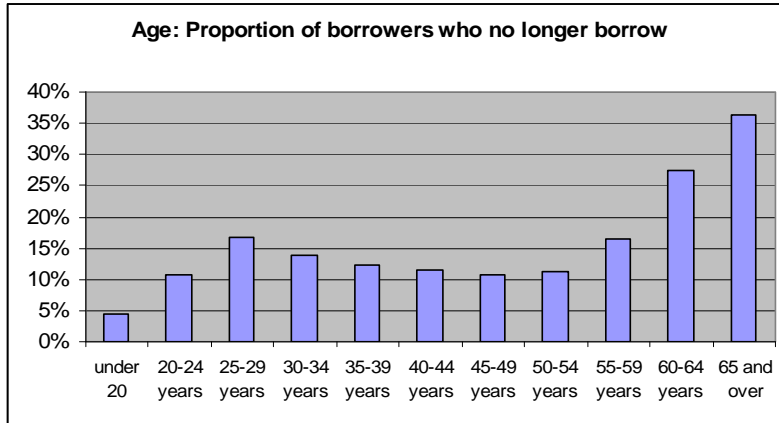
7. The student support changes have the following financial implications, although we are still discussing the final costings (including administrative) with relevant agencies.

Description		Operating				Capital				
		2010/11	2011/12	2012/13	2013/14	2010/11	2011/12	2012/13	2013/14	
Student support	2-year stand-down for permanent residents & Australians for student loans	Savings	(23.93)	(32.44)	(29.89)	(27.43)	(50.15)	(69.62)	(66.57)	(63.12)
		Studylink admin	0.95	0.65	0.66	0.68				
	Include performance element in student loan scheme	Savings	(24.74)	(40.85)	(40.74)	(41.82)	(44.87)	(74.52)	(74.99)	(77.08)
		Studylink admin	3.04	2.36	2.36	2.36				
		MOE admin	0.04							
	Life-time limit of 7 EFTS for access to student loans count starting in 2008	Savings			(0.01)	(0.21)	-	-	(0.02)	(0.39)
		Studylink admin	0.79	0.49	0.49	0.50				
		MOE admin	0.06							
	Increase student loan admin fee from \$50 to \$100	Savings	(3.60)	(4.40)	(4.70)	(5.00)		(0.20)	(0.40)	(0.80)
		Studylink admin	0.04							
	Annual \$40 admin fee for all loan accounts		(13.10)	(14.90)	(16.20)	(17.40)			(0.60)	(4.20)
	Tighten eligibility for student allowances at secondary school	Savings	(1.80)	(3.40)	(3.28)	(3.15)				
		Studylink admin	0.23							
	Clarify student allowance regulations to exclude eligibility for Superannuitants and Veterans Pensioners	Savings	(0.04)	(0.08)	(0.08)	(0.08)				
		Studylink admin	0.03							
Reduction in the university SAC baseline		(6.04)	(14.03)	(16.48)	(16.92)					
<i>Deleted - confidential</i>										

8. The introduction of interest-free student loans has increased costs through foregone interest, removing any incentive to pay off the loan faster than is required, as well as providing an incentive for unnecessary borrowing. The Crown writes off approximately 48c in every \$1 that is lent out in the loan scheme. The proposals therefore intend to reduce the cost of the scheme by restricting who can get a loan, while maintaining the interest-free policy.
9. We are generally supportive of the changes proposed, as it restricts borrowing by students who are not performing and aligns access (by permanent residents) to student loans with student allowances and benefit settings. The performance element for students is consistent with the Government's intention to lift performance across the system generally, and will complement the soon to be introduced performance linked funding for providers.
10. The 7EFTS limit is generous and has only a minor impact on the number of students who will borrow. It could be argued that this creates unnecessary administrative complexity in the system for little gain. However, we consider that the benefits of a positive signalling affect *[deleted – confidentiality of advice]*.

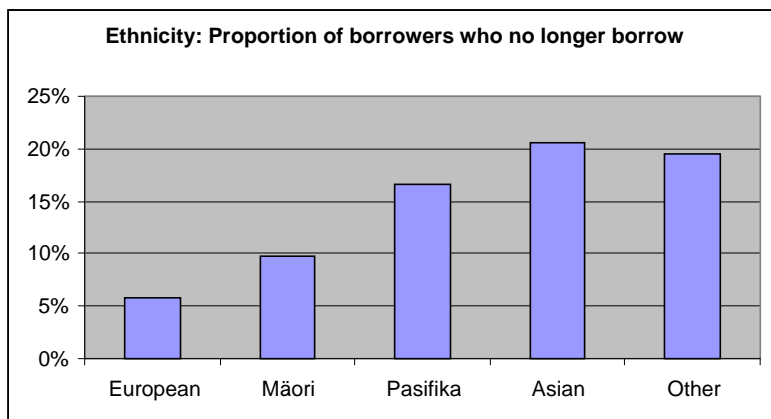
11. The impact of the package at an aggregate level is:

- Approximately 17,000 fewer people will draw down a student loan and 400 fewer people will receive a student allowance.
- The package has the greatest proportional impact on those over 60 years, although the bulk of the students affected are those between 20-24.



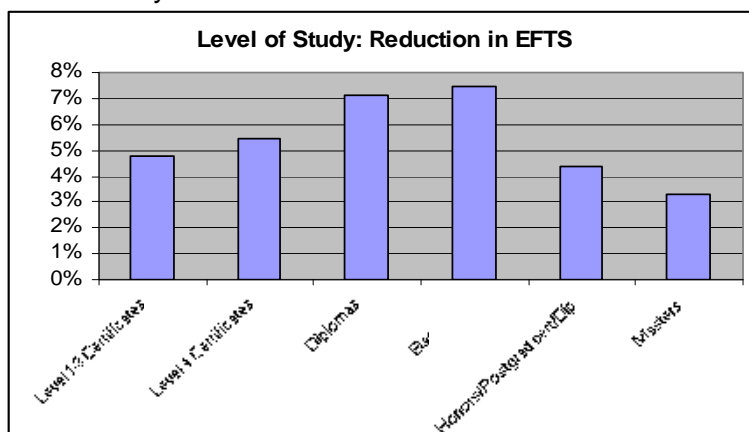
Age	Number who no longer borrow
under 20	1,950
20-24 years	6,740
25-29 years	3,210
30-34 years	1,550
35-39 years	1,100
40-44 years	790
45-49 years	590
50-54 years	350
55-59 years	300
60-64 years	290
65 and over	370

- The package has a proportionally higher impact on Maori, Pasifika and Asian students who borrow.



Ethnicity	Number who no longer borrow
European	5,160
Māori	2,860
Pasifika	2,260
Asian	5,310
Other	1,530
Unknown	110

- The greatest impact is on those borrowing at bachelor level, and students studying at university, reflecting in part the different levels of borrowing (i.e. given low or no fees, many students do not need to take out loans at lower levels of study).



Level of Study	EFTS Removed
Level 1-3 Certificates	2,390
Level 4 Certificates	1,320
Diplomas	2,190
Bachelors	7,320
Honors/Postgrad cert/Dip	550
Masters	220

12. We consider some of the key risks and issues of the package to be:

- The student support package will restrict a significant number of students who current borrow from continuing to access the loan scheme. These students may no longer study, and instead access the welfare system, increasing benefit expenditure. MSD and MoE are currently working on costing how significant this may be. However, to the extent that some of those on the welfare system cannot currently access tertiary education due to a lack of student places, this may be more a substitution between those studying and those on welfare, rather than a significant net increase in beneficiary numbers. The number of funded places is not intended to reduce as a result of the student support changes (as the Minister's package pays for these to be reinstated).
- The criteria for the performance element is reasonably complex, and will be difficult to communicate to students and the general public. There is a significant risk that, at least initially, students at the margins may find it difficult to determine whether they are eligible or not.
- The costings are complex and involve making behavioural assumptions about how students will respond in the future. There is a particular risk around the costing for the 2 year-stand down for permanent residents and Australians, as it currently assumes that study does not take place by this group, as opposed to being deferred. We are continuing to talk to the Ministry of Education about this.
- While one of the intentions of the 2 year stand-down for permanent residents and Australians for student loans is to reduce the misuse of the loan scheme by recent migrants who use it a source of living costs, it will delay the study of those who legitimately want to study and stay in New Zealand long term and pay off their loan. New Zealanders are not eligible to borrow from the Australian scheme.
- We understand that the Ministry of Education consider that some PTEs may no longer trade as a result of these changes.

Remainder of Tertiary Education Budget Package

13. In addition to the student support changes above, savings of \$59.86m per annum are proposed by removing a large proportion of the remaining capability funding in the sector. *[information deleted in order to maintain the effective conduct of public affairs through the free and frank expression of opinions]*¹.

But,

- institutions should not have been expecting the continuation of the largest item ("Supporting Change" - \$35m p.a) as this was only intended as a 5 year programme.
- the second largest pot ("Encouraging and Supporting Innovation" fund - \$8.7m p.a) is a contestable fund to support innovative projects (e.g. new learning delivery systems). As such, providers should not have been relying on that funding to support their day to day operations.

¹ After excluding "Supporting Change" and "Encouraging and Supporting Innovation", the remaining changes to capability funding impact the amount of government revenue that each ITP receives by between 1-3% (depending on the size of the institution).

14. It is proposed that the savings be used to purchase additional EFTS places in the tertiary sector, and address provider cost pressures through a price adjustment to tuition subsidies and relaxing fee regulation. *[deleted – confidentiality of advice]*

The tertiary education budget package proposes savings in student support and capability funding...

Savings	Description	p.a outyear saving (\$)	Treasury view
TEOC savings	Capability (TEOC) funding.	\$59.86m	Support.
Student Support	Student Support savings (not including StudyLink admin costs)	\$114.11m opex.	Support.

...to fund additional enrolments and provider cost pressures.

Initiatives	Description	p.a outyear cost (\$m)	Treasury view
Reversing student support EFTS reduction	Restores funded places freed up by student support savings	\$32.88m*	Support.
Maintaining 2010 baseline for Universities and ITPs.	This maintains the EFTS baseline for Universities and ITPs at their 2010 level	\$33.52m*	Option for contingency.
Relax tuition fee regulation	Removes the current fee maxima, and allows all courses to rise by a maximum limit per year. The cost is student loan flow-on.	4% option: \$25m and rising	Support 4% option.
CPI adjustment (2.2%) on tuition subsidies	CPI adjustment of 2.2% to tertiary tuition subsidies.	\$42.2m	Do not support.
Purchase additional EFTS	Purchasing additional funded places in universities and ITPs.	<i>Deleted-confidential</i>	Do not support.

*includes student support flow-on costs

15. The two areas Treasury does not support parts of the package are the price adjustment to tuition subsidies and the number of funded enrolments.

CPI adjustment to tuition subsidies

16. We do not support a price adjustment to tuition subsidies, as this would be a direct price increase, for which there is no direct improvement in quantity or standards. We understand that the Minister is considering a 2%, 2.2% (CPI) or a 2.5% increase.
17. *[information deleted in order to maintain the effective conduct of public affairs through free and frank expressions of opinions].* We consider that there are other, less costly options that could be used to increase the revenue received by institutions. These include:
- Relax fee regulation further than is already proposed. This will incur additional loan costs, but these will be lower than adjusting subsidies. Fee regulation will be considered by SOC on 31 March.
 - Apply funding as a performance bonus through the new performance funding system.
 - Increase tuition subsidies by a lower rate e.g. CPI – efficiency adjuster (of say, 1%).

Additional funded tertiary places

18. The number of funded places in universities and ITPs will reduce between 2010 and 2011 (approx \$20m). *[information deleted in order to maintain the effective conduct of public affairs through the free and frank expression of opinions].*

19. The package proposes to fund additional tertiary places; in three ways:
 - Restore funded places freed up by the student support package
 - Maintain the number of funded places in outyears at their 2010 level
 - Fund additional EFTS places over and above the 2010 level,

20. We support restoring the funded places freed up from the impact of the student support package. We do not support maintaining the 2010 EFTS baseline or additional funded places above that. The 2010 EFTS baseline is largely a one-off peak, and we consider that TEC could manage demand pressures by reprioritising lower value provision within the system, as this would be in the order of 1-3% of the existing baseline. Relaxing the current 103% cap to allow higher unfunded enrolments could also allow the system to absorb higher demand.

21. However, if Ministers do wish to purchase additional EFTS places, we would recommend a contingency at the level of the “maintaining 2010 EFTS” initiative. This should provide a sufficient buffer should enrolment data later in the year show that 2010 enrolments were actually high and expected to persist in outyears. A contingency, rather than announcing funding now, would:
 - allow evidence of actual enrolment behaviour from later this year to inform any funding decision for 2011.

 - *[deleted – free and frank]*

22. The remaining savings in the overall package could be used as a buffer against some of the costing risks inherent in the student support package.