The Treasury

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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.

Date: 5 April 2012

To: Minister of Finance

THE TREASURY
Kaitohutohu Kaupapa Rawa

Aide Memoire: Tertiary Education and Student Support Budget Package 2012 - Alternative Options

This Aide Memoire provides revised costings for the Tertiary Education and Student Support Budget package presented by Minister Joyce to the SOC Meeting on 4 April 2012. The proposals in Minister Joyce's preferred package are complex given the interaction between the components and further work has been undertaken.

The accounting treatment for the write down of the student loan component has been reviewed resulting in an adjustment to the impact on the capital balance.

If the costs of the Tertiary Education package are greater than savings, there are four options for how they can be dealt with in Budget 2012.

1. Identify measures to close the gap, and deliver a balanced package.

2. If it is not possible to close the gap, the net costs would typically be met from the operating allowance.

3. If there is some uncertainty of the size of the costs, and Ministers are uncertain about how they will be funded, Ministers could agree the package at a fiscally neutral level and agree to fund the additional spend through other savings to be identified in the sector post-Budget. In order to agree the new spending in Budget 2012, there would need to be a corresponding reduction in baselines now also – although Cabinet could agree that the Minister could change which appropriations the saving came from as these became more apparent.

4. The net cost could be a pre-commitment against Budget 2013.

Treasury recommends option 1, as this is in line with delivering a operating surplus in 2014/15. Failing that, we would recommend option 2. Options 3 and 4 are not recommended.

In terms of option 1, three packages have been prepared for your discussion with Minister Joyce. The focus is on balancing operating expenditure in 2015/16 and the outyears. These are outlined in the following table.

Table One – Balanced Budget Packages (2015/16)

	$m outyear opex (Operating)	$m outyear opex (Capital)
Items in all packages		
Saving items (all except two: allowance, repayment rate)	-33.22	
Spending items (all except four: engineering, science, PBRF, PTE/TEI)	43.37	
Package 1		
Common saving and spending	10.15	
Saving: 12c repayment rate	-36.09	
Spending: engineering, science, PTE/TEI	25.27	
Net outyear total	*-0.677*	*-122.75*
Package 2		
Common saving and spending	10.15	
Saving: 12c repayment rate, [6]	[6]	
Spending: engineering, scaled PTE/TEI, PBRF	59.95	
[6]	[6]	*-154.99*
Package 3		
Common saving and spending	10.15	
Saving: 12c repayment rate, [6]	[6]	
Spending: engineering, PTE/TEI, scaled PBRF	42.291	
[6]	[6]	*-106.31*

The three packages are based on savings from changes to student support i.e.

- increasing the student loan repayment rate to 12 cents in the dollar; and
- [6]

removing post graduate eligibility.

[6]

On the expenditure side, initiatives which we see as non-discretionary are included and discretionary initiatives are considered in various combinations with some scaling. In order of priority, based on discussions with the Ministry of Education these are (for 2015/16):

- additional engineering funding ($11.99m)
- additional funding for science ($4.85m)
- additional PBRF funding ($43.75m)
- funding to close the gap the difference between PTEs and TEIs ($8.43m)

Our previous advice recommended that Ministers defer consideration of the increase in the student loans repayment rate until Budget 2013. The operating balance would be neutral provided [6] savings [6] were implemented and the four discretionary spending initiatives were not implemented. The capital implications of these initiatives would be approximately $50m to $60m over the 4 year period and the Fiscal management team have indicated that this would be within acceptable margins.

Of the three packages outlined above, if Ministers decided to go ahead with the increase to 12% of the repayment rate, the Treasury's preference is option 3. This includes engineering, PTE/TEI and scaled PBRF funding, but excludes additional science funding, which in our view is low value relative to the initiatives.

There is only a slight possibility that expenditure on these initiatives could have flow effects to other parts of the tertiary system increasing operating expenditure in out years. Our view is that the risk of any flow on effects is likely to be minimal and would be contained because the funding for tertiary education is capped. For the engineering and science initiatives, this is a price change so although the volume of students would be expected to increase in response, these students are likely to be transferring from other courses. Increased funding for the PBRF is essentially a price increase that would incentivise a quality improvement and while the volume of activity may also increase, this would not increase expenditure on other funds (for example, much of the additional funding may be spent on capital items, staffing or operating purchases. Furthermore, we would expect the funding increase to close the gap between PTEs and TEIs to have no flow on effect.

[3]

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