

The Treasury

Budget 2013 Information Release

Release Document

July 2013

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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

Reference: T2013/522

SH-4-6-0

Date: 8 March 2013

To: Minister of Finance
(Hon Bill English)

Minister for Tertiary Education, Skills and Employment
(Hon Steven Joyce)

Deadline: None
(if any)

Aide Memoire: Further Advice on the Budget 2013 package for Tertiary Education

This Aide Memoire provides you with advice on achieving a balanced Budget 2013 Package for Tertiary Education, following initial discussions on Tuesday 5 March.

Our advice is structured around the A3 of the Tertiary Budget package tabled at the Fiscal Issues Meeting by the Ministry of Education. To finalise the package, Ministers will need to confirm which initiatives to include in the Budget package, and how they treat the change in how the cost of lending is calculated.

Last year the 2012/13 Tertiary Education package did not balance and had a short fall of \$29.696 million in 2016/17 and outyears which was funded from elsewhere in the wider Budget package. In its Four Year Plan the Ministry had expressed uncertainty around whether it would be required to “make up” for this shortfall in Budget 2013. Ministers confirmed on Tuesday that this would not be required.

Definite saving and spending initiatives

The Ministry’s A3 includes tables of what it considers definite savings and spending initiatives. As previously advised, Treasury supports the definite spending initiatives as they are consistent with Government priorities.

The Ministry has included the change in how the cost of lending is calculated as a definite saving. Our view is that this is a technical change and should be reflected in the March Baseline Update. Changes to the calculation of the cost of lending only provide savings in the short-term and will incur costs in the medium-term to long-term, being fiscally neutral overall.

This is due to the change in the interest unwind eventually balancing out the short-term cost savings. If spending beyond the forecast period is higher than that currently forecast, this will need to be covered by the operating allowance once the impact is known.

Due to the recommendation by the Auditors to implement the changes on 1 January 2013 rather than 1 July 2012, the short-term savings over the forecast period are reduced from \$117.000m to \$102.000m over the forecast period.

A delay in implementing the change to the calculation of the cost of lending until Budget 2014 would reduce the aggregate savings in the short-term by approximately \$56 million.

However, if the savings are returned to the centre, Ministers can decide to change the spending profile, although not the amount overall and not beyond the year which they tail out (2016/17).

The following table shows the definite spending and saving initiatives from the Ministry's A3. We have excluded the technical change to the calculation of the cost of lending from the Ministry's table:

Table 1: Definite saving and spending initiatives

Definite Savings Initiatives						
Initiative	2012/13	2013/14	2014/15	2015/16	2016/17	4-Year Total
Remove eligibility to student allowances for over 65s	-	-	0.110	-1.300	-1.300	-2.490
Overseas based borrowing initiatives	-	-	-	-0.400	-0.400	-0.800
Subtotal	0.000	0.000	0.110	-1.700	-1.700	-3.290
Definite Spending Initiatives						
BPS - level 4+: extending unfunded over-delivery	-	3.750	8.500	8.500	8.500	29.250
Centres of Research Excellence	-	-	3.169	3.169	3.169	9.507
Tertiary Equity Funding [7]	-	0.500	1.000	1.000	1.000	3.500
Skills for Canterbury Contingency	-	15.000	-	-	-	15.000
Subtotal	0.000	19.464	13.007	13.098	13.160	58.729
Total (Definite Package)	[7]					

Based solely on the definite savings and spending initiatives, the Tertiary Budget package does not balance. The net operating impact based on the definite initiatives in the package is [7] (excluding savings from the change to the calculation of the cost of lending).

The Ministry of Education has identified a number of possible savings initiatives that could be used to help achieve a balanced package

Even without including the change in how the cost of lending is calculated as a savings initiative, the possible additional savings initiatives outlined in the A3 would lead to a balanced package if Ministers decide to include all of them in the Budget package. The inclusion of the possible savings initiatives would provide net operating savings of [6]

Table 2: Possible savings and “definite” package

Possible Savings						
Initiative	2012/13	2013/14	2014/15	2015/16	2016/17	4-Year Total
Increasing the 2-year stand-down for Permanent Residents for loans and allowances to 3 years	-	-1.120	-8.820	-12.620	-13.820	-36.380
[6]						

We provided advice on possible savings options relating to the student loan scheme and student allowances in our report (T2013/390). The incremental changes to these schemes are likely to have large impacts on specific groups by limiting their access to tertiary education. However, in the absence of wider system changes, we support these changes as part of a balanced package.

[6]

In addition, the Ministry has tabled two possible spending initiatives

The Ministry has included two additional spending proposals at the cost of \$80m over four years. Treasury does not support the two possible spending initiatives, namely an increase in funding for science and engineering, and an increase in funding for Private Training Establishments. Funding for science and engineering was increased in Budget 2012. The effects of this change are yet to be assessed. Closing the gap in the funding rate for Private Training Establishments is not a priority in the current fiscal

situation and could be deferred. We consider that both proposals are a lower priority than proposals to fund increased demand for tertiary education arising from welfare reform.

Table 3: Possible spending initiatives

Possible Spending Initiatives						
	2012/13	2013/14	2014/15	2015/16	2016/17	4-Year Total
Funding for engineering and science	-	12.000	12.000	12.000	12.000	48.000
Additional funding for PTEs	-	8.000	8.000	8.000	8.000	32.000
TOTAL		20.000	20.000	20.000	20.000	80.000

If Ministers did decide to fund these initiatives there would be a shortfall in the package of \$42.381m overall and approximately \$2.245m in outyears that would need to be made up from elsewhere.

[6]

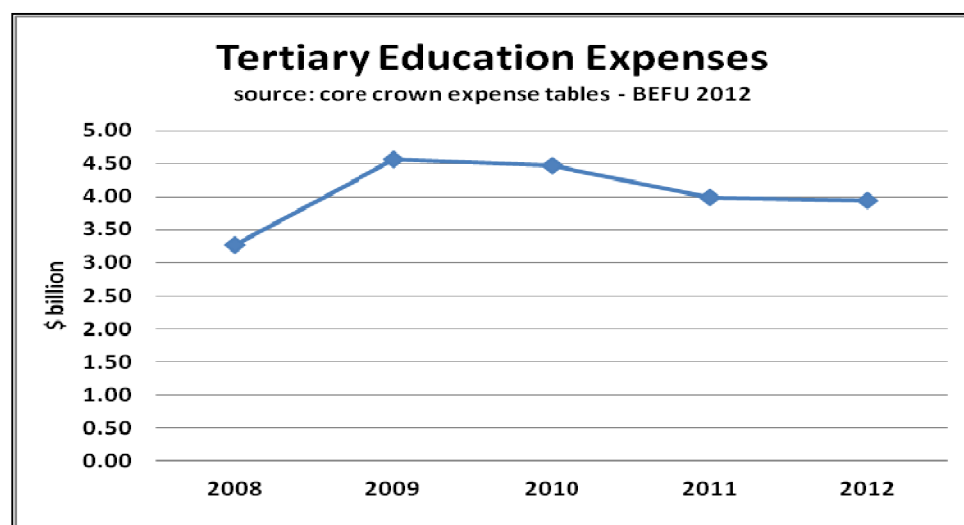
[3]

Ben McBride, Team Leader, Labour Market & Welfare, [3]

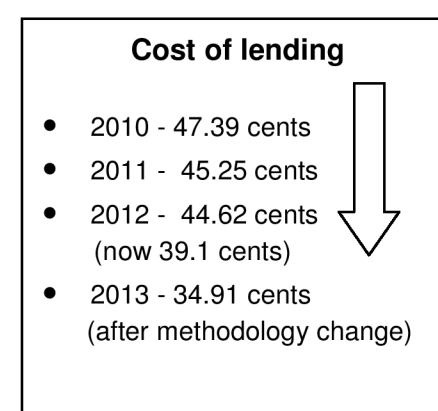
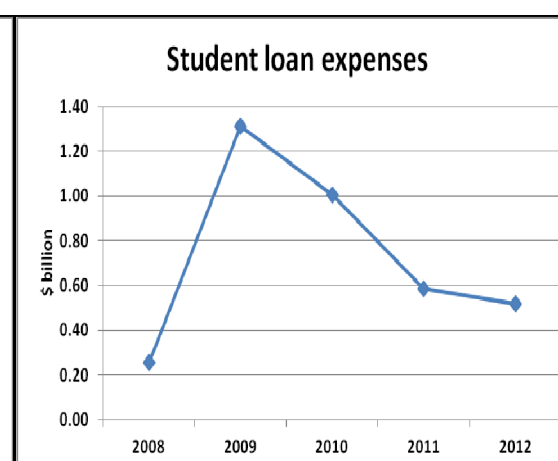
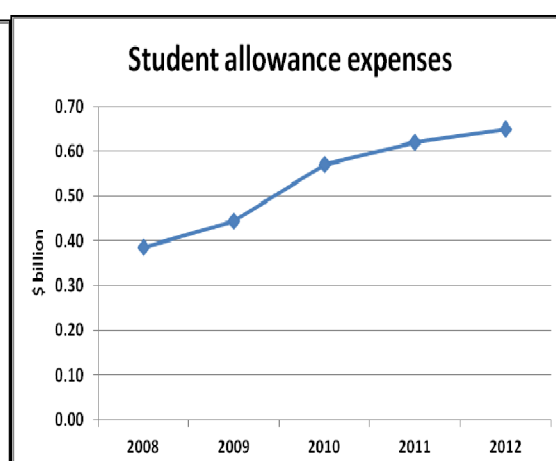
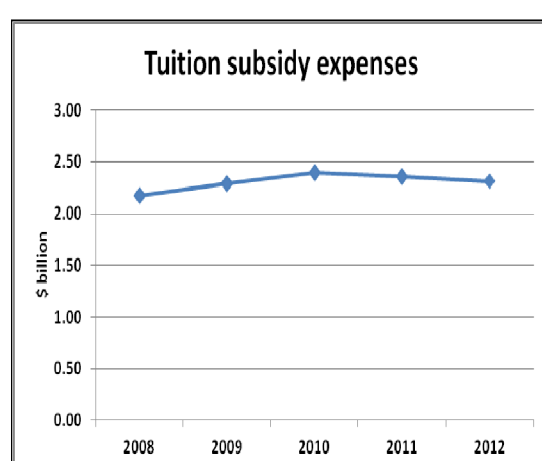
Annex

Tertiary Budget Considerations

Draft as at 6 March 2013 (provided by the Ministry of Education)



- In this period, the number of funded EFTS increased from 229,224 in 2008 to peak at 250,440 in 2010. The forecast funded EFTS for 2012 are 244,791.
- We've improved the performance and value for money of the system, which has improved fiscal management.
- We've significantly improved the value of student support, by reducing the gap between new lending and repayment.



Definite savings initiatives

	Operating (\$m)					
	2012/13	2013/14	2014/15	2015/16	2016/17	4-year total
Change how cost of lending is calculated	(41.900)	(33.900)	(18.000)	(7.400)	(0.800)	(102.000)
Remove eligibility to student allowances for over 65s	-	-	0.110	(1.300)	(1.300)	(2.490)
Overseas based borrowing initiatives	-	-	-	(0.400)	(0.400)	(0.800)
Total	(41.900)	(33.900)	(17.890)	(9.100)	(2.500)	(105.290)

Definite spending initiatives

	Operating (\$m)					
	2012/13	2013/14	2014/15	2015/16	2016/17	4-year total
BPS – level 4+: extending unfunded over-delivery	-	3.750	8.500	8.500	8.500	29.250
Centres of Research Excellence	-	-	3.169	3.169	3.169	9.507
Tertiary Equity Funding	-	0.500	1.000	1.000	1.000	3.500
Medical intern grants	-	0.214	0.338	0.429	0.491	1.472
[6]						

Unresolved issues

- [6]

- **Out-years gap from Budget 2012 decisions:** Treasury has asked that the Tertiary 2013 Budget package address the operating funding gap from Budget 2012 decisions. However, Cabinet agreed to the 2012 tertiary Budget package and this decision has now been built into baselines.

Possible savings initiatives

	Operating (\$m)					
	2012/13	2013/14	2014/15	2015/16	2016/17	4-year total
Increasing the 2-year stand-down for Permanent Residents for loans and allowances to 3 years	-	(1.120)	(8.820)	(12.620)	(13.820)	(36.380)
[6]						

Possible spending initiatives

- Closing the gap in the funding rate for Private Training Establishments (costing approximately \$8 million per annum).
- A targeted subsidy increase for science and engineering (costing approximately \$12 million per annum, based on a 2% increase to current rates).