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Where information has been withheld, a numbered reference to the applicable section of the Official Information Act has been made, as listed above. For example, an [4] appearing where information has been withheld in a release document refers to section 9(2)(b)(ii).

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

Tertiary Education package for Budget 2013

Proposal

1. This paper provides an overview of the tertiary education package for Budget 2013, and seeks Cabinet's agreement to the required policy changes. The policy decisions for student loans and allowances are covered in the accompanying paper, *Student Support Package for Budget 2013*.

Executive Summary

2. The tertiary sector is a driver of innovation, productivity and growth through the development of human capital and research. This contribution is critical to New Zealand's economy.
3. Over the last four years, we have improved the value for money of tertiary education by setting performance incentives on both providers and students, focusing the system on higher level study, and improving information for students about the performance of providers and about the employment outcomes of their study.
4. We have significantly improved the performance of workplace-based industry training and focused the lower levels of the mainstream tertiary system on literacy and numeracy outcomes. We have used low value tertiary expenditure, particularly in student support, to fund priority provision and manage cost pressures. Our changes to improve the value of student loans have reduced the amount per dollar of new lending the Government writes down from 47 cents in 2010 to 39 cents in 2012.
5. The Government is now focused on continuing to strengthen the tertiary system's contribution to its economic growth priorities, by investing in additional volume and increased incentives for higher level study and research, and through strengthening the links between qualifications and industry needs.
6. My tertiary package for Budget 2013 aims to build on previous investment and improve the contribution of tertiary education to economic growth in three ways:
 - Strengthening vocational education - seeking agreement for the funding decisions needed to implement recently-announced decisions to revitalise the industry training system, introduce New Zealand Apprenticeships and expand Māori and Pasifika trades training.
 - Increasing the proportion of young people with higher-level qualifications, in order to meet our Better Public Service target of 55% of 25-34 year olds holding a qualification at level 4 or above in 2017 - attracting new learners into tertiary education and funding additional places as required.
 - Ensuring that New Zealand's skills base supports the needs of industry and encourages innovation - strengthening provision in areas of particular priority, such as engineering and science.

7. I also propose to close the difference in tuition subsidies between public and private providers by 2015, as part of our election manifesto commitment to level the playing field between public and private providers.
8. A companion Cabinet paper (*Student Support Package for Budget 2013*) details how I intend to continue to improve the value of the Government's expenditure on student support, in order to identify further savings to reprioritise for my Budget 2013 package. It also details initiatives to increase repayments from overseas-based borrowers, which will improve the value of the Scheme in the future.

Overview of the tertiary education budget package

Tertiary education budget package for 2013

Initiatives	Five Year Total (\$m)
	Operating
Savings initiatives	
3 year loans and allowances stand-down for permanent residents	(18.689)
Remove allowance eligibility for those aged 65 and over	(7.968)
[6]	
Allocation in recognition of savings from cost of lending change	(94.000)
Science and Mathematics Scholarships and School Achiever Awards	(3.750)
Funding to deliver overseas-based borrower initiatives and changes to loan eligibility for entry-level education	5.085
Total savings	[6]
Spending initiatives	
BPS - level 4+: extending unfunded over-delivery	32.385
Centres of Research Excellence	10.007
Tertiary Equity Funding	6.296
[6]	
Increased funding for engineering	9.340
Increased funding for science	17.900
Increased funding for Private Tertiary Establishments	28.700
Total spending initiatives	[6]
Operating balance	[6]

The student support Cabinet paper includes a variant to reduce student allowance entitlement for those aged 40 and over from 200 weeks to 120 weeks. [6]

Treatment of savings from cost of lending change

9. On 26 March 2013, Budget Ministers agreed that the savings from the change to calculating the cost of lending in the Student Loan Scheme be counted as part of the Budget 2013 package. The net cost of the Budget 2013 package reflects these changes. The savings from the cost of lending change (\$102 million over

five years) have been included in this paper as \$94 million over five years, which equates to \$18.8 million per annum.

Problem definition

10. New Zealand has a highly-educated population: approximately 50% of New Zealanders aged 15 and over have a tertiary qualification, and 17% have a bachelors degree or higher. Over \$4.2 billion of government funding goes to tertiary education each year, which includes over \$1.3 billion of student support funding. Our spending on tertiary education is consistent with OECD averages.
11. A strong, well-performing, tertiary education sector is important for a number of the Government's key priorities, in particular, our commitment to build stronger economic growth. Tertiary education plays a key role in supporting the overall skill level and value of research outcomes in the New Zealand economy, which in turn supports building a more competitive and productive economy.
12. Tertiary education also supports the Government's goal of delivery of Better Public Services. We are focused on increasing qualifications for people aged 25-34 at New Zealand Qualifications Framework (NZQF) level 4 and above.
13. However, those in the 20-24 age cohort (particularly males) are the most likely to be disengaged from employment and education, due to the impact of the global financial crisis. Many of these people are likely to have left school prior to 2008, with low or no qualifications. This group of students is likely to be more difficult to attract into tertiary education and more costly for providers to support.
14. Tertiary education also plays a key role in meeting the Government's Better Public Services target to increase the number of 18 year olds with qualifications at NCEA level 2. We have introduced a number of initiatives under the Youth Guarantee that support this target. Coupled with increased school retention rates, we are beginning to see more people in the 15-19 year old age group engaged in education and gaining qualifications. There is scope to continue to strengthen provision for 15-19 year olds in the medium term.
15. Research and science are a driver of economic innovation. It is important that tertiary education provision and research remain of high quality as costs to deliver them increase. I have also recently launched the National Science Challenges, which aim to identify complex issues that will require new knowledge obtained through science and research.
16. We have invested in additional volume and increased incentives for higher level study and research. There is scope to further strengthen science provision, knowledge transfer incentives and existing areas of research excellence.
17. We have invested in engineering in recent Budgets, which is a key area of skills shortage and a skills area which may make a significant contribution to economic growth. In order to maintain the momentum of this investment, the tertiary education system will need to continue to increase the supply of engineering and technology graduates to meet growing labour market demand.
18. The tertiary and skills sectors must also be responsive to the skills needed to rebuild Canterbury. We have initially focused on strengthening the provision of pre-trades training. Through the recently-agreed changes to the industry training system, we are now focused on strengthening the provision of industry-relevant training. In addition, Canterbury tertiary education organisations are significant employers and providers of international education in the region and should be supported to re-build.

Pressures for places in 2013/14 are likely to be manageable

19. I monitor demand for tertiary education regularly via the Ministry of Education and the Tertiary Education Commission, to determine whether there are likely to be any pressures on the baseline demand for places in tertiary education. Demand patterns are driven significantly by demographic factors, particularly the size of the population cohort that participates in tertiary education in greatest numbers (18-21 year olds). Demand is also driven by levels of employment.
20. Overall demand for tertiary education is forecast to remain well within the 5% upper tolerance band. Forecast demand at levels 3 and above peaks in 2014 at 2.8% above funded baseline levels, and drops to 1.9% above funded baseline levels by 2017 due to a drop in the core tertiary education aged population and forecast employment rates improving over time.
21. Tertiary education demand is forecast to be marginally higher over the next 5 years than was forecast at March 2012. The key factors driving the higher forecast are that enrolments for 2012 have rebounded from an unusually low uptake in 2011, and an increase in Treasury's preliminary unemployment forecasts.
22. There is forecast demand in the university and ITP sectors above the funded baselines from 2014, including a pipeline of degree-level students.
23. As discussed in paragraph 36 below, we may need to stimulate additional demand in the medium term (2015-2016) in order to meet the Better Public Service target at level 4+.

Strengthening vocational training

Re-booting the industry training system

24. In January 2013, Cabinet agreed to a package of changes to revitalise the industry training system [CBC (Min) 13 1/5 refers]. The changes will:
 - combine Modern Apprenticeships and other apprenticeship-type training together into New Zealand Apprenticeships that will provide quality support for apprentices regardless of age
 - define an apprenticeship as a programme of study of at least 120 credits, that results in a level four qualification on the New Zealand Qualifications Framework (NZQF)
 - introduce a sustainable and simplified funding regime for New Zealand Apprenticeships and other industry training
 - set clearer roles and performance expectations of industry training organisations (ITOs) to improve the quality of training
 - increase competition by allowing employers direct access to industry training funding.
25. Boosting participation and achievement in New Zealand Apprenticeships, which will all be at level 4 and above, will assist in meeting the BPS target of 55% of 25-34 year olds holding a qualification at level 4 or above by 2017. The majority of apprentices are young – in 2011, 73% of people in level 4 programmes of 120 credits or more were under the age of 30.

26. Cabinet also agreed that a more sustainable funding regime be introduced with separate rates for trainees and New Zealand Apprenticeships. Indicative funding rates to support the package of industry training system changes were agreed. The indicative funding rates were agreed as \$3,200 per standard training measure (GST exclusive) for trainees, and \$5,200 per standard training measure (GST exclusive) for New Zealand Apprenticeships.
27. I am now asking you to confirm the new industry training rates. All funding changes can be made within baselines.

28. [6]

29. Throughout 2013, officials will work with an implementation advisory group made up of experts from industry, ITOs and tertiary providers to provide me with advice on key implementation issues, such as details of performance expectations for ITOs.

Expanding Māori and Pasifika trades training

30. Cabinet has agreed to expand dedicated Māori and Pasifika trades training to lift achievement of Māori and Pasifika learners in vocational education and to contribute to meeting future needs for skilled trades people (SOC MIN (13) 5/2 refers).
31. This scheme builds off the re-boot of industry training. It aims to give more Māori and Pasifika young people the opportunity to complete foundation education and move into employment and further training through New Zealand Apprenticeships (at level 4).
32. As noted in the Cabinet paper, the initiative will largely be funded through reprioritisation within Vote Tertiary Education in Budget 2013. It will cost \$35.037 million over four years.
33. I am therefore seeking your approval to permanently transfer some of the forecast industry training underspend from the Industry Training Fund to other appropriations within Vote Tertiary Education to pay for the tertiary education costs of this initiative.
34. The Associate Minister for Tertiary Education, Skills and Employment, Hon Tariana Turia is seeking an additional \$2 million per year through Vote Employment in Budget 2013, to fund the project management and co-ordination costs for the consortia we expect to arrange these programmes.

Table 1: cost over four years of expanding Māori and Pasifika trades training (\$m)

	2013/14	2014/15	2015/16	2016/17	Four-year total
Expanding Māori and Pasifika trades training	4.066	8.573	11.199	11.199	35.037

Increasing the proportion of young people with higher-level qualifications

35. The Government is committed to delivering Better Public Services in the tertiary sector through a target of 55% of 25-34 year olds holding a qualification at level 4 or above in 2017.

36. An increase of approximately 7,035 EFTS above currently-projected levels is required in order to achieve the target. The number of additional EFTS required to achieve the target has reduced overall since a December estimate (from 13,770 to 7,035), as a result of:

- the stronger than expected Household Labour Force Survey result in December 2012 quarter (with the proportion of 25 to 34 year olds with a level four qualification or higher in 2012 52.6%, up from 51.8% in 2011)
- the reboot of industry training (including a stronger focus on level 4 apprenticeships) and the proposed expansion of the Māori and Pasifika trades training.

Better Public Services level 4+ - extending unfunded over-delivery

37. I am proposing two further supply-side initiatives to support achievement of the target:

- extending the change in delivery tolerance bands to 99%-105% to 2014 and beyond
- extending 1,000 EFTS over-delivery for highly performing Private Training Establishments to 2014 and beyond.

38. These initiatives will give tertiary providers more room to accommodate additional students above their caps. This should go some way to providing the additional supply needed to achieve the level four target.

39. However, as noted earlier, a key challenge for the achievement of the target will be stimulating demand from people who are less easy to draw into tertiary education. In particular, the group of 20-29 year olds who entered employment post school, but did not have qualifications to fall back on when the global financial crisis hit.

40. Officials will report back to me later in 2013 with proposals to further increase system efficiency and support increasing demand to achieve the level 4+ target.

41. The Ministry is also leading work to increase the proportion of 18 year olds with NCEA Level 2 or equivalent to 85% by 2017. The Government has created fees-free Youth Guarantee places for 16-17 year olds (now up to 8,750 places in 2013) and Trades Academies, which strengthen engagement in vocational education and transitions into tertiary learning.
42. We are beginning to see more people in the 15-19 year old age group engaged in education and gaining qualifications. Our current focus is on vocational pathways and building networks to strengthen links between schools and tertiary providers to offer further study opportunities to utilise the pathways.

Table 2: cost over four years of extending the change in delivery tolerance bands to 99%-105% (\$m)

	2013/14	2014/15	2015/16	2016/17	Four-year total
Operating impact	2.015	3.137	2.894	2.672	10.718
Debt impact	3.700	4.902	4.560	4.059	17.221

Table 3: cost over four years of extending the additional flexibility for PTEs to deliver above plan (\$m)

	2013/14	2014/15	2015/16	2016/17	Four-year total
Operating impact	3.633	6.397	5.980	5.657	21.667
Debt impact	6.613	11.134	10.583	9.919	38.249

Strengthening tertiary education provision in areas of key skills

43. It is important to ensure that New Zealand's skills base supports our goals for building stronger economic growth and encouraging innovation. This includes research-based learning and addressing areas of shortage in key skills.
44. Given current fiscal pressures, I do not propose to provide a general tuition subsidy increase this year. However, we need to ensure we are still investing well in key areas.
45. Although some individual tertiary education providers may need to achieve efficiencies to manage without a general funding increase in 2014, most providers will meet pressures through reducing surpluses and utilising cash reserves for the next financial year.

Targeted tuition subsidy increase for engineering

46. There are current and ongoing skills shortages in engineering occupations in New Zealand. The tertiary education system will need to continue to increase the supply of engineering and technology graduates to meet growing labour market demand.
47. In Budget 2012, we identified mismatches between delivery costs and the price received for tuition in the area of engineering and technology. International comparisons also showed that tuition subsidy rates for engineering and technology were low relative to other fields of study such as arts and commerce. Relative under- or over-funding may distort the supply of tertiary education, and discourage tertiary education organisations from expanding engineering provision fast enough to meet the needs of industry.
48. Table 4 shows the relativities in government tuition subsidies across different fields of degree-level study in New Zealand and Australia.

Table 4: Relativities in tuition subsidies across different fields of degree-level study, 2013¹

Field of study	Australia	New Zealand
Medicine (clinical stages)	3.9	7.0
Agriculture	3.9	2.2
Engineering	3.1	2.0
Science	3.1	1.8
Nursing	2.4	1.7
Computing	1.8	1.5
Law	0.4	1.0
Commerce	0.4	1.0
Arts/Humanities	1.0	1.0

49. We increased tuition subsidy rates for priority engineering programmes by 8.8% in Budget 2012. This has led to a significant increase in the supply of engineering provision.
50. I propose a further 2% increase to tuition subsidy rates for priority engineering programmes in Budget 2013. This will continue to bring tuition subsidy relativities for engineering closer in line with international practice, and Australia in particular.

Targeted tuition subsidy increase for science

51. To support a highly performing and innovative economy, it is important that we maintain the quality and capability of natural and physical science provision. I have also recently launched the National Science Challenges, which aim to identify complex issues that will require new knowledge obtained through science and research.
52. Science is a relatively high cost area of tertiary education provision. International comparisons showed that New Zealand tuition subsidy rates for science were low relative to other fields of study such as arts and commerce. In Budget 2012, we

¹ These figures should be interpreted with caution as tertiary systems are not directly comparable. For example, the English and Australian funding categories exclude most non-university provision.

provided a 2% tuition subsidy increase for science, to maintain the quality of provision at a time of fiscal constraint.

53. I propose a further 2% increase to tuition subsidy rates for science programmes in Budget 2013. This will continue to bring tuition subsidy relativities for science closer in line with international practice and Australia, in particular.

Table 5: cost over four years of increasing funding rates for science and engineering by 2% (\$m)

Initiative	2013/14	2014/15	2015/16	2016/17	Four-year total
Increasing funding rates for engineering by 2%	1.270	2.590	2.690	2.790	9.340
Increasing funding rates for science by 2%	2.525	5.075	5.125	5.175	17.900

54. From Budget 2014, more detailed information on delivery costs will be available through the New Zealand Benchmarking Tool. I will consider the wider use of the price mechanism when making purchase decisions next Budget.

Centres of Research Excellence contingency

55. I am currently conducting a review of the Centres of Research Excellence (CoREs). The CoREs currently contribute to the innovation system across economic, social and environmental areas by creating and transferring new and innovative knowledge, and training future researchers. The CoREs also play an important role in supporting collaboration across the research sector.
56. The CoREs review aims to assess the role and contribution of the CoREs in supporting innovation and through knowledge and technology transfer and commercialisation of research ideas, and their contribution to economic development through support for business research development. The review is also looking at ways to strengthen the monitoring and assessment of the CoREs to monitor future alignment with government priorities and value of any future investment.
57. As I expect to take final decisions on the review from June 2013, I am proposing to establish a CoREs contingency to allow for increased activity or reflect increasing costs and complexity of research activity (pending the outcome of the review). The contingency will be based on a general 10% increase in CoREs funding. I propose to announce the funding after the final decisions on the review, rather than on Budget day.
58. I also propose to appropriate \$0.500 million in 2013/14 to allow for the operating costs for a new CoREs selection round (following the review).

Table 6: cost over four years for increased CoREs funding (\$m)

Initiative	2013/14	2014/15	2015/16	2016/17	Four-year total
Contingency for increased CoREs funding	-	3.169	3.169	3.169	9.507
Operating costs for a new CoREs selection round	0.500	-	-	-	0.500

Continuing to contribute to the rebuild of Canterbury

59. To assist with the building works necessitated by the earthquakes, Cabinet has agreed in principle to provide a capital contribution to the three Canterbury TEIs (University of Canterbury, Lincoln University, and the CPIT) for selected capital projects, subject to a satisfactory Project Business Case that fully explores the building options (CAB Min (12) 42/3 refers).

60. [6]

61. At this stage, the quantum of capital funding has not been agreed by Cabinet. TEIs have been invited to submit Project Business Cases for Cabinet consideration in 2013. TEIs have indicated that they will submit business cases between August and October 2013.

62. Funding will be sought through Budget 2013 to establish a contingency to meet any funding commitments that may arise from Cabinet's consideration of the Project Business Cases. The contingency will be funded from the Future Investment Fund. The amount set aside in the contingency will be an estimate reflecting the expectation that each TEI will explore service delivery options, the potential funding contribution of their consolidated balance sheet (including insurance receipts), and the prioritisation and phasing of their capital programme.

63. The level of the Government's capital contribution for the University of Canterbury, Lincoln University and CPIT will be agreed by Cabinet following consideration of the Project Business Cases.

[6]

[6]

Progressing further government manifesto commitments

Equalising Private Training Establishment funding rates

68. We signalled as part of our election manifesto that we will continue to eliminate differences in funding policy treatment between public and private providers. Doing this will allow more competitive innovation within the tertiary education system, and more easily allow funding to move to providers that produce the best tertiary education, no matter the ownership arrangement.

69. In Budget 2012, we halved the difference in tuition subsidies between public and private providers. However, tuition subsidies for private providers remain 4.5% lower than those for public TEIs. I propose to close the remainder of the difference in tuition subsidies between public and private providers through a funding increase in Budget 2013.

Table 7: cost over four years of closing the funding rate difference between private and public providers (\$m)

Initiative	2013/14	2014/15	2015/16	2016/17	Four-year total
Closing the funding rate difference between private and public providers	4.100	8.200	8.200	8.200	28.700

Other items

70. There are a number of other items that support the effective operation of the tertiary education system including efficiency of the system, information to support it, and ensuring that students contribute appropriately to the cost of their tertiary education.

Apprenticeships Re-boot: technical change to appropriations

71. In 2013, Cabinet agreed to an “Apprenticeships Re-boot”, where the first 10,000 new apprentices who enrol from 6 March 2013 will receive \$1,000 towards their tools and off-job costs, or \$2,000 if they are in priority trades. Employers will receive a payment of the same amount for each apprentice they take on [CBC Min (13) 1/5 refers].
72. The funding for the Re-boot has been appropriated to the non-departmental output expense “Training for Designated Groups” in Vote Tertiary Education. However, the grants to apprentices as part of the initiative are not within the scope of that appropriation.
73. To rectify this, I propose that a new Benefits and Other Unrequited Expenses appropriation is established in Vote Tertiary Education, called “Apprenticeships Re-boot”, with the scope: “This appropriation is limited to payments to eligible apprentices towards their tools and other training related costs”.
74. The funding appropriated for payments to apprentices (\$14.1m over two years) will be transferred into this new appropriation. The funding appropriated for payments to employers will remain within “Training for Designated Groups”.

Structure of the Adult and Community Education appropriation

75. I propose to change the name of the Adult and Community Education appropriation to ‘Community Education’ to avoid confusion with the Adult and Community Education programme.
76. At the same time, I will be simplifying the programmes within the appropriation into three broad funds: Adult and Community Education, Literacy and Numeracy Provision and English for Speakers of Other Languages.
77. I am seeking to revise the scope of the appropriation to clarify that formal credits and qualifications can also be funded.

Table 8: Proposed changes to the name and scope of the Adult and Community Education appropriation

Current	Proposed
<p>Adult and Community Education</p> <p>Scope: This appropriation is limited to providing funding for delivery of non-formal adult and community education activities and services, including literacy and numeracy, and English for Speakers of Other Languages training, through tertiary education organisations, schools and employers.</p>	<p>Community Education</p> <p>Scope: This appropriation is limited to funding for adult and community education and literacy, numeracy and English language provision.</p>

New Community Education appropriation

78. I propose to transfer \$5.0 million per annum from the Training for Designated Groups appropriation into the Community Education appropriation to purchase specialist literacy and numeracy training in workplaces. The Industry Training Fund – ITO Literacy and Numeracy fund is a tagged amount within Industry Training (within Training for Designated Groups) to help Industry Training

Organisations to embed literacy and numeracy. The funding is no longer directed at individual trainees in need of support. I am therefore seeking to transfer some of this funding into the proposed Community Education appropriation to purchase specialist literacy and numeracy training for individuals.

79. I am also seeking to transfer the entire \$0.397 million of the Educator Study Grants programme, which subsidises literacy and numeracy teaching qualifications for tutors, from the Tertiary Education Grants and Other Funding appropriation into the proposed new Literacy and Numeracy fund within the Community Education appropriation.

Developing a youth option in the Literacy and Numeracy for Adults Assessment Tool

80. I propose to create a new option for young people within the Literacy and Numeracy for Adults Assessment Tool, at a cost of \$0.500 million in capital and \$0.588 million operating expenditure over five years. The assessment tool was designed for an adult audience and is not engaging younger students, which particularly affects the Youth Guarantee programme.

81. I propose to draw down the funding from the operating contingency 'Supporting Transition of Adult and Community Education Providers' to cover the cost of the new development.

82. The 'Supporting Transition of Adult and Community Education Providers' tagged contingency was created to provide additional adult and community education provision in response to the new requirement that level 1 and 2 Student Achievement Component (SAC) provision only fund full qualifications. However, none of the contingency has been required for that purpose. The new youth option assists the same group of providers in their Youth Guarantee courses, which are also at levels 1 and 2, but target younger students.

Table 9: Proposed funding for youth option for Literacy and Numeracy for Adults Assessment Tool

(\$m)	2012/13	2013/14	2014/15	2015/16	2016/17 & out-years
Tagged Contingency 'Supporting Adult and Community Education Providers'	1.700	1.700	0.165	0.165	0.165
Capital expenditure	(0.250)	(0.250)	-	-	-
Operating expenditure	-	(0.093)	(0.165)	(0.165)	(0.165)
Total sought from contingency	0.250	0.343	-	-	-
Remainder	1.450	1.357	-	-	-

Foundation Focused Training Opportunities (FFTO)

83. [10]

[6]

84.[6]

85. In the interim, the Minister for Social Development, Hon Paula Bennett, and I have agreed that the operational funding for the Tertiary Education Commission to deliver foundation-level programmes to meet the needs of beneficiaries (such as intensive literacy and numeracy, ESOL, workplace literacy and support for industry trainees) should sit within Vote Tertiary Education. The funding has always been used as Tertiary Education Commission operational funding and the transfer will reflect this.

86. The Vote Tertiary Education package for Budget 2013 will therefore include \$6.661 million from 2013/14 for the Tertiary Education Commission to deliver foundation-level programmes to meet the needs of beneficiaries, funded from Vote Social Development.

[6]

Improvements to the Single Data Return

90. A programme of work, the Tertiary Information Future State (TIFS) is currently underway designed to improve data collection and reporting in the tertiary education system. [6]

91. Current analysis shows that it is likely the current single data return (SDR) collection system can be improved, and a health check of the SDR has been commissioned to ensure the system provides the base for further development. I propose to roll forward this contingency to 2013/14, with an expiry date of 1 February 2014.

Tertiary equity funding

92. Equity funding is a top-up payment made to providers to incentivise them to enrol Māori and Pasifika students and students with disabilities. Payments are based on enrolments, with a fixed rate paid per student.

93. However, higher than forecast participation by Maori, Pasifika and Special Needs students (particularly in the PTE sector) means that current funding levels are not sufficient to maintain current rates per student. Since 2010, the number of Maori, Pasifika and Special Needs EFTS has increased by 3.8% (1,216 EFTS). There has also been a move to higher study levels (which attracts a larger per EFTS amount).
94. I am proposing a 4% increase to the equity funding pool, in order to maintain current rates per student, at a cost of \$6.296 million over four years.

Additional medical student places

95. The Vote Health package for Budget 2013 includes an initiative to fund an additional 20 medical student places from 2014, which contributes to our manifesto commitment of an additional 200 medical training places.
96. This initiative is funded from the Health allocation for Budget 2013 through Vote Tertiary Education, Vote Social Development, and Vote Revenue. The Vote Tertiary Education package for Budget 2013 includes \$5.952 million over four years for the tuition subsidy costs of this initiative. There are increasing costs for the additional 20 medical student places in out-years (\$15.2 million from 2016-2017). All costs will be funded by Vote Health.

Ngārimu VC and 28th (Māori) Battalion Memorial Scholarship Fund

97. The Vote Tertiary Education package for Budget 2013 includes \$0.25 million for the 2013/14 financial year, for the Ngārimu VC and 28th (Māori) Battalion Memorial Scholarship Fund. This initiative is funded from the Education allocation for Budget 2013.

Budget management rules for Vote Tertiary Education

98. In 2012, Cabinet agreed that for the 2012/13 year that any underspend in the student achievement component could be carried forward with agreement of joint Ministers to the next financial year to allow additional student places to be purchased. I propose to retain this rule.
99. For 2013 and 2014, one-third of provision at levels 1 and 2 was allocated by the TEC via a competitive allocation process. As this is the first year of delivery following the process, we do not yet have a good indication of demand for provision at those levels following this process and more focussed expectations about provision at levels 1 and 2. I therefore propose to maintain the rule that funding be allowed to shift between the two sub-funds in the student achievement component (i.e. levels 1 and 2 and levels 3 and above) to allow for the current uncertainty in forecast demand created at these levels. This would allow the size of the level 1 and 2 sub-fund to be adjusted quickly and efficiently in response to changed demand.

Science and Mathematics Scholarships and School Achiever Awards

100. The cost recovery funding for tertiary scholarships for science and mathematics and school achievers awards was established prior to the NCEA regime. The numbers of students who are entitled to these awards have been declining since 2005-2006.

101. NZQA has received no further residual claims for these awards over the last 4 years and is now confident that Crown liability for these awards no longer exists. Therefore, I propose that this funding is reprioritised to other tertiary initiatives.

Additional funding for Education New Zealand

102. The Government has set ambitious goals for Education New Zealand with respect to the size, scale and sustainability of the industry by 2025. The objectives mean steady growth is needed in the economic value of international students and offshore products and services, and in the volume of international students.

103. The Science and Innovation package for Budget 2013 includes \$10 million per annum, to scale up Education New Zealand's marketing and industry capability building activities. The increased funding will be sourced from the operating allowance and will transfer into Vote Tertiary.

Financial implications

104. The tertiary education package for Budget 2013 generates a savings of \$27.189 million over four years. These savings will reduce if the option to reduce student allowance entitlement for those aged 40 and over to 120 weeks is chosen. This variant has not been costed in detail. [6]

Consultation

105. The Tertiary Education Commission and the Treasury were consulted on this paper. The Department of Prime Minister and Cabinet was informed of its contents.

Human Rights Implications

106. The proposals in this paper have no human rights implications.

Legislative Implications

107. The proposals in this paper have no legislative implications.

Regulatory Impact Analysis

108. The proposals in this paper do not require a Regulatory Impact Statement.

Gender Implications

109. The proposals in this paper have no gender implications.

Publicity

110. A communications plan will be developed prior to Budget 2013 announcements.

Recommendations

I recommend that Cabinet:

- 1 **note** that the Vote Tertiary Budget 2013 package is focused on the following major objectives:
 - 1.1 Strengthening vocational education
 - 1.2 Increasing the proportion of young people with higher-level qualifications
 - 1.3 Ensuring that New Zealand's skill base supports the needs of industry and encourages innovation
 - 1.4 Continuing to contribute to the rebuild of Canterbury
 - 1.5 Progressing further government manifesto commitments
- 2 **note** that changes to student support for Budget 2013 are proposed in the accompanying Cabinet paper *Student Support Package for Budget 2013*
- 3 **note** that the tertiary education package generates savings of \$146.817 million over four years, but these savings will reduce marginally if the option to reduce student allowance entitlement for those aged 40 and over to 120 weeks is chosen [6]

Summary of initiatives

- 4 **approve** the Budget initiatives for Vote Tertiary Education for inclusion in the 2013 Budget package, as listed in the summary table below:

Operating Initiatives (Impact on Operating Balance)

Initiative name	\$m - increase/(decrease)					
	2012/13	2013/14	2014/15	2015/16	2016/17	Out-years
BPS - level 4+: extending unfunded over-delivery	-	5.648	9.534	8.874	8.329	8.329
Centres of Research Excellence	-	0.500	3.169	3.169	3.169	3.169
Tertiary Equity Funding	-	0.640	1.478	1.881	2.297	2.730
[6]			-	-	-	-
Increased funding for engineering	-	1.270	2.590	2.690	2.790	2.840
Increased funding for science	-	2.525	5.075	5.125	5.175	5.200
Increased funding for Private Tertiary Establishments	-	4.100	8.200	8.200	8.200	8.200
[6]						

- 5 **note** that on 2 April 2013, the Cabinet Business Committee agreed a Budget 2013 Tertiary Education package
- 6 **note** that the Budget 2013 Tertiary Education package generates costs of \$66.811 million between 2012/13 and 2016/17
- 7 **note** that the Minister of Revenue, the Minister of Finance, and the Minister for Tertiary Education, Skills and Employment have agreed to changes to the calculation of the cost of lending in the Student Loan Scheme (as detailed in the companion paper *Student Support Package for Budget 2013*)

- 8 **Note** that projected savings from the changes in recommendation 8 are \$102.000 million between 2012/13 and 2016/17 with the following profile:

	2012/13	2013/14	2014/15	2015/16	2016/17	5-Year Total
Savings (\$m)	(41.900)	(33.900)	(18.000)	(7.400)	(0.800)	(102.000)

- 9 **note** that on 26 March 2013, Budget Ministers agreed that the net cost of the Budget 2013 package reflect these changes
- 10 **note** that all communications relating to the 2013 Budget are co-ordinated by a Budget communications committee, and that any requests for early announcement will need to have both the written approval of the Minister of Finance and sign-off from the Prime Minister's office

Improving vocational education provision

- 11 **agree** that the industry training funding rates be \$3,200 per standard training measure (GST exclusive) for trainees, and \$5,200 per standard training measure (GST exclusive) for New Zealand Apprenticeships
- 12 **approve** the transfer of \$35.037 million over four years from the Industry Training Fund to other appropriations within Vote Tertiary Education to pay for the expansion of the Māori and Pasifika trades training initiative
- 13 **agree** that due to the need to manage transition issues to ensure a smooth transition to the reformed industry training system and the impact of the industry training reboot, the operating contingency 'Transitional Funding for Industry Training' be rolled forward to 2013/14, with an expiry date of 1 February 2014
- 14 **note** that the 2012-2013 underspend in the Industry Training Fund will be transferred to other appropriations within Vote Tertiary Education after the underspend is confirmed at October Baseline Update

Increasing the proportion of young people with higher-level qualifications

- 15 **agree** to extend the change in delivery tolerance bands agreed by Cabinet in 2012 (CBC Min (12) 8/3 refers) to 99%-105% to 2014 and beyond
- 16 **agree** to extend the additional flexibility for highly performing Private Training Establishments to deliver 1000 EFTS above plan-approved levels, as agreed by Cabinet in 2012 (CBC Min (12) 8/3 refers), to 2014 and beyond
- 17 **note** that officials will report back to me later in 2013 with proposals to support increasing demand and improving system efficiency to achieve the level 4+ target

Ensuring that New Zealand's skill base supports the needs of industry and encourages innovation

- 18 **agree** to increase tertiary tuition subsidies for science by 2% from 2014, at a cost of \$17.900 million over four years
- 19 **agree** to increase tertiary tuition subsidies for engineering by 2% from 2014, at a cost of \$9.340 million over four years

- 20 **note** that I am currently conducting a review of the Centres of Research Excellence (CoREs)
- 21 **agree** to establish a CoREs contingency of \$9.507 million over four years (based on a 10% increase in annual CoREs funding) to allow for increased activity or reflect increasing costs and complexity of research activity, pending the outcome of the CoREs review
- 22 **agree** that the additional CoREs funding is announced after I take the final decisions on the review (expected to be in June 2013), rather than on Budget day
- 23 **agree** to appropriate \$0.500 in 2013/14 to allow for the operating costs for a new CoREs selection round (following the review)

Continuing to contribute to the rebuild of Canterbury

- 24 **note** that, to assist with the building works necessitated by the earthquakes, Cabinet has agreed in principle to provide a capital contribution to the three Canterbury TEIs (University of Canterbury, Lincoln University, and the CPIT) for selected capital projects, subject to a satisfactory Project Business Case that fully explores the building options (CAB Min (12) 42/3 refers)
- 25 **note** that the level of the Government's capital contribution for the University of Canterbury, Lincoln University and CPIT will be agreed by Cabinet following consideration of the Project Business Cases and will be sourced from the Future Investment Fund

Progressing the Government's manifesto commitments

- 26 **agree** to close the existing difference between the current Student Achievement Component funding rates for private training establishments and tertiary education institutions from 2014, at a cost of \$28.700 million over four years

Other items

- 27 **agree** to establish a new Non-Departmental output expense appropriation "Apprenticeships Re-boot" in Vote Tertiary Education
- 28 **agree** that the scope of the appropriation be "This appropriation is limited to payments to eligible apprentices towards their tools and other training related costs"

29 **approve** the following fiscally-neutral changes to the appropriation to provide a tools allowance to eligible apprentices, with no impact on the operating balance or debt:

Vote Tertiary Education Minister for Tertiary Education, Skills and Employment	\$m – increase/(decrease)				
	2012/13	2013/14	2014/15	2015/16	2016/17 & Outyears
Non-Departmental Output Expense: Training for Designated Groups	(1.600)	(12.500)	-	-	-
Benefits and Other Unrequited Expenses: Apprenticeships Re-boot	1.600	12.500	-	-	-

Structure of the Adult and Community Education appropriation

30 **agree** to change the name of non-departmental output expense appropriation Adult and Community Education in Vote Tertiary Education to Community Education from 1 July 2013

31 **agree** that the scope statement for the Community Education appropriation will be: “This appropriation is limited to funding for adult and community education and literacy, numeracy and English language provision”

32 **agree** to transfer \$5.0 million per annum from the Training for Designated Groups appropriation into the Community Education appropriation to purchase specialist literacy and numeracy training in workplaces

33 **agree** to transfer the entire \$0.397 million of the Educator Study Grants programme from the Tertiary Education Grants and Other Funding appropriation into the proposed new Literacy and Numeracy fund within the Community Education appropriation

Developing a youth option in the Literacy and Numeracy for Adults Assessment Tool

34 **agree** to create a new option for young people within the Literacy and Numeracy for Adults Assessment Tool, at a cost of \$0.500 million in capital and \$0.588 million operating expenditure over five years

35 **agree** to establish a New Non-Departmental Capital Expenditure appropriation “Literacy and Numeracy Assessment Tool” in Vote Tertiary Education

36 **agree** that the scope of the appropriation be: “This appropriation is limited to development of the online assessment tool for adult literacy and numeracy”

37 **agree** to increase expenditure to provide for developing a youth option in the Literacy and Numeracy for Adults Assessment Tool, with the following impacts on the operating balance and debt:

Vote Tertiary Education	\$m – increase/(decrease)				
	2012/13	2013/14	2014/15	2015/16	2016/17 & Outyears
Operating Balance Impact	-	0.093	0.165	0.165	0.165
Debt Impact	0.250	0.250	-	-	-
No Impact	-	-	-	-	-
Total	0.250	0.343	0.165	0.165	0.165

Tertiary equity funding

38 **note** that higher than forecast participation by Maori, Pasifika and Special Needs students (particularly in the PTE sector) means that current funding levels are not sufficient to maintain current rates per student

39 **agree** to a 4% increase to the equity funding pool from 2014, in order to maintain current rates per student, at a cost of \$6.296 million over four years

[6]

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Additional medical student places

53 **note** that the Vote Tertiary Education package for Budget 2013 includes \$5.952 million over four years for the tuition subsidy costs of an additional 20 medical student places from 2014, funded from the Health allocation for Budget 2013

54 **note** that there are increasing costs for the additional 20 medical student places in out-years (\$15.2 million from 2016/17), which will be funded by Vote Health

Ngārimu VC and 28th (Māori) Battalion Memorial Scholarship Fund

55 **note** that the Vote Tertiary Education package for Budget 2013 includes \$0.25 million for the Ngārimu VC and 28th (Māori) Battalion Memorial Scholarship Fund for the 2013/14 financial year, which will be transferred from the Education allocation for Budget 2013

Additional funding for Education New Zealand

56 **note** that the Vote Science and Innovation package for Budget 2013 includes \$10 million per annum to scale up Education New Zealand's marketing and industry capability-building activities, which will be transferred from the operating allowance to Vote Tertiary

Budget management rules for Vote Tertiary Education

57 **agree** that the Minister of Finance and the Minister for Tertiary Education, Skills and Employment can determine whether or not an under-spend within the

Student Achievement Component appropriation can be carried forward to the next financial year, in response to proposals from the Tertiary Education Commission, to preserve the total amount of funding available to providers and to allow additional student places to be purchased

- 58 **agree** that the Minister of Finance and the Minister for Tertiary Education, Skills and Employment can shift funding in the Student Achievement Component appropriation between the sub-funds for levels 1 and 2, and for level 3 and above, in response to demand, in 2013/14

Foundation-focused Training Opportunities

- 59 **note** that the Vote Tertiary Education package for Budget 2013 includes \$6.661 million from 2013/14 for the Tertiary Education Commission to deliver foundation-level programmes to meet the needs of beneficiaries, funded from Vote Social Development

Further decisions

- 60 **note** that on 26 March 2012, Budget Ministers agreed that the savings from the cost of lending change will be treated as a technical change through the March Baseline Update, with an allocation of \$102 million over ten years provided to Vote Tertiary Education (which amounts to \$10.2 million per annum across the 5 years of the Budget period)
- 61 **agree** to delegate authority to the Minister of Finance and the Minister for Tertiary Education, Skills and Employment, where appropriate, to approve any detailed changes to the Vote Tertiary Budget 2013 package and the resulting changes in appropriations
- 62 **note** that Cabinet decisions on this paper are proposed to be announced as part of Budget 2013.

Hon Steven Joyce
Minister for Tertiary Education, Skills and Employment