

The Treasury

Budget 2015 Information Release

Release Document July 2015

www.treasury.govt.nz/publications/informationreleases/budget/2015

Key to sections of the Official Information Act 1982 under which information has been withheld.

Certain information in this document has been withheld under one or more of the following sections of the Official Information Act, as applicable:

- [1] 6(a) - to prevent prejudice to the security or defence of New Zealand or the international relations of the government
- [2] 6(c) - to prevent prejudice to the maintenance of the law, including the prevention, investigation, and detection of offences, and the right to a fair trial
- [3] 6(e)(iv) - to damage seriously the economy of New Zealand by disclosing prematurely decisions to change or continue government economic or financial policies relating to the entering into of overseas trade agreements.
- [4] 9(2)(a) - to protect the privacy of natural persons, including deceased people
- [5] 9(2)(b)(ii) - to protect the commercial position of the person who supplied the information or who is the subject of the information
- [6] 9(2)(ba)(i) - to prevent prejudice to the supply of similar information, or information from the same source, and it is in the public interest that such information should continue to be supplied.
- [6a] 9(2)(ba)(ii) - to protect information, where the making available of the information would be likely otherwise to damage the public interest
- [7] 9(2)(d) - to avoid prejudice to the substantial economic interests of New Zealand
- [8] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
- [8a] 9(2)(f)(ii) - to maintain the current constitutional conventions protecting the collective and individual ministerial responsibility
- [9] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
- [10] 9(2)(h) - to maintain legal professional privilege
- [11] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice
- [12] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
- [13] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage
- [14] Not in scope

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, a [4] appearing where information has been withheld in a release document refers to section 9(2)(a).

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



Minute of Decision

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

2015 Budget Package: Vote Tertiary Education

On 20 April 2015, Cabinet:

- 1 **approved** the Budget initiatives for the above Vote for inclusion in the 2015 Budget package, as listed in the summary below and detailed in the attached initiative documents;

Summary of initiatives included in the attached initiative documents:

Operating Initiatives (Impact on Operating Balance)

Initiative ID	Initiative Name	\$m - increase/(decrease)				
		2014/15	2015/16	2016/17	2017/18	2018/19 & Outyears
8724	Investing to Increase the Number of Engineering Graduates	-	1.825	2.650	2.300	3.925
8729	Targeted Tuition Increases for Science, Agriculture and Some Health Sciences	-	12.250	24.500	24.500	24.500
8730	Expanding the Youth Literacy and Numeracy Assessment Tool	-	0.020	0.185	-	-
8967	Trainee Medical Intern Grants	-	0.841	1.676	1.669	1.714
8968	Transfer Unspent Tuition Funding from 2014/15 to Outyears	(29.346)	-	-	-	-
8969	Utilise Headroom Arising from Reduced Demand for Tertiary Education	-	-	(10.000)	(20.000)	(20.000)
Total Operating		(29.346)	14.936	19.011	8.469	10.139

Capital Initiative (Impact on Debt)

Initiative ID	Initiative Name	\$m - increase/(decrease)				
		2014/15	2015/16	2016/17	2017/18	2018/19 & Outyears
8730	Expanding the Youth Literacy and Numeracy Assessment Tool	-	0.500	0.500	-	-
Total Capital		-	0.500	0.500	-	-

- 2 **approved** the changes to appropriations to implement the initiatives, as set out in the attached initiative documents;
- 3 **approved** the additional recommendations to give effect to the initiatives, as set out in the attached initiative documents;
- 4 **agreed** that the 2014/15 changes to appropriations above be included in the 2014/15 Supplementary Estimates;
- 5 **authorised** the Minister of Finance and the Responsible Minister to approve jointly any technical adjustments to baselines necessary to remove any errors or inconsistencies identified while finalising the 2014/15 Supplementary Estimates, the 2015/16 Estimates and the fiscal forecasts;
- 6 **authorised** the chief executives of departments that monitor Crown entities directly affected by decisions in this minute to inform the chief executive of a Crown entity, on a budget-in-confidence-until-budget-day basis, of decisions that directly affect that Crown entity for the purpose of planning and preparation of their Statement of Intent;
- 7 **noted** that the all communications relating to the 2015 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;
- 8 **agreed** that the initiatives in the following tables be set aside as contingency items, that corresponding funding for them be set aside in the between-Budget spending contingency, and that they be submitted to Cabinet for consideration at a later stage;

Operating Contingency

Initiative Name	\$m - increase/(decrease)				
	2014/15	2015/16	2016/17	2017/18	2018/19 & Outyears
Expand Maori and Pasifika Trades Training	-	1.200	2.400	2.400	2.400
Total Operating	-	1.200	2.400	2.400	2.400

Capital Contingency

Initiative Name	\$m - increase/(decrease)				
	2014/15	2015/16	2016/17	2017/18	2018/19 & Outyears
Lincoln University Science Facilities Capital	-	50.000	50.000	-	-
Total Capital	-	50.000	50.000	-	-

- 9 **noted** that Budget Ministers have agreed to establish a contingency sufficient to provide 500 additional places in Maori and Pasifika Trades Training (MPTT);

10 [8]

11 [8]

12 **noted** that in June 2014, Cabinet agreed to set aside \$100 million in a capital contingency in the Future Investment Fund to help rebuild Lincoln University, in addition to an initial \$7.500 million which has since been spent [CAB Min (14) 22/8];

13 **noted** that this was agreed contingent upon Lincoln University fully integrating its new facilities with the other major partners in the new Lincoln Hub;

14 **noted** that in June 2014, Cabinet agreed that this contingency could be drawn down by joint agreement between the Minister for Tertiary Education, Skills and Employment and the Minister of Finance [CAB Min (14) 22/8];

Student support initiatives with impacts on the operating balance for Vote Social Development and Vote Revenue

15 **noted** that the student support initiatives set out in paragraphs 16 to 28 will make changes to the student loan and allowances appropriations in Vote Social Development and Vote Revenue as part of the tertiary education package for Budget 2015;

Set the annual maximum fee movement at 3 per cent for 2016

16 **noted** that under section 159 of the Education Act 1989, the Minister for Tertiary Education, Skills and Employment can set limits on the amount of fees that domestic students can be charged by providers, after public consultation;

17 **noted** that Vote Social Development and Vote Revenue student support baselines allow for a 4 per cent increase in 2016;

18 **noted** that the Minister for Tertiary Education, Skills and Employment will take a decision on an Annual Maximum Fee Movement for 2016 in mid-2015 following public consultation;

19 **noted** that an Annual Maximum Fee Movement of 3 per cent in 2016 would maintain a balance between the need to keep tertiary education affordable and allowing tertiary education providers to respond to changing needs and costs, while providing savings to fund Budget priorities;

20 **agreed** to adjust Vote Social Development and Vote Revenue student support baselines to provide funding for an Annual Maximum Fee Movement of 3 per cent for 2016;

21 **noted** that the financial implications for the 2015/16 to 2018/19 financial years are \$16.826 million in operating impact savings and \$42.971 million in debt impact savings to Vote Social Development and Vote Revenue (initiatives 8952 and 8956);

Maintain the Student Allowance parental income threshold

- 22 **noted** that Budget 2012 included a decision to freeze the Student Allowance parental income threshold (the point above which parental income reduces the amount of Student Allowance received by students under the age of 24) until 31 March 2016, rather than increasing it annually at the rate of CPI;
- 23 **noted** that the Vote Social Development and Vote Revenue student support baselines allow for the parental income threshold to increase annually at the rate of CPI from April 2016;
- 24 **noted** that maintaining the current threshold will continue to improve targeting of student support towards need, and provide savings to fund Budget priorities;
- 25 **agreed** that the Student Allowance parental income threshold remain at the current level of \$55,027.96 until 31 March 2019;
- 26 **noted** that the financial implications for the 2015/16 to 2018/19 financial years are \$9.132 million in operating impact savings and \$10.617 million in debt impact costs to Vote Social Development and Vote Revenue (initiatives 8920 and 8954);

Investing to increase the number of engineering graduates

- 27 **noted** that part of the initiative to increase the number of engineering graduates (initiative 8724) involves increasing the volume of places for engineering students, which has cost implications from demand for student loans and allowances;
- 28 **noted** that the financial implications for the 2015/16 to 2018/19 financial years are \$0.680 million in operating impact costs and \$1.152 million in debt impact costs to Vote Social Development and Vote Revenue (initiatives 8953 and 8955 refer);

Introducing a Rate My Qualification survey

- 29 **noted** that as part of the government's manifesto commitment to introduce a Rate My Qualification Survey for employers to help inform study and career decisions for learners;

30 [8]

31 [8]

32 [8]

Overall profile of the tertiary education Budget package

33 **noted** the fiscal profile of the 2015 tertiary education Budget package when initiatives that involve reprioritisation and savings are taken into account, as shown in the following table:

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21 & Outyears
<i>Expand Maori and Pasifika Trades Training contingency funding</i>	-	1.200	2.400	2.400	2.400	2.400	2.400
<i>Fiscally Neutral increase for initiative 8730</i>	-	-	-	0.330	0.330	0.330	0.330
<i>Other Vote Tertiary Operating Spending</i>	-	14.936	29.011	28.469	30.139	30.641	30.141
Total Operating Spending (Vote Tertiary Education)	-	16.136	31.411	31.199	32.869	33.371	32.871
Total Capital Spending (Vote Tertiary Education - excluding Lincoln University Contingency)	-	0.500	0.500	-	-	-	-
Total cost of tertiary education spending initiatives (Vote Tertiary Education)	-	16.636	31.911	31.199	32.869	33.371	32.871
Total cost of tertiary education spending initiatives (Vote Social Development and Vote Revenue)	-	0.012	0.042	0.104	0.522	0.403	1.078
Reprioritisations from Vote Tertiary Education							
Transfer Unspent Tuition Funding from 2014/15 to Outyears	(29.346)	-	-	-	-	-	-
Utilise Headroom Arising from Reduced Demand for Tertiary Education	-	-	(10.000)	(20.000)	(20.000)	(20.000)	(20.000)
Baseline adjustment to Training for Designated Groups (Youth Guarantee)	-	-	-	(0.330)	(0.330)	(0.330)	(0.330)
Operating Savings from Vote Revenue and Vote Social Development							
Set the Annual Maximum Fee Movement at 3 per cent for 2016	-	(3.848)	(4.513)	(4.341)	(4.124)	(4.124)	(4.124)
Maintain the Student Allowance parental income threshold	-	(0.055)	(0.839)	(3.265)	(4.973)	(4.973)	(4.973)
Net cost	(29.346)	12.745	16.601	3.367	3.964	4.347	4.522

34 **noted** that the savings from 2014/15 will be used to offset costs in 2015/16 and 2016/17;

Improving the flexibility of tertiary funding allocations to better manage changes in demand

35 **noted** that when providers' actual enrolments fall below what the TEC has agreed to fund, the TEC is generally unable to make reduction alterations in time to reallocate funding to providers facing higher than expected demand in the same calendar year;

36 **noted** that because the TEC cannot make funding commitments to providers that in aggregate exceed the annual appropriation, the difficulty making reduction alterations within a calendar year results in underspends and inefficiencies in managing appropriations;

37 **invited** the Minister for Tertiary Education, Skills and Employment to report to the appropriate Cabinet committee in June 2015 on the mechanisms and financial management rules required to more efficiently manage the tertiary funding allocation system, while ensuring that any consequential fiscal risks are managed within the Vote.

Secretary of the Cabinet

Reference: CAB (15) 173

Initiative No: 8724

Vote: Tertiary Education

Title: Investing to Increase the Number of Engineering Graduates

Description: International comparisons suggest that New Zealand produces engineers at a rate significantly lower than the Organisation of Economic Co-operation and Development average, impacting on economic opportunity. This bid provides a suite of initiatives to increase the number of graduate engineers.

Appropriation Changes

	\$m - increase/(decrease)						
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21 & Outyears
Operating Balance Impact	-	1.825	2.650	2.300	3.925	4.400	3.900
Debt Impact	-	-	-	-	-	-	-
No Impact	-	-	-	-	-	-	-
Total	-	1.825	2.650	2.300	3.925	4.400	3.900

	\$m - increase/(decrease)						
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21 & Outyears
Non-Departmental Output Expenses:							
Tertiary Education Grants and Other Funding	-	1.500	2.000	1.000	1.000	0.500	-
Tertiary Education: Student Achievement Component	-	0.325	0.650	1.300	2.925	3.900	3.900
Total Operating	-	1.825	2.650	2.300	3.925	4.400	3.900

Additional Recommendation

38 **noted** that this initiative includes the following suite of initiatives to grow demand for engineering places and fill current spare capacity in the system:

	\$m - increase/(decrease)					
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21 & Outyears
Public awareness campaign	1.000	1.000	-	-	-	-
Workforce challenge grant	-	0.500	0.500	0.500	0.500	-
Secondary-tertiary pathways	0.500	0.500	0.500	0.500	-	-
Volume increase for a 2016 cohort, and extra capacity from 2018	0.325	0.650	1.300	2.925	3.900	3.900
Total	1.825	2.650	2.300	3.925	4.400	3.900

Vote: Tertiary Education

Title: Targeted Tuition Increases for Science, Agriculture and Some Health Sciences

Description: Tuition subsidy increases to targeted, priority fields of study to bring tuition subsidy funding into closer alignment with the relative costs of delivery.

Appropriation Changes

	\$m - increase/(decrease)				
	2014/15	2015/16	2016/17	2017/18	2018/19 & Outyears
Operating Balance Impact	-	12.250	24.500	24.500	24.500
Debt Impact	-	-	-	-	-
No Impact	-	-	-	-	-
Total	-	12.250	24.500	24.500	24.500

	\$m - increase/(decrease)				
	2014/15	2015/16	2016/17	2017/18	2018/19 & Outyears
Non-Departmental Output Expenses:					
Tertiary Education: Student Achievement Component	-	12.250	24.500	24.500	24.500
Total Operating	-	12.250	24.500	24.500	24.500

Additional Recommendations

39 **noted** that this initiative brings tuition subsidy funding into greater alignment with the relative costs of delivery with rate increases in the following areas:

39.1 7.5 per cent increase for science at degree-level and above;

39.2 20 per cent increase for agriculture at degree-level and above;

39.3 5 per cent increase to the rest of funding category M (includes optometry and pharmacy);

39.4 7 per cent increase for physiotherapy;

40 **noted** that these increases take a significant step toward bringing funding rates in these areas into line with the relative costs of delivery. [8]

Vote: Tertiary Education

Title: Expanding the Youth Literacy and Numeracy Assessment Tool

Description: Provides funding to add 800 additional assessment items to ensure the continuing effectiveness of the Youth Version of the Literacy and Numeracy Assessment Tool.

Appropriation Changes

	\$m - increase/(decrease)				
	2014/15	2015/16	2016/17	2017/18	2018/19 & Outyears
Operating Balance Impact	-	0.020	0.185	-	-
Debt Impact	-	0.500	0.500	-	-
No Impact	-	-	-	-	-
Total	-	0.520	0.685	-	-

	\$m - increase/(decrease)				
	2014/15	2015/16	2016/17	2017/18	2018/19 & Outyears
Non-Departmental Output Expenses:					
Managing the Government's Investment in the Tertiary Education Sector	-	0.020	0.185	0.330	0.330
Training for Designated Groups	-	-	-	(0.330)	(0.330)
Non-Departmental Capital Expenditure:					
Literacy and Numeracy Assessment Tool	-	0.500	0.500	-	-
Total Operating	-	0.020	0.185	-	-
Total Capital	-	0.500	0.500	-	-

Additional Recommendation

41 **approved** a fiscally neutral transfer from Non-Departmental Output Expense: Training for Designated Groups (Youth Guarantee) to Non-Departmental Output Expense: Managing the Government's Investment in the Tertiary Education Sector, of \$0.330 million per year from 2017/18;

Vote: Tertiary Education

Title: Trainee Medical Intern Grants

Description: This initiative addresses pressures on medical intern grants resulting from reduced attrition among domestic students moving through medical school and increased numbers of international students being granted New Zealand residence.

Appropriation Changes

	\$m - increase/(decrease)					
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20 & Outyears
Operating Balance Impact	-	0.841	1.676	1.669	1.714	1.741
Debt Impact	-	-	-	-	-	-
No Impact	-	-	-	-	-	-
Total	-	0.841	1.676	1.669	1.714	1.741

	\$m - increase/(decrease)					
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20 & Outyears
Benefits or Related Expenses:						
Tertiary Scholarships and Awards	-	0.841	1.676	1.669	1.714	1.741
Total Operating	-	0.841	1.676	1.669	1.714	1.741

Vote: Tertiary Education

Title: Transfer Unspent Tuition Funding from 2014/15 to Outyears

Description: This initiative reallocates unused tuition and training funding from existing appropriations to spending priorities in 2015/16 and 2016/17.

Appropriation Changes

	\$m - increase/(decrease)				
	2014/15	2015/16	2016/17	2017/18	2018/19 & Outyears
Operating Balance Impact	(29.346)	-	-	-	-
Debt Impact	-	-	-	-	-
No Impact	-	-	-	-	-
Total	(29.346)	-	-	-	-

	\$m - increase/(decrease)				
	2014/15	2015/16	2016/17	2017/18	2018/19 & Outyears
Non-Departmental Output Expenses:					
Tertiary Education: Student Achievement Component	(15.000)	-	-	-	-
Training for Designated Groups	(14.346)	-	-	-	-
Total Operating	(29.346)	-	-	-	-

Additional Recommendations

42 **noted** that this reallocation is being used to support a balanced Tertiary Education package for 2015/16 and 2016/17;

43 [8]

- Vote:** Tertiary Education
- Title:** Utilise Headroom Arising from Reduced Demand for Tertiary Education
- Description:** This initiative involves utilising some of the headroom that is anticipated between the number of forecast funded Equivalent Full-Time Students (EFTS) and forecast demand for EFTS.

Appropriation Changes

	\$m - increase/(decrease)				
	2014/15	2015/16	2016/17	2017/18	2018/19 & Outyears
Operating Balance Impact	-	-	(10.000)	(20.000)	(20.000)
Debt Impact	-	-	-	-	-
No Impact	-	-	-	-	-
Total	-	-	(10.000)	(20.000)	(20.000)

	\$m - increase/(decrease)				
	2014/15	2015/16	2016/17	2017/18	2018/19 & Outyears
Non-Departmental Output Expenses:					
Tertiary Education: Student Achievement Component	-	-	(10.000)	(20.000)	(20.000)
Total Operating	-	-	(10.000)	(20.000)	(20.000)
Total Capital	-	-	-	-	-

Additional Recommendations

- 44 **noted** that demand for provider-based tertiary education at Level 3 and above is forecast to decline to be 3.4 per cent below funded baselines in 2017, increasing to 3.8 per cent in 2018 and 3.5 per cent in 2019;
- 45 **noted** that this initiative will utilise some of the forecast headroom that is anticipated between the number of forecast funded EFTS and forecast demand for EFTS by adjusting the number of forecast funded EFTS downward to allow \$20 million per year of volume to be utilised to fund spending priorities from 2017.