

The Treasury

Budget 2017 Information Release

Release Document July 2017

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[40]	Not in scope	

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Reference: T2017/679

SH-4-6-0

Date: 20 March 2017

To: Minister of Finance (Hon Steven Joyce)

Deadline: Ministerial Meeting, Wednesday 22 March, 7.30pm

Aide Memoire: Ministerial meeting on Vote Tertiary Education

You are meeting with Hon Goldsmith on Wednesday 22 March at 7.30pm. This aide memoire provides you with information on the size and structure of the emerging Tertiary Education budget package, and our advice on the merits of the different bids to support you in that discussion.

Points to Raise

You may wish to raise the following questions:

- Do tuition subsidy increase options, or increasing the Performance-based Research Fund, provide the greater return on investment?
- [33]
- [33]
- [33]

Tertiary Education Budget 2017 package

The emerging tertiary education package seeks to: support tertiary education providers to provide quality education and remain sustainable; [33]; and address cost pressures for agencies (see Annex 2 for details on initiatives). We have outlined the options available to support each of these goals for tertiary education below.

Supporting tertiary education providers

Tuition subsidy increases have been proposed as a provider sustainability and quality bid. In the last meeting with Minister Goldsmith on Vote Tertiary Education baselines on Tuesday 14 March, you indicated that you were interested in options to increase the return on investment in tertiary education. In particular, you discussed options to increase productivity via tuition subsidy increases.

Annex 1 sets out some options for increasing tuition subsidies, including targeted options. It also reviews the impacts that these options have on increasing productivity, supporting tertiary providers, maintaining funding relativity and the value for money. By 'increasing productivity', we mean raising learners' income levels and employment outcomes, addressing skill needs in the labour market, and incentivising innovation within the tertiary sector. Recent Budgets have adjusted the funding rates with a view to ensuring that providers do not face a disincentive to offer programmes that are in demand. In Treasury's view, the next step is to move to provide an incentive to providers to prioritise increasing the return on investment from tertiary education, both for students and for New Zealand.

Treasury's first best advice is that across-the-board tuition subsidy increases do not incentivise better learner and employment outcomes and there is no evidence to suggest that all tertiary providers require additional funding to provide quality education and remain sustainable. You may wish to defer increasing tuition subsidies or scale an across-the-board increase (0.5 - 1%), in order to allow for the recommendations from the Productivity Commission's inquiry into *New Models of Tertiary Education* to be fully explored (eg. improvements to performance-linked funding measures).

If you are interested in investing in tertiary education via tuition subsidies, we recommend exploring options for targeting increases that better meet the objectives of increasing productivity and supporting providers that need it (see Annex 1). The key trade-off with targeted options is the disruption of funding relativities.

Alternatively, you could support tertiary providers through an increase in the Performance-based Research Fund (PBRF). An increase to the PBRF would assist in strengthening research institutions and supporting innovation. However, the PBRF largely provides funding to universities, so an increase in the Fund is unlikely to support institutions that require additional assistance. There are also a number of new and expanded initiatives under the Science and Innovation portfolio that support research and innovation (e.g. the Endeavour Fund).

[34]

[33]

[33]

Cost pressures

Education New Zealand (ENZ) is facing cost pressures arising from a spend-down of cash reserves and the end of time-bound Export Education Levy funding. Additional funding will allow ENZ to maintain the current level of activity that focuses on building regional tertiary providers' capabilities to attract more international students, continuing its international student marketing programme, and allowing additional activity that aims to improve international student experience.

The TEC will face cost pressures in the near future if legislation is passed that will integrate the functions of Careers New Zealand (CNZ) into the TEC. TEC proposes to use \$4 million of 2016/17 SAC underspends to contribute towards the integration costs (estimated total of \$7.8 million), including the fit out costs, integration of ICT networks, ongoing CNZ lease costs, project and change management costs, [38] TEC proposes to meet the remaining integration costs within baselines.

[33]

[33]

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Annex 1: Options for increasing tuition subsidies

	Increases productivity	Supports provider sustainability	Maintains funding relativity	Value for money rating (0-5)
Across the board tuition subsidy increase	No – does not provide any incentives for providers to change the status quo	Somewhat – there is no evidence to suggest all tertiary providers require increased tuition subsidies	Yes	2 (refer to previous comments)
Targeting trades courses	Yes – there is strong demand in the construction industry	Yes – most of the provision is in polytechnics, the sector which has the greatest sustainability concerns	No – MoEs data shows that Trades are not currently under-funded	3 – volume growth in employer-based training has been funded recently, where demand is expected to grow
Targeting sub-degree provision	Somewhat – improvements in quality of sub-degree provision will improve learner progression to employment and higher levels of education	Yes - most of the provision is in polytechnics, the sector which has the greatest sustainability concerns	No – Sub-degree and degree level funding rates were realigned in Budget 2016	2.5
Targeting STEM courses	Yes – STEM graduates tend to have higher incomes and better employment outcomes than non-STEM graduates	Somewhat - depends which levels are targeted	No	3
Increasing volume in priority areas¹	Yes - increases in the number of people gaining qualifications in priority areas	Somewhat – depends which areas/levels are targeted	No	Effectiveness uncertain given falling demand for provider-based training (see Note 1 below)

Note 1: MoE advise that increasing volumes is unlikely to be effective in the current environment of falling demand for provider-based training. If you would like further advice on this option, you could direct officials to explore the implications and opportunities further.

¹ This option refers to increasing volume in priority areas where labour market demand is high. This could potentially be linked to the immigration essential skills in demand lists.

Annex 2: Table of initiatives

No.	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. Scaled/targeted options are available.	
		[33]										
9881	Education											
9687	Education											
9691	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.
Total Funding			[33]									

