

Reference: 20160277

19 September 2016



Thank you for your Official Information Act request, received on 22 July 2016. You requested the following:

- “1. Copies of all papers, briefings, reports, letters, emails or memoranda that the New Zealand Treasury (Treasury) has received since 1 January 2016 from the Minister for Tertiary Education, Skills and Employment or his office in relation to Vote Tertiary Education in Budget 2016 (the Vote).*
- 2. Copies of all papers, briefings, reports, letters, emails or memoranda that Treasury has received since 1 January 2016 from the Minister of Finance or his office in relation to the Vote.*
- 3. Copies of all papers, briefings, reports, letters, emails or memoranda that Treasury has received since 1 January 2016 from the Tertiary Education Commission (TEC) in relation to the Vote.*
- 4. Copies of all papers, briefings, reports, letters, emails or memoranda that Treasury has sent to the Minister for Tertiary Education, Skills and Employment or his office, the Minister of Finance or his office, or TEC since 1 January 2016 in relation to the Vote.*
- 5. Copies of all papers, briefings, reports, or memoranda that Treasury has produced since 1 January 2016 pertaining to the Vote.*
- 5.1. Please note that the item requested is intended to encompass documents produced by Treasury for internal use only, including drafts, as well as those produced for other purposes.”*

On 10 August I sought an extension of 30 working days. A response to the request is due by 30 September 2016.

Furthermore, on 12 August a Treasury official contacted you to clarify the request. You agreed to withdraw the part of the request that refers to drafts. Furthermore you agreed to only include information that was new and not information that had been released as part of the Budget 2016 information release.

Information Being Released

Please find enclosed the following documents:

Item	Date	Document Description	Decision
1.	27 January 2016	Ministerial Letter: Vote Tertiary Education (Minister Joyce)	Release in part
2.	7 April 2016	EGI Briefing: Budget 2016 Package Vote Tertiary Education	Release in part

I have decided to release the documents listed above, subject to information being withheld under the following sections of the Official Information Act, as applicable:

- advice still under consideration, under section 9(2)(f)(iv) – to maintain the current constitutional conventions protecting the confidentiality of advice tendered by Ministers and officials, and
- names and contact details of junior officials and certain sensitive advice, under section 9(2)(g)(i) – to maintain the effective conduct of public affairs through the free and frank expression of opinions.

In making my decision, I have considered the public interest considerations in section 9(1) of the Official Information Act.

Please note that this letter (with your personal details removed) and enclosed documents may be published on the Treasury website.

This fully covers the information you requested. You have the right to ask the Ombudsman to investigate and review my decision.

Yours sincerely

Kristie Carter
Acting Team Leader, Labour Market & Welfare

OIA Information for Release

1.	Ministerial Letter (updated) - Vote Tertiary Education - Minister Joyce	1
2.	EGI briefing - Budget 2016 package Vote Tertiary Education	6



Office of Hon Steven Joyce

Minister for Economic Development

Minister for Regulatory Reform

Minister of Science and Innovation

Minister for Tertiary Education, Skills and Employment

Minister Responsible for Novopay

Associate Minister of Finance

27 JAN 2016

Hon Bill English
Parliament Buildings
WELLINGTON

Dear Bill

I am submitting the initiatives outlined in Annex 1 for Vote Tertiary Education for consideration as part of the Budget 2016 process.

Tertiary Education and the Business Growth Agenda

The tertiary education system supports business and the economy through the development of relevant skills and research. It also helps build international relationships and the international capabilities of New Zealanders, and it contributes to the competitiveness crucial for an export-led economy.

My proposed tertiary education package focuses on ensuring the tertiary education system contributes to the shifts we need to achieve our vision for what a successful New Zealand economy would look like in 10 years' time. In particular, it focuses on progressing our Business Growth Agenda themes of Skilled and Safe Workplaces and Export Markets, and our Better Public Service target of 60% of 25-34-year-olds having a qualification at Level 4 or above in 2018.

This tertiary education package is supported by separate science and innovation investment proposals which will further strengthen research in New Zealand's universities. The science and tertiary education proposals should be read together for this reason.

In addition to the specific science proposals, I am currently evaluating a proposal we recently received from the University of Auckland. The proposal would support higher-level research through dedicated funding for leading researchers in our universities. I intend to develop the proposal further, with a view to providing a refined proposal for Budget Ministers' consideration.

In addition to the initiatives set out in Annex 1, Export Markets Ministers will consider three international education initiatives, to strengthen international education opportunities for New Zealand education providers.

New activity that will be funded within current baselines

Previous tertiary education Budgets have relied significantly on diverting low-quality existing spending to fund new initiatives. This has involved policy changes that have reduced spending in the student support system to fund targeted increases in funding to tertiary providers. There is limited room to draw further savings from student support without adversely affecting access to tertiary education.

The proposed tertiary education package will rely on headroom between baseline funding and funding needed to meet forecast demand in outyears (as it did to an extent in Budget 2015). Forecast demand for Student Achievement Component (SAC) provision at level 3

and above, suggests there will be up to a \$45m difference between baseline funding and the funding needed to meet forecast demand from 2019.

The most recent forecast of tertiary education demand (based on HYEFU) suggests that in the short term there may be a jump in demand, due to the forecast increase in unemployment in 2016, driven by higher net migration. This limits the availability of headroom until after 2019. Officials will update the forecast of demand in late February 2016, when Treasury releases its provisional 2016 BEFU.

I intend to use the difference between baseline funding and the funding needed to meet forecast demand from 2019, to offset some of the cost in outyears of the two significant cost pressures in the Vote – increases in SAC tuition subsidies, and the annual maximum fee movement. However, given the size of these cost pressures, and the uncertainties around forecast demand, I have submitted these two cost pressures as new initiatives as there may be a need to consider additional new funding in these areas. They are also noted in Annexes 1 and 2.

You will see in Annexes 1 and 2 there are three initiatives to increase tuition subsidy rates. Unlike other sectors, tertiary providers have not received an across-the-board funding increase since 2011. Targeted increases since then have focused on degree-level and above. The sector has absorbed cost pressures and improved efficiency; however, its ability to continue to do this is constrained. Ideally, we would fund both an across-the-board CPI-based increase to SAC tuition subsidy rates and the targeted tuition subsidy increases to complete work to address disparities between relative delivery costs and funding rates in key fields of study (particularly science and agriculture). An alternative approach would be to continue with targeted funding increases, but make an across-the-board increase at sub-degree level to support the sustainability of sub-degree providers such as polytechnics, PTEs and wānanga.

Officials are looking at how funds other than the SAC could be a source of ongoing funding for Budget 2016. In particular, there may be some scope for ESOL, s9(2)(f)(iv) and level 1 and 2 initiatives to be funded from within their current baselines.

Officials are also exploring the extent to which our manifesto commitment to make tertiary education at levels 1 and 2 fees-free for all learners, s9(2)(f)(iv), can be met through price/volume trade-offs within those funds.

The cost pressures and new initiatives that I intend to meet fully from within tertiary education baselines, totalling about \$12 million a year by 2019/20, are set out in Annex 3.

Funding recovered from 2015, and un-allocated in 2015 and 2016, will be important for funding the initial years of the package. I expect underspends in tertiary education, and the volatility of expenditure within appropriations from year to year, to reduce in future. As Cabinet noted in September, officials are working to develop the oversight systems needed so the Tertiary Education Commission can manage any risks in the timing of expenditure from its balance sheet [SOC-15-MIN-0015 refers].

I look forward to working with you to progress our Government's priorities in Budget 2016.


Yours sincerely
Steven Joyce

Annex 1 – Budget 2016 Initiatives for Vote Tertiary Education

Funding industry training demand growth

This initiative would increase funding for industry training to meet predicted growth in demand for New Zealand Apprenticeships. Demand for apprenticeship training has grown steadily since the refreshed industry system was launched in 2014.

Funding Sought (\$m)	2015/16	2016/17	2017/18	2018/19	2019/20 & outyears	TOTAL
Operating	-	0.9	2.7	4.5	6.3	14.4
Capital	-	-	-	-	-	-

International Connections for New Zealanders

This initiative encompasses a package of activities to:

- Design and implement a virtual 'Centre of International Cultural and Language Excellence'
- s9(2)(f)(iv) with an initial focus on clarifying and simplifying current SAC and student support funding settings and supporting more New Zealand tertiary students to take up overseas study including exchange opportunities
- Expand the existing Prime Minister's Scholarships for Asia programme
- Introduce a Prime Minister's Scholarships for Latin America programme.

Funding Sought (\$m)	2015/16	2016/17	2017/18	2018/19	2019/20 & outyears	TOTAL
Operating	-	6.5	12.0	12.5	12.5	43.5
Capital	-	-	-	-	-	-

Increases to Student Achievement Component (SAC) tuition subsidy rates

Inflation-based adjustment of tuition subsidy rates

This initiative would apply an inflation-based 1.8% increase to all Student Achievement Component (SAC) tuition subsidy rates for tertiary education at level 3 and above (L3+), which have not had an inflation-based adjustment since Budget 2010. The adjustment would help improve the sustainability and quality of SAC L3+ tertiary education.

Funding Sought (\$m)	2015/16	2016/17	2017/18	2018/19	2019/20 & outyears	TOTAL
Operating	-	18.0	36.0	36.0	36.0	126.0
Capital	-	-	-	-	-	-

* There is scope to meet much of the cost of this cost pressure from within Vote Tertiary Education baselines, however, additional new funding may be required.

Targeted adjustment of tuition subsidy rates at degree level and above

This initiative would apply targeted increases to tuition subsidy rates where benchmarking data indicates a material difference between the relative cost of delivery per EFTS and tuition funding rate per EFTS. The increases would help bring delivery costs and SAC tuition

subsidy rates into closer alignment and improve the sustainability and quality of SAC L3+ tertiary education.

Funding Sought (\$m)	2015/16	2016/17	2017/18	2018/19	2019/20 & outyears	TOTAL
Operating		12.3	24.5	24.5	24.5	85.8
Capital	-	-	-	-	-	-

* There is scope to meet much of the cost of this cost pressure from within Vote Tertiary Education baselines, however, additional new funding may be required.

Addressing financial pressures faced by sub-degree providers

This initiative would align SAC tuition subsidy rates for sub-degree provision of certificates and diplomas (mostly at qualification levels 3-6) and undergraduate (bachelors) degree provision. Funding rates for certificate and diploma study are currently 2% lower than for bachelors study, and there is no strong evidence to support different rates. The targeted SAC increases in recent Budgets, which have focussed on degree-level and above, means that sub-degree providers such as ITPs, PTEs and wānanga have not had meaningful tuition subsidy funding increases for 5 years.

Funding Sought (\$m)	2015/16	2016/17	2017/18	2018/19	2019/20 & outyears	TOTAL
Operating	-	5.0	10.0	10.0	10.0	35.0
Capital	-	-	-	-	-	-

* There is scope to meet much of the cost of this cost pressure from within Vote Tertiary Education baselines, however, additional new funding may be required.

Adjustments to the Annual Maximum Fee Movement from 2017

Government regulates the extent to which providers can increase fees through the Annual Maximum Fee Movement (AMFM). Funding to meet the ongoing cost of the AMFM runs out at the end of 2016. This initiative would allow for adjustments to the AMFM at 3% a year for four years from 2017. This would allow for provider flexibility to increase fees to meet the cost of sustainable and quality tertiary education provision, and balances increased flexibility for providers with certainty for students about the cost of their studies.

Funding Sought (\$m)	2015/16	2016/17	2017/18	2018/19	2019/20 & outyears	TOTAL
Operating	-	4.7	9.4	13.2	18.0	45.3
Capital	-	-	-	-	-	-

*There is scope to meet much of the cost of this cost pressure from within Vote Tertiary Education baselines, however, additional new funding may be required.

Annex 2: Initiatives funded in whole or part from within Vote Tertiary Education

Title	Description	Cost (\$m)					
		2015/16	2016/17	2017/18	2018/19	2019/20 & outyears	TOTAL
Increases in Student Achievement Component subsidies	A CPI (1.8%) increase to all tuition subsidies at level 3 and above from the 2016 calendar year.	-	18.0	36.0	36.0	36.0	126.0
	Targeted increases to align relative funding rates and delivery costs	-	12.3	24.5	24.5	24.5	85.8
	Addressing financial pressures faced by sub-degree providers	-	5.0	10.0	10.0	10.0	35.0
Increases to the annual maximum fee movement (AMFM)	An AMFM of 3% for 2017 to 2020.	-	4.7	9.4	13.2	18.0	45.3

Annex 3: Initiatives funded in whole from within Vote Tertiary Education

Title	Description	Cost (\$m)					
		2015/16	2016/17	2017/18	2018/19	2019/20 & outyears	TOTAL
Fees-free level 1 and 2	The Government's 2014 election manifesto committed to making all foundation education fees-free from 2017.	-	3.5	7.0	7.0	7.0	24.5
Refugee English Fund	Continuation of time-limited funding of \$0.650m per year for additional places and pastoral care from 2017.	-	0.3	0.7	0.7	0.7	2.4
s9(2)(f)(iv)							
Unpaid NCEA fees for Youth Guarantee Fees-free students	Funding for NZQA to pay unpaid NCEA fees for Youth Guarantee students in the 2016 academic year.	-	0.4	-	-	-	0.4
Engineering E2E	Operating costs of Engineering to Employment programme from 2016/17.	-	0.4	0.4	0.4	0.4	1.6
Provider-level EOTE	Operating costs of Employment Outcomes of Tertiary Education (EOTE) programme	-	0.4	0.4	0.4	0.4	1.6

s9(2)(f)(iv)

IN-CONFIDENCE

2016 Budget Package: Vote Tertiary Education

Responsible Person: Hayden Fenwick, Labour Market & Welfare, 04 917 6969

First Contact Person: s9(2)(g)(i), Labour Market & Welfare, s9(2)(g)(i)

Purpose

1. This paper seeks Cabinet's agreement to: Budget 2016 initiatives that are proposed to be funded through reprioritisation of baselines in Vote Tertiary Education; policy proposals that are not part of the Budget package; and technical changes following a review of the Vote's appropriations.

Comment

2. There are a number of proposals in this paper. We have outlined these proposals below to clarify what Cabinet is being asked to agree to.

Budget 2016 initiatives

3. There are a number of Budget initiatives that are proposed to be funded through reprioritisation of baselines, including the use of 2015/16 underspends, reprioritisation within 2016/17 baselines and price/volume trade-offs. Appendix 1 outlines the funding sources for each of the initiatives.
4. There are two other initiatives that form part of the Vote Tertiary Education Budget package that are proposed to be funded using alternative funding. Appendix 2 outlines the funding sources for each of the initiatives.
5. Treasury supports these initiatives.

Retaining 2015/16 underspends on the TECs balance sheet

6. There is also a proposal that the Tertiary Education Commission (TEC) will retain \$57.2m of 2015/16 underspends¹ on its balance sheet as a 'buffer' or a 'float' to mitigate the risks of overspending due to two policy changes:
 - a. Within a given year, some providers will receive greater than expected demand for tertiary places, while other will receive less demand., Cabinet agreed that TEC could allocate up to 102% of the approved funding allocations to tertiary education providers, to ensure that funding could be shifted to where the demand is within the tertiary education system [SOC-15-MIN-0015 refers]. There is a risk that the number of tertiary providers requiring 102% of approved funding is such that spending exceeds appropriations in a given year.
 - b. There are two initiatives² in the Business Growth Agenda Budget 2016 package that will increase the tuition subsidy rates for some tertiary education provision. Increased prices (together with the 102% policy) will increase the likelihood of spending over appropriations.

¹ These include recovered and unallocated funding within the SAC level 3+ fund, the Industry Training fund, and the Community Education category of the Tertiary Tuition and Training MCA.

² The initiatives are: *Targeted Tuition Subsidy Increases for Key Fields of Tertiary Education* (9317) and *Investing in the Quality and Sustainability of Sub-degree Tertiary Education* (9316).

IN-CONFIDENCE

7. The approach for TEC to manage its balance sheet follows Treasury advice that since TEC is a Crown Entity, it is not obligated to fund within appropriations, so fluctuations in demand across years could be met from TECs balance sheet to manage risks and it is expected that this will be fiscally neutral over time.
8. Cabinet has already agreed a buffer of \$15 million for TEC to manage its balance sheet [SOC-15-MIN-0015 refers]. However, TEC has indicated that without further funding, it would not have a large enough buffer to manage these fluctuations and risks of over-expenditure.
9. There are benefits and costs associated with the above proposal:
 - a. *Benefits:* It is likely that there will be less underspends in future years because funding will be allocated more efficiently to meet changes in demand³, and manage the risk of overspending;
 - b. *Costs:* \$57.2m will potentially remain unused on TECs balance sheet and \$15m in the SAC appropriation, and there is a lack of transparency about where the 2015/16 underspends sit and how they will be spent (e.g. the funding will not be 'drawn-down' in 2015/16 and appropriated in future years. Therefore it will not be recorded in the Estimates documents).
10. Cabinet is only being asked to note this proposal; however Treasury thinks that Cabinet agreement is required to retain the underspends for this purpose. If Cabinet agrees to the proposal, Treasury will engage with MoE and TEC to clarify the details of how the balance sheet mechanism will work in practice, to ensure that there is sufficient transparency, in the absence of being included in the Estimates.
11. In 2017, the Ministry of Education will assess whether the \$15m buffer in the SAC should go onto the TECs balance or be returned to the centre.

Other policy change

12. There is another policy change proposal in this paper that seeks agreement to ring-fence \$35m of SAC funding to use in a competitive allocation process for some delivery at levels 3 and 4 to improve value for money and outcomes for learners.
13. Treasury supports this policy change.

Vote Tertiary Education appropriations restructure

14. Cabinet is also being asked to agree to a number of technical changes to appropriations to improve the transparency of appropriations following a review in 2015.
15. Treasury supports these changes to appropriations.

Treasury Recommendation

We recommend that you **support** the Budget policy initiatives, other policy changes and the technical changes to the Votes appropriations.

³ The newly established *Tertiary Tuition and Training MCA* will further increase flexibility of funding to meet changes in demand by allowing funding to move across different funds and categories. The policy work that will determine the appropriate balance between flexibility and oversight for transfers of funding is yet to be completed by MoE.

IN-CONFIDENCE

We recommend you discuss and confirm whether Cabinet is comfortable for TEC to use 2015/16 underspends as a 'buffer' to manage the risks of the 102% policy.

We also recommend that the Ministry of Education reports back to Cabinet in 2017 to clarify how the balance sheet mechanism is working and if the 'buffer' amount is appropriate to manage the risks.

Title	Pg	Recommend	Fiscal Implications (\$m GST excl.)					Treasury Comment
			15/16	16/17	17/18	18/19	Out years	
2016 Budget Package: Vote Tertiary Education		Support and recommend Cabinet confirm whether they are comfortable for TEC to use 2015/16 underspends as a 'buffer' to manage the risks of the 102% policy and express an expectation that MoE report back to Cabinet about the effectiveness of the TEC balance sheet mechanism and the appropriate amount of the 'buffer'	<i>Operating</i>					
			-	-	-	-		
			<i>Capital</i>					

IN-CONFIDENCE

Appendix 1

Initiative	Description	Cost and Funding source
Fees-free foundation education	Implements manifesto commitment of fees-free foundation education at Level 1 and 2 for all learners.	\$14.56m from a combination of unallocated funding from 2015/16 and a price/volume trade-off from 2017 (funding around 200 fewer EFTS)
Increased demand for workplace literary and numeracy	Meets increased demand for workplace literary and numeracy provision.	\$2.0m reprioritised within the Community Education category of the Tertiary Tuition and Training MCA in 2016/17; and a price/volume trade-off from 2017 (\$3m per year by reducing the maximum funding rate)
Refugee English Fund	Maintains the size of the Refugee English Fund.	\$2.3m reprioritised within the Community Education category of the Tertiary Tuition and Training MCA from 2017
Engineering Education to Employment (E2E)	Implementation and evaluation of the E2E programme.	\$1.6m from 2015/16 underspends to fund 0.4m p.a. for four years
Supporting New Zealanders studying overseas	Simplifies and clarifies eligibility settings around student loans and tuition subsidies to support more New Zealanders studying overseas while ensuring value for money for New Zealand taxpayers.	\$0.140m p.a. will be met within current baselines and a one-off MSD implementation cost (\$0.5m) will be sought as part of the 2016 BGA <i>initiative International Connections for New Zealanders</i> .

IN-CONFIDENCE

Appendix 2

Initiative	Description	Cost and Funding source
s9(2)(f)(iv)		
Increasing Māori and Pasifika Trades Training	Draws down funding set aside in contingency for future growth in Māori and Pasifika Trades Training	\$9.6m over four years drawn down from the <i>Expand Māori and Pasifika Trades Training</i> Contingency