

The Treasury

Budget 2012 Information Release

Release Document

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In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

Treasury Report: Budget 2012 Tertiary Education Package Update

Date:	27 March 2012	Report No:	T2012/565
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Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Bill English)	<p>Note the initiatives which Minister Joyce intends to progress as part of Budget 2012, as they currently stand.</p> <p>Note that Treasury has concerns with the rationale and/or potential effects of several of the proposed initiatives.</p> <p>Note that we will provide you with further information as the Budget package is confirmed and financial implications are finalised.</p>	28 March 2012

Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
[3]			
Linda Cameron	Senior Analyst, Education and Skills	[3]	

Minister of Finance's Office Actions (if required)

None.

Enclosure: No

Treasury Report: Budget 2012 Tertiary Education Package Update

Purpose of Report

1. This report provides you with an update on the current status of the Vote Tertiary Education package for Budget 2012 in anticipation of discussion of the package at the Cabinet Social Policy Committee on 4 April. It outlines:
 - i. Treasury's understanding of what the Budget 2012 package looks like for Vote Tertiary Education, as it currently stands (still developing), and
 - ii where Treasury's view differs from that of the agency in relation to specific initiatives.
2. It should be noted that the costings provided in this document were up to date as of the writing of this report. We expect the costings to change as the package is finalised, therefore the numbers should not be taken as final. Given this, we will provide any necessary updates in advance of the Social Policy Committee on 4 April as the package continues to firm up.

Background

3. Student Loans Agencies¹ are currently working to pull together the final Budget 2012 package for student support (student loans and student allowances). The objectives of the package are:
 - requiring a greater contribution to tertiary education costs from students who can most afford to pay, and who are more likely to receive higher levels of private return from their study
 - increasing personal responsibility for debt repayment
 - setting individual borrowing limits
 - targeting student allowances to those with low incomes (or from low income families) and those in initial years of study.
4. In tandem with this, the Ministry of Education is also developing a package of initiatives to progress priorities in the tertiary education space. These will centre around:
 - Continually strengthening tertiary education at degree-level and above
 - Stronger investment in research, engineering and science
 - Improving vocational education
 - Supporting the Canterbury rebuild with trades training positions
 - Funding Private Training Establishments (PTEs) more equitably

¹ The Ministry of Education, Inland Revenue and the Ministry of Social Development

Budget 2012 Tertiary Education Package

5. The following table outlines the initiatives which we understand Minister Joyce currently intends to progress in relation to student support and tertiary education:

Student Allowances
<ul style="list-style-type: none"> • Maintaining student allowance parental incomes thresholds at current levels until 2015/16 • [6] • Focus student allowances on initial qualifications [6] and remove eligibility for post-graduate study and Long Programmes
Student Loans
<ul style="list-style-type: none"> • Annual student loan borrowing limit of 2 EFTS • Increase student loan repayment rate from 10c to either 11c or 12c in the dollar • Broadening the definition of income for student loan repayment • Removing eligibility for voluntary repayment bonus to borrowers in a tax year where they have also borrowed • Extending the alerts match between Inland Revenue and the New Zealand Customs Service to include student loans borrowers in default
Tertiary Education - Savings
<ul style="list-style-type: none"> • Confirming the funding arrangements for Pilot training • Disestablish earthquake recovery contingency for student support • Remove Adult and Community Education funding from universities • Unallocated funding from Literacy, Language and Numeracy (LLN) top-ups
Tertiary Education - Expenditure
<ul style="list-style-type: none"> • Additional engineering funding – increasing tuition subsidies by 8.8% • Additional funding for science – increasing science tuition subsidies by 2% • [6] • Additional PBRF funding - \$100 million over four years • Increasing funding rates for PTEs to halving the funding difference between PTEs and other tertiary institutions over four years • Annual Maximum Fees Movement – maintain current public/private ratios by providing funding for up to 4% increases per year from 2014/15 • Funding the New Zealand Benchmarking Tool • Programme for International Assessment of Adult Competencies (PIAAC) • [6] • Youth Guarantee – additional fees-free places • Extending and expanding the special supplementary grant for special education • Adult and community education in communities

6. Minister Joyce has yet to take final decisions on which initiatives he will progress. Therefore the list above should be taken as indicative only.

Treasury Views on the Package

7. In general Treasury is supportive of the overall direction of both the student support and tertiary education Budget packages. We do have some concerns with the rationale or potential effects for a number of the initiatives. These are outlined in the following table.

Initiative	Treasury Comment
Savings initiatives	
<p>Increase student loan repayment rate from 10c to either 11c or 12c in the dollar</p>	<p>We acknowledge that pursuing this option will generate savings which will help the government to achieve its fiscal objectives. However, from a policy perspective we have a number of concerns with this proposal:</p> <ul style="list-style-type: none"> • The stated objective of the policy change is to ensure that those who can afford to make greater contributions to the cost of tertiary education. The proposed repayment rate increase is rather poorly targeted in this regard. This is because it impacts on: <ul style="list-style-type: none"> ○ borrowers with generally good repayment histories, rather than focussing on those who don't repay, and ○ borrowers at all income levels over the threshold – including those on yearly wages well below the full-time minimum wage rate. • Considering their current workload, it is not certain that Inland Revenue would be able to implement the proposed change to the repayment rate – even by the currently specified date of 1 January 2014. This is also very likely to require a reprioritisation of the department's resources away from other high-priority projects, such as Business Transformation. • The lack of analysis of the potential effects on the Effective Marginal Tax Rate (EMTR). The impact of a 12 cent repayment threshold is likely to be more significant than an 11 cent repayment threshold. We think a more comprehensive analysis of the EMTR and distributional effects of the two options is required before Ministers are asked to agree to what may be a change with significant implications. Over the forecast period, this will extract over \$400 million of value from largely young, newly qualified workers, and is likely to have an impact on behaviour that has not yet been fully analysed.
Expenditure initiatives	
<p>Additional engineering funding – increasing tuition subsidies by 8.8%</p>	<p>New Zealand does have a relatively low number of engineering graduates compared to other developed economies; therefore we can see some rationale for pursuing this initiative.</p> <p>However, our concerns are:</p> <ul style="list-style-type: none"> • Training additional engineers does not mean that they will necessarily take up jobs in New Zealand. It is therefore not clear that this initiative will solve the identified problem. • The main constraint for people going into engineering courses is that they do not meet the pre-requisites i.e. they have not

	<p>studied physics and maths to a high enough level. There is no evidence that this funding will necessarily be targeted towards this problem.</p> <p>Given the government's priority of returning to surplus in 2014/15 we do not support this initiative progressing as part of Budget 2012.</p> <p>If Ministers did wish to pursue increased funding for selected subjects, we would recommend prioritising this initiative above additional funding for science courses.</p>
Additional funding for science – increasing science tuition subsidies by 2%	<p>New Zealand does not have a shortage of science graduates compared to other OECD economies. In fact, we have the 7th highest rate of sciences graduates across OECD economies. We have also not seen any evidence of a systematic erosion of funding levels for science in New Zealand.</p> <p>Given the government's priority of returning to surplus in 2014/15, we think this initiative should not be pursued in Budget 2012.</p>
Additional PBRF funding - \$100 million over four years	<p>We do not think that further investment in the PBRF is the best way to support research. The PBRF is allocated to tertiary providers on the basis of an assessment of the research which they have undertaken. However, once the funds have been allocated, there is no requirement for institutions to spend these funds only on research. The money would be poorly targeted in this respect.</p>
Halving the funding difference between PTEs and TEIs over four years	<p>This is a National Party manifesto commitment, however given the government's priority to return to surplus by 2014/15, this initiative could be deferred. We have no objections to progressing this in future Budgets, should there be sufficient funding available.</p>

Next Steps

8. The Minister of Tertiary Education currently intends to take Cabinet papers to the Social Policy Committee on 4 April to approve the package of Budget initiatives. We expect that substantive policy discussion will take place at this point. We will provide any briefing as appropriate for that meeting.

Recommended Action

We recommend that you:

- a **note** the initiatives which Minister Joyce intends to progress as part of Budget 2012, as they currently stand
- b **note** that Treasury is generally supportive of the direction of the student support and tertiary education initiatives being progressed as part of Budget 2012
- c **note** that Treasury has concerns around the following initiatives:
 - Increasing the student loan repayment rate from 10c to either 11c or 12c in the dollar
 - i. Additional engineering funding – increasing tuition subsidies by 8.8%

- ii. Additional funding for science – increasing science tuition subsidies by 2%
 - iii. Additional PBRF funding - \$100 million over four years
 - iv. Halving the funding difference between PTEs and TEIs over four years
- d **note** that Minister Joyce currently intends to take Cabinet papers on both the student support and tertiary education initiatives to the Social Policy Committee on 4 April, and
- e **note** that Treasury will provide further briefing as the package is finalised and financial implications are confirmed.

Linda Cameron
Senior Analyst, Education and Skills

Hon Bill English
Minister of Finance