

# The Treasury

## Budget 2012 Information Release

### Release Document

June 2012

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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.



THE TREASURY

Kaitohutohu Kaupapa Rawa

Date: 3 April 2012

To: Minister of Finance

## **Aide Memoire: Tertiary Education and Student Support Budget 2012 Cabinet Papers**

This Aide Memoire briefs you on the Tertiary Education and Student Support Budget 2012 Papers. These are part of the broader tertiary package for Budget 2012, which is being discussed at the Social Policy Committee (SOC) meeting on Wednesday 4 April.

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However, we draw your attention to the following issues that you may wish to raise at the SOC meeting.

### **Student Support Package**

The Student Support Package proposes increasing the student loan repayment rate to 11%. We recommend that Ministers defer increasing the repayment rate for student loans until Budget 2013, as we remain concerned that Inland Revenue may not be able to implement the proposed change by 1 January 2013, given trade-offs with other high-priority projects on their work programme.

We see the increase in repayment rate as poorly targeted because it focuses on New Zealand-based borrowers who earn above the repayment threshold. There is also a lack of comprehensive analysis of the potential effects on the Effective Marginal Tax Rate (EMTR), behavioural and distributional effects.

### **Tertiary Education Package**

In relation to the Tertiary Education Package, we have some concerns around four key initiatives given the tight fiscal environment. We recommend that Ministers either not progress or scale the following initiatives:

- additional engineering funding
- additional funding for science
- additional PBRF funding, and
- funding to close funding differences between PTEs and TEIs.

These could either be deferred, or scaled because:

- An increase in funding for engineering students will not necessarily lead to a direct increase of graduates in this field because students may not have the necessary course prerequisites. Also, they may not automatically remain in New Zealand as they are sought after in the global job market.
- New Zealand does not have a shortage of science graduates compared to other OECD economies, therefore an additional financial incentive is not justified.
- Additional PBRF funding does not necessarily lead to an increase in research activity and output since PBRF funding is not ring-fenced only for spending on research. Funding for this initiative could also be scaled back.
- Given the Government's priority to return to surplus by 2014/15, closing the funding gap between PTEs and TEIs could be deferred or scaled back.

If these four initiatives were not progressed this could provide potential savings of \$188.452 million over four years.

If Ministers were keen to pursue any of these initiatives we would recommend halving the proposed increase for engineering, which would cost \$20.98 million over four years.

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**Sign out manager**, Linda Cameron, Education and Skills, Growth and Public Services,  
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