

The Treasury

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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: Update on the Budget Package for Tertiary Education

Date:	1 March 2013	Report No:	T2013/390
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Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Bill English)	<p>Note the content of this report providing an update on the Budget 2013 Package for Vote Tertiary Education.</p> <p>Discuss the content of this report at the Fiscal Issues meeting on 5th March 2013.</p>	Before Fiscal Issues meeting at 2pm on Tuesday 5 th March 2013.
Minister for Tertiary Education, Skills and Employment (Hon Steven Joyce)	<p>Note the content of this report providing an update on the Budget 2013 Package for Vote Tertiary Education.</p> <p>Discuss the content of this report at the Fiscal Issues meeting on 5th March 2013.</p>	Before Fiscal Issues meeting at 2pm on Tuesday 5 th March 2013.

Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
[3]			✓
Ben McBride	Team Leader, Labour Market & Welfare	04 917 6184 (wk)	[3]

Actions for the Minister's Office Staff (if required)

Return the signed report to Treasury.

Enclosure: Yes (attached)
[Date Sent] SH-4-6-0

Treasury Report: Update on the Budget Package for Tertiary Education

Executive Summary

The Ministry of Education is currently in the process of finalising costings and analysis of initiatives for the 2013 Budget Package for tertiary education. We expect the package to be finalised in time for the Cabinet Social Policy Committee meeting on 27th March.

The current Budget 2013 Package for tertiary education leads to net savings of \$171.146 million over the four-year period.

There are some outstanding issues that Ministers will need to discuss, namely:

- The operating shortfall in 2015/16 (\$23.446m) and 2016/17 (\$29.696m).
- The treatment of savings from changes to the approach to calculating the costs of Lending.
- [6]

Recommended Action

We recommend that you:

- a **note** the content of this report providing an update on the Budget 2013 Package for Vote Tertiary Education, and
- b **discuss** the content of this report at the Fiscal Issues meeting on Tuesday 5th March 2013.

Ben McBride
Team Leader, Labour Market & Welfare

Hon Bill English
**Minister of Finance
Employment**

Hon Steven Joyce
**Minister for Tertiary Education, Skills and
Employment**

Treasury Report: Update on the Budget Package for Tertiary Education

Purpose of Report

1. This report provides you with an update on the Budget 2013 Package for tertiary education prior to your meeting on 5th March.

The Current Budget Package

2. As of Friday 1st March, the Budget 2013 Package for tertiary education has not been finalised. Although initiatives have been submitted as part of the Budget Package, other initiatives are still under consideration. These are outlined in the Annex.
3. The Ministry is currently in the process of finalising costings and analysis of initiatives for Budget 2013. We expect the Package to be finalised in time for the Cabinet Social Policy Committee meeting on 27th March.
4. The Minister for Tertiary Education, Skills and Employment introduced initiatives in previous Budgets which have increased efficiencies and have led to higher value generated in the tertiary education system.
5. The current package includes spending initiatives which support Government priorities, namely achieving Better Public Services target 6, supporting the rebuild of Christchurch, and building a more competitive and productive economy. Treasury supports these initiatives, subject to sufficient savings to cover the costs.
6. Our first best advice is that we support a broad-based tertiary system with a larger element of private contribution to fund the direct costs of tertiary education. However, given that Ministers have made it clear that certain measures (e.g. Interest on Student Loans) will not be considered, we recognise that the scope for future savings under current policy settings is limited to the kinds of changes outlined in this package.
7. Given the absence of alternative savings options, we support the package subject to the resolution of the outstanding issues outlined below. Ministers should be aware that the incremental changes while generating small savings are likely to have large impacts on specific groups by limiting their access to tertiary education. For example, the saving initiatives proposed in the current package include incremental changes to the eligibility to Student Support systems, based on age, and immigration status that limit access to tertiary education.
8. If more incremental changes are proposed, the universal nature of the Student Support system could be undermined with the risk that further changes would increasingly have large impacts on specific groups e.g. limit their access to tertiary education.

9. The current version of the Budget Package for tertiary education includes the following spending initiatives:

Summary Table of Proposed Spending Initiatives in current Budget Package

<i>Initiatives</i>	<i>What do we purchase?</i>	<i>Four-Year total costs (\$m)</i>
[6]		
Continue 99%-105% tolerance band	Extra student support due to changes in tolerance bands of EFTS provision by TEIs.	11.750
Continue additional Private Tertiary Establishments over-delivery	Extra student support for 1000 EFTS per annum due to over-delivery of high-performing PTEs.	30.250
Maori and Pasifika Trades Training	2,400 extra places for Maori and Pasifika trade training until 2015. Tools subsidy (\$1,000), fee top-up (\$2,000), and brokerage costs (\$733) per learner.	Fiscally neutral (since costs of \$35.037 million are covered by underspends in the Industry Training Fund)
[6]		
Other pressures	<p><i>Equity funding:</i> Increased funding to maintain current rates per student as a result of higher than forecast participation expected from Maori, Pasifika and students with disabilities.</p> <p><i>Christchurch Trades Training contingency:</i> Additional contingency funding from 2014 to manage demand for trades training associated with the Christchurch rebuild</p>	40.500
Total Spending		[6]

Source: Ministry of Education

Treasury supports the Spending Initiatives

10. We support the spending initiatives, subject to the Ministry's ability to find sufficient savings within existing baselines, as they are in line with and support Government policies including delivering better public services, building a more competitive and productive economy, and rebuilding Christchurch.
11. The Ministry intends to cover the costs for the spending initiatives through reprioritisation within existing baselines and proposed changes in student support schemes without any additional funding from the centre over the four-year period.
12. The current version of the Budget 2013 package for Tertiary Education includes savings initiatives in four areas:

Summary Table of Proposed Savings Initiatives in current Budget Package

<i>Initiatives</i>	<i>Comments</i>	<i>Four-Year total savings (\$m)</i>
Student Loans – changes to the calculation the cost of lending	Treasury considers the changes to calculating the cost of lending a technical change rather than a change in policy settings.	(117.000)
Student Allowances – changes to eligibility	Changes to the eligibility are based on age of recipients, length of lifetime cap, length of stand-down period for Permanent Residents, [6]	(31.830)
Student Loans – changes to eligibility	Changes to the eligibility are based on age of recipients, [6] period for Permanent Residents, [6]	(76.423)
[6]		
Total Savings		[6]

Source: Ministry of Education

13. The proposed Budget 2013 Package for Vote Tertiary Education as it currently stands would lead to net savings of \$171.146 million over the four-year period.

Areas for further discussion

14. In light of the objectives of balancing the Package, and sufficiently addressing cost pressures in outyears, we see four main areas in the current Package which Ministers need to discuss, namely:
- The proposed changes in the Student Support schemes.
 - Operating impact from Budget 2012 decisions in 2015/16 and 2016/17.
 - Costings for the effects of the welfare reforms on the demand for tertiary education.
 - The treatment of savings from changes to the approach to calculating the costs of lending throughout the Student Loan Scheme.

Proposed changes to the Student Support Schemes

15. The changes proposed in the current package focus on reducing levels of risk lending, increasing the contribution people pay towards their tertiary education, and targeting allowances towards need. Key changes relate to the eligibility based on age and Permanent Residency status, the duration of eligibility (Student Allowances only), [6]
16. In the absence of changes to wider student loan and student allowance settings, incremental changes are being proposed which generate relatively small savings but could potentially have large impacts on specific groups, e.g. limit their access to tertiary education. Increasing the two-year stand-down period for Permanent Residence to access Student Loans to three years may lead to effects such as delaying access to tertiary education for Permanent Residents with good repayment prospects.

17. Changes to the stand-down periods for Permanent Residents' access to Student Support Schemes lead to a misalignment of stand-down periods for Permanent Residents with the welfare systems, which are currently in line. Longer stand-down periods for Student Support systems are likely to have welfare flow-on costs (e.g. unemployment benefit) which have yet to be considered in the Budget Package.
18. [8]

Budget gap in 2015/16 and 2016/17 from decisions at Budget 2012

19. The key challenge over the next four years will be how to meet priorities in tertiary education with no additional funding. In recent Budgets, the Ministry has used low value tertiary expenditure, particularly student support, to fund priority provision and manage cost pressures. In Budgets 2009 to 2012, between \$300 million to \$500 million over four years has been returned to the centre.
20. Minister Joyce has signalled that he does not expect the Budget 2013 Package to compensate for the shortfall from Budget 2012. Should the tertiary Budget Package be required to do so, this would significantly increase the challenge of making the Budget 2013 Package balance.
21. The operating impact of Budget 2012 decisions by Cabinet is \$23.446 million in 2015/16, rising to \$29.696 million in 2016/17 and out-years. The Ministry has expressed uncertainty over whether or not Vote Tertiary Education is expected to "make up" the operational impact from Budget 2012 as part of Budget 2013.

Treatment of savings from changes to the approach to calculating costs of lending

22. Treasury supports the changes to the approach to calculating the costs of lending in the Student Loans scheme. The new approach, which uses annual interest rate data for each borrowing cohort to calculate the Effective Interest Rate for the Loan scheme, will increase accuracy of the scheme and will provide us with better information on the cost of lending.
23. However, the current Budget Package for Tertiary Education includes the operating savings which this initiative will generate.
24. Treasury considers the changes to calculating the cost of lending a technical change rather than a change in policy settings as it improves the accuracy of the calculation of the cost of lending, rather than changes to eligibility criteria.
25. Technical changes should be included in the March Baseline Update and added to the central operating allowance. This would be consistent with the treatment of savings resulting from technical changes in other areas.
26. However, we recognise that this would increase the amount of savings to be found elsewhere. Alternatively, Ministers could make the decision to increase the amount for tertiary education equal to the savings from this initiative through the budget allowance.

[6]

[6]

ANNEX – OPTIONS TABLES FOR THE TERTIARY EDUCATION BUDGET 2013 PACKAGE

Student loan options for Budget 2013 (Information provided by the Ministry of Education)

Options	Approximate policy operating savings (pa)	Admin. operating costs (pa)	Capital available (pa)	Decrease in cost of lending (cents in \$)	Numbers affected	Scalability/ other variants	Variant costings (pa)	Comment
1. Increasing the 2 year permanent resident stand-down to 3 years	(\$4m)	Initial estimated StudyLink impacts: One-off system and support \$0.3m Annual ongoing costs \$0.12m to \$0.2m	(\$4m)	≈0.0 cents	Excludes 4,000 borrowers	[6]	Policy: (\$10m) Admin: One-off system and support \$0.299m with an annual ongoing cost of \$0.370m to \$0.63m Policy: (\$25m) Admin: Not costed	This option would delay access to tertiary education for Permanent Residents who have good repayment prospects. The flow-on costs to the welfare system (e.g. unemployment benefit) have yet to be considered.

Options	Approximate policy operating savings (pa)	Admin. operating costs (pa)	Capital available (pa)	Decrease in cost of lending (cents in \$)	Numbers affected	Scalability/ other variants	Variant costings (pa)	Comment

Student Loan Initiatives that require more investigation								
Options	Impact on access to education	Impact on value of loan asset	Impact on ability to meet repayment obligations	Consistency with student support package	Legislative implications	Administrative complexity/ cost	Public perception	Comment

Student Loan Initiatives that officials advise exploring further								
Options	Impact on access to education	Impact on value of loan asset	Impact on ability to meet repayment obligations	Consistency with student support package	Legislative implications	Administrative complexity/ cost	Public perception	Comment
Introducing border crossing restrictions for travellers with outstanding student loan debt (i.e. implementing the child support system for student loan debtors).	No or low impact.	Unavailable	No change	Not inconsistent.	Requires legislative amendment.	Unavailable.	May be seen as disproportionate penalty by some groups unless some thresholds were applied.	This would send a strong message - if Ministers were to consider an additional measure to deter borrowers from non-compliance, we would recommend border crossing restrictions.

Student Loan Repayment Initiatives which officials do not recommend considering until compliance has improved								
Options	Impact on access to education	Impact on value of loan asset	Impact on ability to meet repayment obligations	Consistency with student support package	Legislative implications	Administrative complexity/ cost	Public perception	Comment
Fixing the repayment obligation for OBBs at the rate they pay when they leave New Zealand.	No or low impact.	Nil	Increases repayments for potentially 61,209 borrowers.	Not inconsistent.	Requires legislative amendment.	Unavailable.	Likely to be complaints from OBBs.	There is a risk that increased expectations may contribute to decreased compliance by some borrowers.
Adding new repayment thresholds for OBBs.	No or low impact.	\$0.4m per annum.	Increases repayments for potentially 13,000					

[9]

Student allowance options for Budget 2013 (Information provided by the Ministry of Education)

Option	Allowance savings (pa)	Student Loan flow on cost (pa)	MSD policy costs* (AS/UB-SH flow on) pa	Agency costs	Numbers affected pa	Variants / comments	Comment
1a. Remove SA eligibility from those aged 65 and over	(\$3.1m in first full year, \$11.6m over 3 and a half years)	None. From 1 Jan 2013 those over 55 can borrow for fees only (ineligible for living costs).	(\$0.7m)	Initial estimated StudyLink impacts: One off system and support \$0.36m; Annual ongoing admin \$0.03m to \$0.06m	(405) (Average of projected out years over 4 years)		<p>The 65 and over age group would have no access to Student Allowances and Student Loans (if that is also agreed).</p> <p>Some students in this age group use Student Allowances as a substitute for superannuation.</p> <p>Savings identified in this initiative may potentially be offset by the flow-on cost to parts of the welfare system (e.g. unemployment benefit) that have yet to be considered.</p>
3. Increase the New Zealand Permanent Resident stand-down period (for e.g. to 3 years) [All ages].	(\$8.8m in first full year and \$36.8m over 3 and a half years).	There will be no student loan flow on, assuming the same stand down period is chosen for both loans and allowances.	(\$1.6m)	Initial estimated StudyLink impacts: One off system and support \$0.3m; Annual ongoing admin \$0.76m to \$1.28m	(960) (Average of projected out years over 4 years)	5 year option: 2,880 students affected; policy savings \$110.5m over 3 and a half years; AS/UB-SH flow on \$4.7m.	Impact on access to tertiary education. It would delay the upskilling of Permanent Residents and their entrance into the labour market.