

The Treasury

Budget 2011 Information Release

Release Document

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THE TREASURY
Kaitohutohu Kaupapa Rawa

Treasury Report: Budget 2011 Tertiary Education Advice

Date:	14 March 2011	Report No:	T2011/433
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Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Bill English)	Note the contents of this report ahead of the Budget Ministers' Meeting on 15 March. Refer this report to Budget Ministers.	15 March 2011
Associate Minister of Finance (Hon Steven Joyce)	Note the contents of this report ahead of the Budget Ministers' Meeting on 15 March.	15 March 2011

Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
[1]			✓
Simon MacPherson	Manager, Workforce Attachment and Skills	[1]	

Minister of Finance's Office Actions (if required)

Refer this report to Budget Ministers, if recommendation i) is agreed.
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Enclosure: Yes (attached)

Treasury Report: Budget 2011 Tertiary Education Advice

Purpose of Report

1. This report provides you with additional and updated information on the Vote Tertiary Education package ahead of the Budget Ministers' Meeting on 15 March. As this meeting represents one of the only opportunities Budget Ministers will have to consider the Tertiary Education Budget package, this report suggests a number of discussion and action points for this meeting.
2. Normally we would wait to brief until the package had been finalised however, given the timeframes left in the Budget process, we have had to brief now on the basis of available information in advance of the Budget Ministers' Meeting.

Background

3. The Budget process thus far has been relatively high-level for Tertiary Education as neither Four Year Budget Plan submitted contained sufficient levels of either policy or financial detail for any real assessment to be completed. Therefore Minister Joyce will be discussing his student loans package as part of the Budget Ministers' Meeting on March 15. Minister Joyce's intention is then to seek final agreement to his Budget package at CBC on 28 March.
4. We recommend that Budget Ministers focus on the following key areas for discussion:
 - i. Options for using the savings generate from within Vote Tertiary Education; and
 - ii. Initiatives which Ministers need to consider further.
5. We have also included, as Annex 1 of this report, a table outlining Vote Tertiary Education package in case Ministers are interested to see the range of initiatives proposed. This information is as up-to-date as possible but it should be noted that final decisions have not yet been made.

Options for using Vote Tertiary Education savings

6. [2]

[2]

7. [2]

[2]

8. [2]

9. Of these savings, the majority are generated from alterations made to the student loans scheme. [2]

[2]

10. We do not see a strong argument for why savings which represent essentially increased revenue from student loans should be retained within Vote Tertiary Education. In general, revenue increases are returned to the centre since these are not directly used for subsequent lending or to fund other policy. If student loan repayment rates decrease then Vote Tertiary Education is not directly asked to fund these changes from within baselines. Therefore allowing the opposite (retaining increased revenue flows) is essentially providing a windfall gain to the sector.

11. With this in mind, we recommend that Budget Ministers discuss options for how savings from within Vote Tertiary Education should be allocated.

Return a Portion of Savings to the Centre

12. Given the level of savings, compared with the level of spending pressures in Vote Tertiary Education, there appears to be some ability to return a portion of savings to the centre. These funds could then be used to either reduce debt, fund other government priorities or fund some of the costs of the February 22 Christchurch earthquake.

13. If Ministers were interested, one option would be to agree that those savings related to increased student loans revenue streams be retained at the centre. Three of the four initiatives that make up the savings in this area - changing the definition of income, [2] and reducing the repayment holiday - are either not or only partially supported by Treasury. [2]

14. [2]

Fund Tertiary Education Costs Associated with the February 22 Christchurch Earthquake

15. There are a number of costs associated with the earthquake that are linked to Tertiary Education:

- Currently Cabinet have approved a \$2 million appropriation to fund extraordinary costs associated with the repatriation of international students killed in the earthquake.

[2]

- [2]

-

16. Given the uncertainties around these costs, it would be helpful to agree that the costs already agreed by Cabinet be sourced from within the savings from Vote Tertiary Education. [2]

Administrative Costs for Departments

17. Implementing Budget 2011 initiatives will require departments to commit administrative resources. We understand that the vast majority of these costs are able to be absorbed from within baselines. [2]

We recommend that any administrative costs associated with implementing Budget 2011 initiatives be funded from within savings from Vote Tertiary Education.

Fund Fiscally Neutral Initiatives in Vote Tertiary Education

18. This option is not necessarily mutually exclusive to returning some savings to the centre, or funding the costs of the earthquake from savings. But if the first two options are agreed, then this will obviously reduce the scope for reallocation towards other Tertiary Education initiatives. [2]

19. [2]

20. More detail on the initiatives Treasury would like Ministers to discuss is included in the next section.

Initiatives which Ministers need to consider

21. Looking at the initiatives put forward in Vote Tertiary Education there are a number that we would recommend Ministers discuss. We have identified these particular initiatives for at least one of the four following reasons:

- There is little evidence that the initiative would have the desired effect;
- The improved revenue flows do not outweigh negative consequences;
- The initiative should be progressed as part of broader policy work rather than in isolation; or
- It is unclear that additional funding is required and therefore represents low value for money.

22. The following table outlines those initiatives that we recommend Ministers discuss with the goal of agreeing not to progress these initiatives further, at least as part of Budget 2011. Some may be in a better position to be progressed at Budget 2012, for example those relating to the broader question of price within the Tertiary system.

Initiative	Issue
Savings - Reducing the repayment holiday from three years [2]	Little evidence that this will improve repayments. It is likely to increase debt held by overseas borrowers, discourage them from returning and therefore increase the annual student loans impairment.
[2]	
Expenditure - Extra funding to meet demand pressures	Unclear that demand cannot be managed within existing funded and unfunded delivery levels, [2]
[2]	

23. We also recommend that Ministers discuss the following initiative to ensure that all major policy implications have been taken into account.

[2]

Next Steps

24. Minister Joyce will take two Cabinet papers to CBC on 28 March seeking authority to progress his Budget 2011 package. You may wish to discuss options for taking these proposals straight to Cabinet on April 4. From here, financial recommendations will be progressed through the Budget 2011 Cabinet paper being prepared by Treasury.

Recommended Action

We recommend that you:

- a **note** that the Budget Ministers' Meeting on 15 March may be the only opportunity for Budget Ministers to discuss the components of the Tertiary Education Budget Package;

[2]

- c **note** that there is no strong rationale for increased revenue streams being retained for reprioritisation within Vote Tertiary Education;

- d **agree** at the Budget Ministers' Meeting that savings from Vote Tertiary Education will either:

- i. have a portion [2]

returned to the centre for use on other government priorities or to be put towards funding costs associated with the February 22 Christchurch earthquake;

and/or

- ii. be used to fund the Vote Tertiary Education costs associated with the February 22 Christchurch earthquake from within these savings (\$2 million has been agreed so far);

and/or

- iii. be used to fund any administrative costs for the Ministry of Education, Inland Revenue and StudyLink associated with changes implemented in Budget 2011 which cannot be met from within baselines;

and/or

- iv. be used to fund fiscally neutral initiatives within Vote Tertiary Education;

- e **note** that Treasury is generally comfortable with the proposed initiatives within Vote Tertiary Education, with the exception of the initiatives listed below;

- f **discuss** the following Budget 2011 initiatives:

Initiative	Issue	Recommended Action
Student Loans Initiatives which increase revenue streams		
Savings - Reducing the repayment holiday from three years [2]	Little evidence that this will improve repayments. It is likely to increase debt held by overseas borrowers, discourage them from returning and therefore increase the annual student loans impairment.	Do not progress

[2]		
Other Initiatives		
[2]		
Expenditure - Extra funding to meet demand pressures.	Unclear that demand cannot be managed within existing funded and unfunded delivery levels.	Do not progress
[2]		

g **note** that the Minister for Tertiary Education intends to take two Cabinet papers to the Cabinet Business Committee on 28 March seeking final agreement to his Budget 2011 package; and

h **refer** this report to Budget Ministers

Agree/disagree

Simon MacPherson
**Manager, Workforce Attachment and Skills
for Secretary to the Treasury**

Hon Bill English
Minister of Finance