

# The Treasury

## Budget 2017 Information Release

### Release Document July 2017

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[40]	Not in scope	

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Reference: T2017/420

SH-4-6-0

Date: 9 March 2017

To: Minister of Finance (Hon Steven Joyce)

Deadline: Ministerial Meeting, Tuesday 14 March, 3.30pm

## Aide Memoire: Ministerial Meeting on Vote Tertiary Education

You are meeting with Hon Goldsmith on Tuesday 14 March at 3.30pm. This aide memoire provides you with information on Vote Tertiary Education to support you in that discussion.

### Points to Raise

You may wish to raise the following points:

- Minister Goldsmith will want to talk with you about the fiscal situation for tertiary education. He will table information on the demand forecast and tightening of 'headroom' in future years for you to consider and discuss.
- What is the best way to invest in tertiary education? What are the options to meet skill needs and support TEIs to maintain quality provision?

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### Tertiary Education Performance

Tertiary education plays a key role in producing skills for industry and ensuring people have the skills that lead to positive social and economic outcomes. Education also helps reduce costs to Government such as through savings in welfare benefits and Corrections.

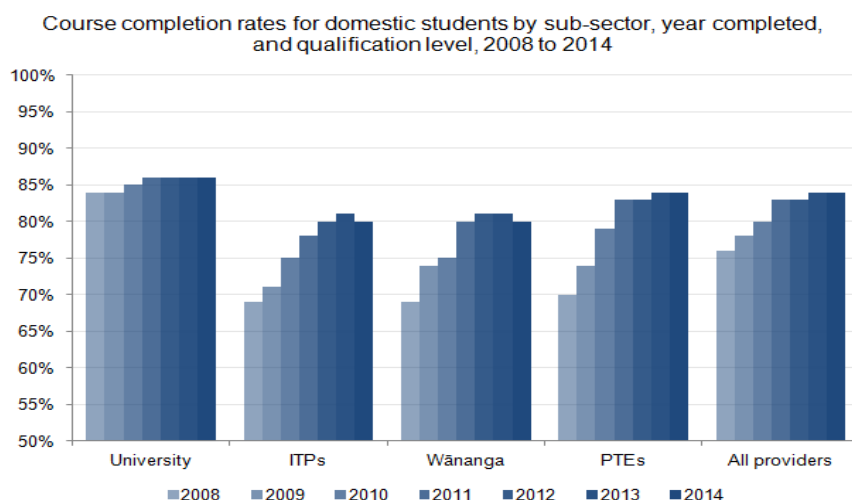
Outcomes and costs by age 36, 1990/91 cohort

Qualification	Avg CYF costs as a child	Avg benefit cost as a child	Avg benefit costs as an adult by 36	Avg Corrections cost by age 36	Avg total cost by age 36
None	10,200	26,700	67,700	22,400	127,100
Level 1	3,900	19,300	45,900	7,500	76,600
Level 2	2,300	14,500	30,400	5,200	52,400
Level 3	1,100	8,600	20,000	2,500	32,300

Source: Ministry of Education 2017 Four Year Plan

There has been a lift in the performance of the tertiary education system in recent years. The Government has introduced across-the-board performance incentives into the tertiary education system, for example, performance-linked funding for providers and the performance element of the student loans scheme for students. There have been reviews and contestable funding introduced in vocational and foundation level training. Following the success of a contestable funding process for SAC levels 1-2, a pilot for SAC levels 3-4 has commenced for 2017 and 2018 provision.

These changes have led to improvements in the performance of the tertiary education system. For example, there has been an increase in course and qualification completion rates across sub-sectors.



Source: Ministry of Education 2017 Four Year Plan

The Government’s total direct spend on tertiary education is budgeted to be approximately \$4.3 billion in 2016/17 (including student support). Vote Tertiary Education spending in 2016/17 is budgeted as follows:

- \$2.9 billion: Tertiary tuition and training subsidies, research funding, TEC, ENZ, and adult and community education sector
- \$22 million: Tertiary scholarships, international education and other grants
- \$16 million: Capital grants to the sector
- \$12 million: Ministry of Education services

In the tertiary education sector, the Government has had a strong focus on tight fiscal management and improving value for money. In Budgets 2011 to 2014, much of the focus was on reviewing student support settings and investing the resulting savings into higher value expenditure in Vote Tertiary Education (eg. teaching and research). More recently in Budgets 2015 and 2016, the Government has taken advantage of forecast falling demand for provider-based tertiary education to reprioritise funding within Vote Tertiary Education. There are three tertiary education initiatives in Budget 2017 that seek to use reprioritised funding.

Demand for provider-based tertiary education is expected to increase from 2021, which will limit the extent funding can be reprioritised within the Vote. Flexible funding arrangements from 2016 have encouraged Government and tertiary education providers to more flexibly respond to changes in demand, which is expected to reduce unused funding for tuition and training. The Tertiary Education Investment Approach is also intended to ensure we are investing in tertiary education that results in better outcomes, however progress on this work has been slow so far.

Going forward, there needs to be a stronger emphasis on better outcomes for learners and employers. We need to ensure skill needs in the labour market are met, tertiary institutions have the capacity and capability to provide quality education and remain financially viable, and at-risk populations are supported to improve their skills and transitions into the workplace.

### **Budget 2017 Initiatives**

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Below we provide comments and points for discussion on the most significant tertiary education initiatives and/or initiatives that strongly align with Government priorities. A number of these initiatives are still being developed and refined. We are unsure when these initiatives are likely to be finalised. Our strategy is to support initiatives that provide value for money and align with Government priorities for tertiary education, skills and employment.

#### *Tuition Subsidy Increases*

Across-the-board tuition subsidy increases aim to maintain the quality of provision and support the sustainability of the tertiary education system. In Treasury's view, across-the-board tuition subsidy increases do not incentivise better learner and employment outcomes and there is no evidence to suggest that all TEIs require additional funding to provide quality education. We understand that the Ministry of Education is currently exploring potential options to target tuition subsidy increases. We would see more value in targeting areas of high need in the labour market to increase the return on investment.

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*Increasing the Performance-based Research Fund (PBRF)*

An increase in the PBRF would support building the research capacity of tertiary providers, primarily universities. However, there is no clear case for additional funding at this time. There have been recent increases to the fund (total fund of \$300m in 2016/17 and outyears), and there are other contestable research funds available to TEIs that may better incentivise high quality research. In addition, the PBRF largely provides funding to universities, so an increase in the fund is unlikely to support institutions that require additional assistance.

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## **Next Steps**

There is a meeting of SSW Ministers at 7:30pm on 14 March and a further meeting with the Minister of Tertiary Education, Skills and Employment on Budget initiatives on Wednesday 22 March. We will provide briefings to support you in those discussions.

[34] , Analyst, Labour Market & Welfare, [39]

**Kristie Carter**, Team Leader, Labour Market & Welfare, [39]

No.	Agency/ Sector	Initiative name	Agency initiative (net)					4 yr total	Avg.	Value- for- Money Rating	Strategic Alignment	Treasury Analysis and Comments
			2016/17	2017/18	2018/19	2019/20	2020/21					
9680	Education	Increasing the PBRF	-	[33]					2.0	3.0	There is no clear case for increasing the PBRF at this time. The PBRF received additional funding in Budget 2012, which increased the fund each year until 2016. The Endeavour Fund is also seeking additional funding in Budget 2017 - as a contestable fund, this may better incentivise TEOs to improve research performance.	
9677	Education	Tuition subsidy increase	-	[33]					2.0	3.0	There is no clear evidence that an across-the-board increase is required to maintain quality education provision.	
		[33]										
9881	Education											
9687	Education											
9691	Education											
9882	Education											
9690	Education											
9689	Education											
9682	Education											
9688	Education	Strengthening the Foundations for Sustainable Growth of International Education	-	1.700	1.700	1.700	1.700	6.800	1.700	3.0	3.0	ENZ is facing cost pressures arising from a managed spend-down of cash reserves and the end of time-bound Export Education Levy funding. ENZ intends to refocus its core marketing activities on New Zealand as a quality education destination.
		[33]										
9684	Education											
9685	Education											
9698	Education	Workplace Literacy and Numeracy	(3.500)	3.500	-	-	-	-	-	3.0	4.0	This initiative will help meet demand. Initial employer reports indicate that workplace literacy and numeracy tuition assists in increasing productivity and family wellbeing.
9700	Education	Careers New Zealand Integration into the Tertiary Education Commission	(4.000)	4.000	-	-	-	-	-	3.0	3.0	TEC requires funding to effectively integrate CNZ functions into the TEC. TEC is reprioritising \$4 million to contribute to these costs.
		[33]										
<b>Other tertiary related initiatives</b>												
		[33]										
9717												
9663												

