

The Treasury

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- [1] 9(2)(a) - to protect the privacy of natural persons, including deceased people
- [2] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
- [3] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
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In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

Tertiary education package for Budget 2011

Proposal

1. This paper provides an overview of the tertiary education package for Budget 2011, and seeks Cabinet's agreement to the required policy changes (other than for student loans, which are covered in an accompanying paper).

Overview of the tertiary education Budget package

2. The tertiary education package for Budget 2011 continues the direction we established in Budget 2010 – improving the value of the Government's significant investment in student support, simplifying the tertiary funding system, investing in priority areas and responding to changes in demand.
3. The package funds tertiary cost increases and initiatives, including additional funding for the Christchurch earthquake, from within baselines, while also returning five-year savings of \$224 million (operating) and \$173 million (capital) to the centre. The package is summarised in table 1, on the following page.
4. Improving the value of the Student Loan Scheme is important for the Government's long-term fiscal position. The package for Budget 2011 includes changes to the Student Loan Scheme that means study funded by loans will better contribute to tertiary education priorities, and borrowers' repayment rates will improve, which will increase the value of the Scheme.
5. We need to be careful in how we respond to cost and demand pressures in tertiary education, and continue to drive value from existing levels of expenditure. Where possible, I expect to meet demand for higher-value study by reallocating funding away from low-demand and low-value programmes.[2]
6. In Budget 2011 I am confirming plans to reallocate funding from Industry Training, a programme with decreased demand and some low-value expenditure, to meet increased demand for places at Private Training Establishments and for English language education for refugees and migrants. I am targeting increases in subsidy rates to study at higher levels, one of our key priorities for tertiary education. A 4 percent Annual Maximum Fee Movement in 2012, using funding that was appropriated under Budget 2010, allows providers to increase their fees by a fair and reasonable level to help address cost pressures.
7. The package also includes funding to equalise the funding rate for postgraduate study between subsectors, in line with our commitment to simplify the tertiary education funding system.

Table 1: Tertiary education budget package for 2011

Savings	Five year total (\$m)	
	Operating	Capital
Restrict student loan eligibility for those with an overdue student loan repayment obligation of \$500 or more, in default for more than one year.	(10.109)	(10.110)
Add losses back to income for student loan repayment purposes from 1 April 2013	2.940	(23.000)
Restrict borrowing for people aged 55 and over to tuition fees only	(38.051)	(8.315)
Shorten the repayment holiday to one year and require that borrowers apply for a repayment holiday	-	-
Remove the entitlement to borrow course-related costs for part-time full-year students	(23.755)	(27.108)
Suspend the inflation adjustments to the repayment threshold for the 2011/12 year (already agreed by Cabinet)	(39.829)	(38.102)
Suspend the inflation adjustments to the repayment threshold until 1 April 2015	(162.373)	(63.326)
Extend exemptions from 2-year stand-down for permanent residents and Australians to sponsored family members of protected persons	0.062	-
Require every new loan application to include a contact person as one of the conditions to access the Student Loan Scheme	0.355	-
Reduced Industry Training Fund from 2013	(57.700)	-
Removal of regulatory compliance training from 2012	(32.900)	-
Restricting loan access for aviation students	(27.858)	(16.107)
Estimated savings from Education (Freedom of Association) Amendment Bill	(28.909)	(33.998)
Funding transferred from TEC policy advice to non-departmental Crown expenditure	(2.303)	-
Underspends from Trades Training and Student Achievement Component in 2010/11	(12.000)	-
[2]		
Total savings	(438.310)	(220.556)
Pressures		
Additional Student Achievement Component funding for Private Training Establishments (approximately 750 extra EFTS)	37.221	18.591
Equalising the funding rate for postgraduate courses across subsectors	11.410	-
Targeted tuition subsidy increases - two percent increase for degree-level and postgraduate study	93.870	-
Funding for refugees' and migrants' English for Speakers of Other Languages programmes	17.500	-
[2]		
Earthquake recovery contingency - extra trades training places	42.000	6.000
[2]		

Package also includes a fiscally neutral transfer to combine the Youth Training and Youth Guarantee programmes, and three initiatives funded from outside Vote Tertiary Education (International education promotions; Additional medical training places; and Youth Guarantee – Trades Academies)

8. International education contributes at least \$2.2 billion to the economy each year. With demand for international education growing, and students being increasingly mobile, we have a good opportunity to expand the international education sector. I expect the already approved additional \$10 million for international education promotions, funded through the Prime Minister's Emerging Priorities Fund, will, in conjunction with the establishment of a new international education Crown Agent later in 2011, support and contribute to a marked expansion in the value to the economy of international students and other aspects of export education.

Student Loan package for Budget 2011

9. The New Zealand Student Loan Scheme is one of the most generous in the world. Unlike student loan schemes in many other jurisdictions, financial need is not a criterion for new lending and loans are interest-free over the lifetime of the loan. The purpose of the Scheme is to enable access to tertiary education, but this must be balanced against the cost of the Scheme to current and future taxpayers.
10. My proposed student loan package for Budget 2011 is discussed in the accompanying Cabinet paper. The package limits lending to borrowers who are less likely to repay. This means not relending to borrowers who have not met repayment obligations from previous loans. It also means restricting lending to those over the age of 55 to tuition fees only. These two groups of borrowers represent low value in relation to the high cost of the Scheme. These proposals build on the changes made to student loan eligibility as part of Budget 2010.
11. The proposals in the student loan package also look to increase personal responsibility for debt repayment. This means removing the indexation of the repayment threshold from New Zealand-based borrowers who can afford to pay, which will have a small effect for individuals but will improve the overall value of the scheme. For overseas-based borrowers, this involves changing the repayment holiday provisions. [2]
12. The proposed changes to the student loan scheme generate operating savings of \$277 million and capital savings of \$170 million over five years.

Other Initiatives

Industry Training Fund

13. The Industry Training Fund (ITF) supports structured employment-based training arranged by Industry Training Organisations (ITOs). Training results in credits and qualifications linked to the New Zealand Qualifications Framework.
14. In 2010 Cabinet agreed to reduce the ITF baseline for 2010/11 from \$179.9 million to \$135.7 million after the ITF was under-allocated by the Tertiary Education Commission (TEC) by \$38 million for 2011 [CAB Min (10) 36/5 refers]. The under-allocation was due to a movement of demand from industry training to full-time study as a result of the current economic climate, and an operational review of industry training in 2010, which found significant issues with the quality and performance of some industry training arrangements.

15. I indicated to Cabinet that I would be considering the appropriate size of the Industry Training Fund for 2012 and 2013 onwards as part of Budget 2011 [2]

I also indicated I would base this decision on the level of high-quality industry training that the Government is prepared to pay for, including estimated demand for high quality industry training as the economy recovers.

16. I expect that recent changes to industry training, such as the TEC's operational review, the introduction of performance-linked funding, and some tightening of key policy parameters, will focus funding allocations on well-performing training. These changes should ensure that the number of good quality outputs of the industry training system increases over time for lower overall cost to the Government.

17. I am therefore confirming proposals to reduce the ITF baseline by \$23 million per annum from 2013 onwards. This reflects the current best estimate of demand for well-performing industry training from 2013. This baseline will allow sufficient funding for industry training that we know is performing at a reasonable level, whilst allowing for some growth in new trainees and better credit achievement. It also assumes that some current poor-quality industry training is replaced by higher-quality industry training.

18. It should be noted that demand for training in certain trades is likely to increase as a result of the rebuild of Christchurch following the Canterbury earthquake. This will likely involve a mixture of on-job and off-job training. I am proposing a dedicated fund for that additional trades training in paragraphs 28 and 29 below. This is likely to increase ITO funding above the new baselines over the next two years.

[2]

21. At the same time, I expect that performance-linked funding and the improved operational funding rules for the ITF will result in better educational performance among ITOs. Unfunded growth in industry training is also possible because if industry values the training sufficiently it will contribute more to the costs of training.

22. The TEC will manage the transition process to protect the interests of affected trainees and employers and work to ensure that good quality training is retained in industries affected by ITO restructuring.

Regulatory compliance courses

23. Cabinet agreed in 2010 that, from 2012, Industry Training funding would no longer be available for short duration health and safety and regulatory compliance

programmes that are the normal responsibility of the employer in providing a safe workplace. Cabinet noted that the funding implications from this policy will be considered as part of Budget 2011 [CAB Min (10) 36/5 refers]. This decision will reduce the ITF baseline by \$9.5 million from the 2012 calendar year.

24. Table 2, below, shows the fiscal impact of my proposed reduction in the ITF baseline from 2013 and Cabinet's decision that regulatory compliance courses will not receive Industry Training funding from 2012. These proposals will save \$90.6 million over four years.

Industry Training Fund for 2012

[2]

Table 2 – Proposed Industry Training Fund Baseline

(\$ million)	2010/11	2011/12	2012/13	2013/14	2014/15 and outyears
Current baseline (following Cabinet's decisions to remove \$38 million in 2011)¹	135.7	152.2	171.6	171.6	171.6
<i>Reduced Industry Training Fund from 2013</i>	-	-	(11.5)	(23.1)	(23.1)
<i>Removal of regulatory compliance funding from 2012</i>	-	(4.4)	(9.5)	(9.5)	(9.5)
Total savings	-	(4.4)	(21.0)	(32.6)	(32.6)
New baseline	135.7	147.8	150.6	139.0	139.0

¹ Note the total Industry Training Fund appropriation also includes funding of approximately \$8m per annum for ITOs delivering literacy, language and numeracy training embedded within their training at NQF levels 1 to 3.

Trades training in response to the Christchurch earthquake

28. The changes to industry training discussed above will occur during 2012 and 2013. In the short term, however, we can expect an increase in demand for trades training (not just industry training) in the construction sector across the country as part of the recovery from the Christchurch earthquake. I therefore propose to establish a contingency of \$42 million (operating) and \$6 million (capital) in the 2011/12 year to respond to this expected increase in demand for all types of trades training.
29. It is still unclear at this stage exactly what mix of trades training will be required in response to the earthquake. It is likely to be biased towards off-job training initially, and then on-job training, as companies gear up the workforce in response to demand. However, we need to be in a position to respond to this demand as it arises during the 12-24 months. This contingency will allow us to purchase a mix of trades training at Institutes of Technology and Polytechnics and Private Training Establishments, through the Youth Guarantee, Modern Apprenticeships, and the Industry Training Fund. For example, \$42 million would purchase approximately 1000 full-time places at Institutes of Technology and Polytechnics an additional 550 Youth Guarantee places, for two years.
30. The Industry Training Fund, Modern Apprenticeships, and the Student Achievement Component are likely to be underspent in the 2010/11 year by approximately \$12 million in total. I therefore seek an in-principle agreement to carry these underspends forward to 2011/12, if they are still unspent at the end of 2010/11, to partially offset the cost of the contingency for additional trades training in response to the Christchurch earthquake.

Improving value for money of the Government's investment in pilot training

31. I have become concerned about the value of the Government's investment in pilot training. The market has been distorted under current policy settings, whereby interest free loans and access to subsidised training from an introductory level have led to students underestimating the long term costs and uncertainties of a career in aviation. For providers, there is an incentive to maximise trainee throughput (within the current 600 EFTS cap) without considering graduate outcomes. We are now producing a high number of qualified pilots, with very high student loans, who have little prospect of finding employment as pilots in New Zealand.
32. The cost to Government of student loan borrowing (i.e. the fair value write-down) for those who borrowed for pilot training in 2009 was approximately 60 cents in every dollar lent out. This significantly exceeds the average cost to Government of borrowing, which is estimated to be 45.3 cents in every dollar for the 2010/11 financial year.
33. Therefore, I am proposing a number of changes to the way that Government resources pilot training through the tertiary education system.
 - a. Firstly, the Tertiary Education Commission will reallocate funding for pilot training. This will shift the purchasing of training to better align with the needs of the aviation industry.
 - b. Secondly, I am proposing that students are no longer able to borrow through the student loan scheme for the solo flight training components of their licensing requirements. This is consistent with the Government's broader

approach for regulatory and compliance qualifications, whereby workers and industries are responsible for meeting the full costs of training.

34. Together, I expect these changes will improve the value for money of Government-funded pilot training, by ensuring that clearer pathways are provided through to employment, and students bear a greater level of the costs associated with this study.

Tertiary Education Commission's purchase of aviation training in 2012

35. In 2012, the Tertiary Education Commission will only fund providers that:
- a. deliver the industry-agreed New Zealand Diploma in Aviation (if delivering at sub-degree level)
 - b. provide training that meets audited safety and competency standards (Part 141 of Civil Aviation Authority rules or equivalent)
 - c. only deliver to students that meet robust entry criteria, including any industry-agreed entry criteria
 - d. demonstrate links with industry and employers (this may include both employment pathways and assurance that the training is relevant to employers' needs).
36. There may be some provider viability issues associated with these decisions, and I expect that the Tertiary Education Commission will report to me with advice on potential impacts before it makes its final decisions.

Excluding solo flight hours from tuition fees

37. I think that it is appropriate that Government meets the theory and practical components of pilot training, both through direct tuition subsidies or tuition fees, which are regulated through the Annual Maximum Fee Movement. However, under current settings, students can borrow vast amounts of money through the student loan scheme for completing the flight hours they require for their Private Pilots License or Commercial Pilots License. Officials estimate that solo flight hours over the two year Diploma in Aviation will be 100 – 120 hours. At an estimated cost of \$250 per hour this means that solo flight hours will cost around \$30,000 over the duration of the qualification. With this change, students will have to find alternative financial supports to complete these requirements.
38. In the 1990s, student loans for fees for aviation-related training were limited to \$6,500 per EFTS for PTEs (this was the maximum for all fees borrowing in PTEs) and \$4,000 - \$5,000 at Massey University. These limits were removed in late 1998. The cost of pilot training escalated significantly following this change. The government put in place fee regulation, but this did not bring down the level of fees charged for pilot training. New Zealand provides more support for pilot training through its tertiary education system than is available in other jurisdictions. Australian students can borrow for some aviation programmes, but there is a lifetime borrowing limit across all programmes of \$AU85,062.
39. Therefore, I am seeking Cabinet's agreement to exclude solo flight training costs from the tuition fees allowed for through the Annual Maximum Fee Movement. To ensure that providers reset fees to reflect this change, I propose setting a maximum fee that providers may charge at a programme level, which will then be subject to the 4 percent (or adjusted) Annual Maximum Fee Movement after that. I am recommending setting a limit on fees of \$39,273 (GST exclusive) per EFTS.

40. Given the impact on existing students, I am proposing that existing students be grandparented in 2011 – i.e., they will be able to continue to borrow for their solo flight costs.
41. This change will be publicised via the Annual Maximum Fee Movement 2012 notice in the *New Zealand Gazette*, along with the other proposed conditions, in accordance with statutory requirements. Aviation providers will have an opportunity to make submissions on the proposed limit for aviation fees.
42. This change will result in savings of \$27.9 million (operating) and \$16.1 million (capital) over four years through reduced student loan borrowing.

Student loan savings from the Education (Freedom of Association) Bill 2009

43. Changes to voluntary student membership (subject to the enactment of the Education (Freedom of Association) Bill 2009) will have an impact on student loan borrowing. Students will no longer be able to borrow through the compulsory fees component of the Student Loan Scheme for their students' association membership fees. However, the overall impact of the law change is expected to be a saving in the cost of new borrowing through the Student Loan Scheme of approximately \$8.5 million capital per annum from 2012.
44. There may be a flow-on effect of increased borrowing for student services fees if providers pick up services currently delivered by students' associations. However, Cabinet has agreed to introduce a new framework for student services fees (via Education Amendment Bill (No 4)) which should serve to limit any excessive increases, through greater involvement of students in decisions related to these fees [CAB Min (10) 45/6 refers].

Reprioritisation of tertiary education departmental expenditure

45. In August, Cabinet agreed that the Ministry of Education be designated the principal advisor to the Government on tertiary education policy [CAB Min (10) 30/4A refers]. Cabinet also agreed that there should be an "at most" fiscally-neutral baseline transfer of operating funding to the Ministry of Education from the TEC. \$0.3 million in 2010/11 and \$0.5 million from 2011/12 was returned to the Crown for use in non-departmental tertiary education funding. I propose to put this funding towards my Budget 2011 initiatives.

Responding to demand for tertiary education

46. There is significant unfunded demand for study at Private Training Establishments (PTEs). The Ministry of Education forecasts demand at PTEs to be at least 16% above the funded baseline for the next four years. In 2011 and 2012 we are funding an estimated 2,600 more core student places in our universities than in 2009, and we increased funding for Institutes of Technology and Polytechnics by \$25 million in Budget 2010. These increases have largely met demand in these subsectors. Funded places at PTEs have not increased since 2002. Furthermore, we have a manifesto commitment to taking a more even-handed approach between PTEs and public tertiary providers.
47. The over-delivery policy settings limit growth in the PTE sector. In the recent investment plan round, the TEC did not approve PTE plans that involved growth in over-delivery. This is a pragmatic approach to implementing the over-delivery policy for PTEs, as a large number of PTEs are over the 3 percent over-delivery

tolerance level. However, this means the only avenue for PTE growth, or for new PTEs to enter, is the small number of EFTS available from PTE under-delivery. Funding additional PTE EFTS would provide the PTE sector with opportunities to grow.

48. I therefore propose to invest a further \$5.25 million per annum of Student Achievement Component funding from 2012 onwards in the PTE sector. This would provide approximately 750 additional EFTS at PTEs, and represents a 3 percent increase in the number of funded EFTS for PTEs. These EFTS would be in addition to the current level of delivery (funded and unfunded) from PTEs to avoid deadweight cost. I propose that these new places will be allocated to high-performing or new PTEs.
49. The total cost of the additional SAC funding, including student support costs, is \$37.2 million (operating) and \$18.6 million (capital) over four years.

Targeted tuition subsidy increase for higher-level study

50. A priority for our Government is to see more people achieving qualifications at levels four and above, particularly degrees. At the same time, we need to be more selective about how we respond to cost pressures in the tertiary system, to ensure that any funding increases contribute to our priorities. In the past, tertiary education subsidies have typically been increased across the board in response to providers' cost pressures.
51. I propose to increase the subsidy rate for degree-level and postgraduate study by 2 percent from 2012, at a cost of \$13.4 million in 2011/12 and \$26.8 million in 2012/13 and outyears. This targeted increase, in conjunction with equalising the subsidy rate for postgraduate study (discussed below) would signal that high-quality provision of higher-level study is of particular value to this Government. It would also recognise that universities and other providers of degree-level study compete intensely internationally, especially with Australian universities, for high quality academic staff.

Equalising subsidy rates for post-graduate study

52. Universities currently receive a higher government subsidy for postgraduate courses than other sub-sectors through Tripartite Funding. Tripartite Funding was introduced in 2007 to assist New Zealand universities in competing internationally in the tertiary education market for high-quality academic staff.
53. Tripartite Funding is paid through a higher SAC funding rate for masters and PhD students for universities than for other subsectors. For example, the 2011 SAC rate for postgraduate social sciences study is \$6,014 for a wānanga and \$7,591 for a university.
54. I propose to equalise funding rates for postgraduate study between universities and other subsectors from 2012. This will cost \$1.6 million in 2011/12 and \$3.3 million in 2012/13 and outyears. A single subsidy rate for postgraduate study is consistent with our commitment to simplifying the tertiary education funding system, and signals a more even-handed approach to tertiary education providers. This change will be well-received by wānanga and institutes of technology and polytechnics.

ESOL for migrants and refugees

55. Each year New Zealand accepts about 600 people who are refugees or members of refugees' families. The majority have poor English and no prior qualifications. Around 5000 permanent migrants arrive each year who may also require ESOL provision.
56. Changes in Budgets 2009 and 2010 and a series of other policy changes have had the effect of reducing the amount of ESOL available, particularly in intensive programmes, by at least 500 places this year. There are particular gaps for people with very basic English, below the level where they can achieve an ESOL qualification. There is also a gap at higher levels for refugees, for whom fees are a real barrier to accessing ESOL qualifications.
57. I propose to dedicate an ESOL stream within the existing Intensive Literacy and Numeracy fund to take account of the special needs of ESOL learners. This would involve funding of \$3.4 million for up to 700 extra places for ESOL per annum from 2012 onwards.
58. I also propose that the fund will cover the fees of refugees studying in mainstream tertiary ESOL courses through the SAC, at a cost of \$1.6 million per annum from 2012 onwards. This will assist 400 refugees a year to study towards ESOL qualifications at higher levels.

Risks

59. The proposal to fund intensive ESOL places for refugees could be seen as having a similar effect to Refugee Study Grants, which were removed in Budget 2009. However, since Budget 2009 a range of other changes, including to adult and community education and Training Opportunities provision, have had unintended consequences that have substantially reduced the number of available ESOL places, particularly for refugees. We removed Refugee Study Grants as part of an initiative to simplify the funding system by removing small funds. Dedicating an ESOL stream within the larger intensive literacy and numeracy fund maintains that aim.

Youth Guarantee - increasing the number of fees-free places

60. The Youth Guarantee aims to raise the educational achievement of 15 to 17 year olds, with the goal of all students achieving at least National Certificate of Educational Achievement (NCEA) level 2 or an equivalent tertiary qualification. A key part of the initiative is to provide an entitlement to fees-free tertiary study for 16 and 17 year olds at levels 1 - 3. In 2010 the Government established 2,000 fees-free Youth Guarantee tertiary places, and this has increased to 2,500 in 2011.
61. Through Youth Training, the Government purchases courses and work-based training for school leavers with low or no qualifications (aged 16 and 17, with some 18 year olds included) as a pathway into further education and training or employment.
62. To support the direction of the Youth Guarantee, the Minister of Education and I propose to provide more fees-free places for 16 and 17 year olds in tertiary provision and to simplify how the Government funds this provision. We propose to do this by merging the current Youth Guarantee and Youth Training programmes (both funded through Vote Tertiary Education), into a new combined

programme. This will allow the Government to purchase approximately 7,500 places a year.

63. If all level 1 to 3 tertiary study (including Youth Training) were offered free of charge, we estimate that around 9,000 to 10,000 EFTS would be necessary to meet this demand. In 2009/10 we purchased 4,227 Youth Training EFTS, translating to 10,000 individual enrolments. We expect that this year's 2,500 fees-free Youth Guarantee places will be fully subscribed.
64. In the year to August 2010, there were 5,781 students aged under 18 enrolled in level 1 to 3 tertiary study, accounting for 3,144 EFTS (two-thirds at level 3). Merging the current two programmes through Budget 2011 would create an estimated 7,500 EFTS, with remaining unmet demand of between 2,000-3,000 EFTS. I have allocated a further potential contingency related to training needs following the Canterbury earthquake, which could be used to upscale this further over the next two years, subject to final decisions.

Key policy parameters

Eligibility

65. Merging existing Youth Guarantee places and Youth Training provision will serve a broad target group ranging from 16 or 17 year olds (or 15 year olds who have an early leaving exemption from school) with low or no prior credit attainment, to those with NCEA level 2 (but who do not hold a level 3 qualification).
66. The new combined programme will focus on achievement of foundation skills, including literacy, language, and numeracy (LLN) progression, and student progression towards NCEA level 2 or an equivalent tertiary qualification. Providers will need to assess the course(s) and level of study that will best meet a student's needs.

Funding

67. The Minister of Education and I have determined a set of provisional funding rates to make study free to the learner. These rates are designed to be simple and efficient to administer.
68. The rates will vary by subject (using the two most common course categories for the Youth Guarantee – general/business and trades), and include \$500 per learner specifically tagged to pastoral care. The table below sets out the provisional rates:

Category	Tuition total per place
General/business	\$10,000
Trades	\$12,500

69. As is the case with existing Youth Training arrangements, transport assistance will be provided for through a separate rate to allow providers to meet learners' transport requirements. This transport assistance will be a subsidy towards travel, rather than reimbursement of costs, and will be allocated on a needs basis. Given fiscal constraints it will be available for a capped number of learners. We estimate that at a rate of \$1,200 per place (or \$30 per week for each place of 40 weeks) it

could support up to 4,700 learners. We will consider detailed policy on how needs-based transport funding will be allocated before it is incorporated into the Minister for Tertiary Education's funding determination for the programme.

70. For providers currently offering full Youth Guarantee qualifications, there is an incentive to focus on students with higher prior qualifications (NCEA level 2), as it is easier to meet performance expectations when students are immediately ready to learn. For this reason we propose to cap the number of level 3 places at 1,500 EFTS, reflecting current demand of 60% of the existing 2,500 Youth Guarantee places.

Financial support for students

71. We have considered whether current student support settings (student loans and allowances) are adequate. Students currently in the Youth Training or Youth Guarantee programmes cannot access student loans due to the fees-free nature of the programmes (and because making loans available may create an incentive for people to leave school). However, they can access other forms of financial support such as student allowances (if they have dependent children), the Independent Youth Benefit, and the Independent Circumstances Allowance. We propose that these current student support policy settings for Youth Guarantee and Youth Training remain in place.

Impact

72. This proposal will be significant for many Youth Training providers, particularly smaller Private Training Establishments (PTEs), as it will require them to focus more on students' educational attainment and less on low-skilled employment outcomes. We therefore recommend that the new programme be phased in throughout the 2012 academic year to give existing Youth Training providers time to adapt.

[2]

75. Although this proposal is fiscally neutral, Youth Guarantee places and Youth Training places are currently funded through separate appropriations. We therefore propose that the new, combined programme be funded through a single, existing appropriation within Vote Tertiary Education.

Trades Academies

76. The Minister of Education's package for Budget 2011 includes, as part of the Youth Guarantee, funding for existing trades and service academies (and roll placements), establishment of new academies, and support for the rollout of a shared qualifications pathway at the secondary/tertiary interface. It is proposed that the funding for Trades Academies - \$33.0 million over four years - will be appropriated to Vote Tertiary Education, funded from Vote Education's allocation for Budget 2011.

[2]

[2]

International Education

86. International education is a substantial and expanding contributor to the national economy. The enrolment of nearly 100,000 international fee-paying students is worth at least \$2.2 billion to the economy annually and supports around 32,000 jobs. I want to see this sector expand still further and provide greater value to the economy. There may also be a need to increase our marketing effort in response to the impact of the Canterbury earthquake on the international education sector.
87. To this end, as part of its consideration of establishing a new Crown Agent for international education, Cabinet has previously agreed to increase the funding for international education promotions by \$10m per annum, from \$3.45 million in 2010/11 to \$13.45 million in 2011/12 and outyears [CAB Min (10) 36/6 refers]. This increase will be funded through the Prime Minister's Emerging Priorities Fund.

88. Cabinet's decision to allocate an additional \$10 million for international education promotions was based on the new Crown Agent for International Education being in place from 1 July 2011. This assumed passage of the necessary amendments to the Education Act 1989 via the Education Amendment Bill (No.4). The Education Amendment Bill is now scheduled to be passed before 1 September 2011, so there will be a two month delay between the start of the 2011/12 financial year and the implementation date of the new Crown Agent.

Additional medical student places

89. The Vote Health package for Budget 2011 includes an initiative to fund an additional 40 medical student places from 2012, which contributes to our manifesto commitment of an additional 200 medical training places. This initiative is funded from the Health allocation for Budget 2011 through Vote Tertiary Education, Vote Social Development, and Vote Revenue. The Vote Tertiary Education package for Budget 2011 includes \$11.75 million over four years for the tuition subsidy costs of this initiative.

Annual Maximum Fee Movement for 2012

90. In the lead up to Budget 2010, Cabinet agreed to combine the currently separate "fee maxima", "annual fee movement limit" and "postgraduate fee increase limit" regulations into one "Annual Maximum Fee Movement" (AMFM) regulation from 2011. The AMFM sets a limit on the amount that tuition fees and course costs can increase each year. Cabinet also agreed to set an Annual Maximum Fee Movement for all Student Achievement Component-funded courses of 4 percent (excluding GST) for 2011, and noted that I will report back prior to Budget 2011 on the proposed AMFM for 2012 [SOC Min (10) 6/9 refers].

91. Funding was appropriated in Budget 2010 to allow for a 4 percent per annum increase to the AMFM, up to and including the 2013 calendar year. The increases allowed through the AMFM exceed the forecast increases in CPI: for the year ending December 2011 CPI is forecast to be 2.9 percent and for the year ending December 2012 it is forecast to be 2.8 percent.

92. I therefore propose to maintain a 4 percent AMFM for 2012, using the funding that was appropriated in Budget 2010.

Budget Management Rules

93. I am seeking Cabinet's agreement to two budget management rules for tertiary education. These are necessary due to the timelines and policy settings for tertiary education funding, which are calendar-year based and involve forecast estimates of demand. Together these mean that the Student Achievement Component appropriation and the Industry Training Fund will be fully spent in any individual year only in exceptional circumstances. However, I have indicated to the sector that total tuition funding for tertiary education will not reduce in the medium term.

Under-spends within the Student Achievement Component

94. The Government chooses how many tertiary education places to fund at tertiary education organisations each year, through SAC funding. The TEC agrees investment plans with providers, which specify the number of funded tertiary

places each provider will deliver. Any over-delivery by providers does not receive government funding. This means that if just one provider under-delivers, the appropriation will be under-spent, even if other providers over-deliver. Therefore the Government would be purchasing fewer tertiary education places than it intended.

95. Furthermore, the Government's purchasing decisions, and the TEC's investment plans, are based on forecast demand, which can be quite volatile, depending on the country's economic circumstances. Therefore it is to be expected that under-spends in the SAC will arise. Due to the nature of tertiary education, it is not possible to use any under-spend to fund other priorities part-way through the year.

[2]

Performance-linked funding

97. Cabinet has agreed that, from 2012, five per cent of providers' and Industry Training Organisations' (ITOs') SAC and ITF funding will be based on their performance in the previous year. Performance-linked funding will provide financial incentives for providers and ITOs to continually work to improve the educational performance of their students and trainees respectively [SOC Min (10) 16/5 refers].
98. Performance-linked funding will not be explicitly used to reward high performing providers by way of a formula. As a result, there will be residual funding in the SAC and ITF appropriations each calendar year from 2012, unless all providers achieve the performance benchmarks for a particular calendar year. It is intended this be reallocated through the investment plan process.
99. As part of Cabinet's agreement to performance-linked funding, Cabinet Social Policy Committee (SOC) invited the Minister for Tertiary Education, in consultation with the Minister of Finance, to report to SOC proposing the process for deciding how to use the surplus funding and appropriate delegations for decision making [SOC Min (10) 16/5].
100. Our medium-term approach to managing demand for tertiary education within existing funding levels is to reallocate funding from areas of lower value or low demand to higher value and in-demand provision. In order to assist with this approach, I propose that the residual funding that will arise each year due to performance-linked funding remain within Vote Tertiary Education, to assist with the management of cost and demand pressures within the Vote. This will meet a reasonable expectation within the tertiary sector that performance-linked funding will incentivise performance within the sector and not be used to punish the sector.

Impact on subsectors

101. The tertiary education budget package has implications for the different tertiary subsectors. The impact on the subsectors will be:

- Universities: gain tuition subsidy funding for degrees and postgraduate study, flow-on benefits from international promotions funding. Two universities will also benefit from the increase in medical training places.
- ITPs: gain tuition subsidy funding for degrees and postgraduate study, and through the equalisation in postgraduate subsidy rates. Some ITPs will gain funding and places through the Youth Guarantee and Trades Academies initiatives. Some ITPs may also benefit from increased demand for trades training as part of the Christchurch earthquake recovery.
- Wānanga: gain tuition subsidy funding for degrees and postgraduate study, and will benefit from the equalisation in postgraduate subsidy rates.
- Private training establishments: New and high performing PTEs will benefit from the 750 additional places being funded at PTEs from 2012. PTEs will also gain tuition subsidy funding for degrees and postgraduate study, and benefit from the equalisation in postgraduate subsidy rates. The changes to Youth Training will require some smaller PTEs to focus more on students' educational attainment and less on low-skilled employment outcomes.

Financial implications

102. The tertiary education package for Budget 2011 generates savings of \$438 million (operating) and \$221 million (capital) over five years, [2]

Consultation

105. The Ministry of Education has consulted the following departments: Department of Prime Minister and Cabinet, the Treasury, the Ministry of Social Development, Inland Revenue, Te Puni Kōkiri, and the Ministry of Pacific Island Affairs.

106. Te Puni Kōkiri has indicated that it supports the direction taken in the paper.
107. The Ministry of Social Development has concerns that the reduction in Youth Training as a result of combining Youth Training with the Youth Guarantee will mean some youth who are better suited to this programme will no longer access this type of training, which focuses on employment outcomes. The intention to cap the number of level 3 places in the Youth Guarantee at 1,500 EFTS should help ameliorate this by ensuring there is sufficient provision at levels 1 and 2.
108. The Ministry for Pacific Island Affairs supports moves to make the tertiary system more responsive to changes in demand and more cost effective. However, it has some concerns about the impact the changes to industry training may have on Pacific people.

Treasury comment

109. Treasury is supportive of the overall direction of the Tertiary Education Budget 2011 package and we note that all expenditure will be funded from within savings^[2]

We support all of the savings initiatives as well as the following expenditure initiatives progressing as set out in this paper:

- 750 extra places in Private Training Establishments
- Equalising subsidy rates for post-graduate study
- ESOL for migrants and refugees
- Youth Guarantee – increasing the number of fees-free places (note that this is fiscally neutral)

[2]

111. We recommend that the following initiative is not progressed as part of Budget 2011:

<i>Initiative</i>	<i>Spending profile (\$ million)</i>	<i>Treasury comment</i>
Targeted tuition subsidy increases – 2% increase for degrees and postgraduate study	\$93.870 (operating) over four years: \$13.410m in 2011/12; \$26.820m in 2012/13 onwards.	This represents targeted funding towards study at higher levels which aligns well with government priorities. [2] We recommend this initiative be deferred for consideration as part of Budget 2012.

112. Alternatively, if Ministers wish to progress something in this space, we recommend that the initiative be scaled to a 1 percent increase, representing the following expenditure profile:

Operating					
2010/11	2011/12	2012/13	2013/14	2014/15	Total
-	6.705	13.410	13.410	13.410	46.935

113. We also recommend that Cabinet approve funding of \$2 million be allocated from within the savings of Vote Tertiary Education to fund the proposal agreed to in the Cabinet paper “Christchurch Earthquake: Responding to Tertiary Education Issues” (ACE Min (11) 4/7 refers). This funding will be used, where necessary, to cover:

- Costs incurred by families to repatriate the bodies of international students deceased in the Christchurch earthquake, where those costs are not covered by insurance, the ACC, or other support;
- Other residual costs incurred by families of international students, determined on a case-by-case basis, and only where this is deemed strictly necessary;
- Immediate full refunds to families of all tuition and other fees paid to education providers by international students now deceased or seriously injured.

[2]

116. Minister Joyce seeks agreement that any funding unallocated as a result of implementing PLF should be retained within Vote Tertiary Education. Our preference would be for any unallocated funding to be returned to the centre as per the Cabinet decision on the use of underspends.
117. Alternatively, if Cabinet agrees to retain unallocated PLF funds within the Vote, we suggest the following options:
- Agree that the Minister for Tertiary Education and the Minister of Finance will make a joint decision each year about whether funding should be retained and reallocated to manage cost and demand pressures within Vote Tertiary Education, or whether underspends should be returned to the centre
 - Allocate PLF underspends into a contingency which Cabinet would be able to allocate towards other pressures in Tertiary Education.

Human Rights Implications

118. The proposals in this paper have no human rights implications.

Legislative Implications

119. The proposals in this paper have no legislative implications.

Regulatory Impact Analysis

120. The proposals in this paper do not require a Regulatory Impact Statement.

Gender Implications

121. The proposals in this paper have no gender implications.

Publicity

122. A communications plan will be developed prior to Budget 2011 announcements.

Annual Maximum Fee Movement

123. In order to give effect to the AMFM policy for 2012 (paragraphs 84-86 refer), I must publish a notice in the *New Zealand Gazette* setting out the proposed conditions that set limits on fees that organisations may charge students, and

invite submissions on these conditions.² I expect to publish this notice on, or soon after, Budget day. This will enable providers to understand the full impacts of these proposed conditions on their income for 2012.

124. I will seek Cabinet's consideration and agreement if substantive changes are requested through the submissions received after publication in the *New Zealand Gazette*.

Youth Guarantee

125. As discussed in paragraph 69, the Minister of Education and I propose to make final decisions about funding rates for the new Youth Guarantee programme following communication with the sector. A communications plan will be developed to introduce the new programme's funding rates to the sector.

Recommendations

I recommend that Cabinet:

1. **note** that the tertiary education package for Budget 2011 continues the direction we established in Budget 2010 of making the tertiary education funding system more responsive to changes in demand and improving the value of the Government's investment in student support
2. **note** that the tertiary education package generates a five-year saving (2010/11 to 2014/15) of \$224 million (operating) and \$173 million (capital)

Student support

3. **note** that this paper accompanies a paper that seeks Cabinet's agreement to a student loan package for Budget 2011 that includes operating savings of \$276 million and capital savings of \$170 million over five years

Industry Training Fund

4. **agree** to reduce the Industry Training Fund baseline by \$23 million per annum from 2013 onwards, reflecting the current best estimate of demand for substantive, well-performing and valued industry training
5. **note** that Cabinet's decision that Industry Training funding no longer be available for short duration health and safety and regulatory compliance programmes from 2012 [CAB Min (10) 36/5 refers] will reduce the ITF baseline by \$9.5 million from the 2012 calendar year

² Section 159M(b) of the Education Act 1989 refers

6. **agree** to establish a contingency of either:

- 6.1 \$42 million (operating) and \$6 million (capital) in the 2011/12 year to respond to demand for trades training that is expected to arise from the Christchurch earthquake recovery, as set out in the following tables, with corresponding funding set aside in the between-Budget contingency, to be submitted to the Cabinet Social Policy Committee for consideration at a later stage

Operating Contingency

Initiative Name	\$ million			
	2011/12	2012/13	2013/14	2014/15& Outyears
Trades training in response to the Christchurch earthquake	42.000	-	-	-

Capital Contingency

Initiative Name	\$ million			
	2011/12	2012/13	2013/14	2014/15& Outyears
Trades training in response to the Christchurch earthquake	6.000	-	-	-

Or

- 6.2 \$11.4 million (operating) and \$2.6 million (capital) in the 2011/12 year for trades training costs that may arise from the Christchurch earthquake recovery as set out in the following tables, with corresponding funding set aside in the between-Budget contingency, to be submitted to the Cabinet Social Policy Committee for consideration at a later stage (Treasury recommended option)

Operating Contingency

Initiative Name	\$ million			
	2011/12	2012/13	2013/14	2014/15& Outyears
Trades training in response to the Christchurch earthquake	11.400	-	-	-

Capital Contingency

Initiative Name	\$ million			
	2011/12	2012/13	2013/14	2014/15& Outyears
Trades training in response to the Christchurch earthquake	2.600	-	-	-

7. **agree** in-principle to the carry forward of underspends from Industry Training, Modern Apprenticeships, and the Student Achievement Component in 2010/11 (expected to total approximately \$12 million) to 2011/12 to partially offset the cost of the contingency for trades training in response to the Christchurch earthquake

Improving value for money of the Government's investment in pilot training

8. **note** that the Tertiary Education Commission will be reallocating funding in 2012 to better align the provision of pilot training with industry needs

9. **agree** to prevent students on pilot training programmes from being able to borrow through the student loan scheme for their solo flying hours
10. **agree** to set a pilot-training fee limit through the Annual Maximum Fee Movement by
 - (i) clarifying that fees for solo flight training are excluded from the costs that are subject to the Annual Maximum Fee Movement, and are, therefore, not to be paid for through student loans
 - (ii) setting an explicit limit of \$39,273 (GST exclusive) on the amount that providers may charge for aviation training funded within the EFTS cap in 2012
11. **agree** that existing students in 2011 will continue to be able to borrow through the student loan scheme for their solo flight costs
12. **note** that these decisions will result in savings of \$27.9 million (operating) and \$16.1 million (capital) over four years through reduced student loan borrowing

Student loan savings from the Education (Freedom of Association) Bill 2009

13. **note** that changes to voluntary student membership (subject to the enactment of the Education (Freedom of Association) Bill 2009) are expected to save approximately \$8.5 million capital per annum from 2012 in the cost of new borrowing through the Student Loan Scheme

Reprioritisation of tertiary education departmental expenditure

14. **note** that as a result of the Ministry of Education being designated the principal advisor to the Government on tertiary education policy [CAB Min (10) 30/4A refers], \$0.303m in 2010/11 and \$0.500m from 2011/12 was returned to the Crown for use in non-departmental tertiary education funding
15. **agree** that this funding be put towards the tertiary education package for Budget 2011

Responding to demand for tertiary education

16. **agree** to increase SAC funding for new or high performing Private Training Establishments by \$5.25 million a year from 2012 onwards, which will purchase an estimated 750 additional Equivalent Full-Time Students per year, with a total cost (including student support) of \$37.2 million (operating) and \$18.6 million (capital) over four years

Targeted tuition subsidy increase for higher-level study

17. **agree** to either:

- 17.1 a 2 percent increase in the SAC-funded tuition subsidy for degree-level and postgraduate study from 2012 onwards, with the following changes to appropriations, and a corresponding impact on the operating balance:

Vote Tertiary Education Minister for Tertiary Education	\$m – increase/(decrease)				
	2010/11	2011/12	2012/13	2013/14	2014/15 & Outyears
Non-Departmental Output Expenses: Tertiary Education Student Achievement Component	-	13.410	26.820	26.820	26.820

and with the following proposed split across tertiary education subsectors in 2011/12 and outyears:

	\$million – increase(decrease)				
	2010/11	2011/12	2012/13	2013/14	2014/15 & Outyears
Universities					
<i>Student Achievement Component</i>	-	10.800	21.600	21.600	21.600
Institutes of Technology and Polytechnics					
<i>Student Achievement Component</i>	-	1.900	3.800	3.800	3.800
Wānanga					
<i>Student Achievement Component</i>	-	0.400	0.800	0.800	0.800
Private Training Establishments					
<i>Student Achievement Component</i>	-	0.310	0.620	0.620	0.620
Total Operating	-	13.410	26.820	26.820	26.820

Or

- 17.2 defer increases in the SAC-funded tuition subsidy for degree level and postgraduate study for consideration as part of Budget 2012 (Treasury recommended option)

Or

- 17.3 a 1 percent increase in the SAC-funded tuition subsidy for degree level and postgraduate study from 2012 onwards, with the following changes to appropriations, and a corresponding impact on the operating balance (and with a commensurate reduction in the proposed split across tertiary education subsectors in 2011/12 and outyears)

Vote Tertiary Education Minister for Tertiary Education	\$m – increase/(decrease)				
	2010/11	2011/12	2012/13	2013/14	2014/15 & Outyears
Non-Departmental Output Expenses: Tertiary Education Student Achievement Component	-	6.705	13.410	13.410	13.410

Equalising subsidy rates for post-graduate study

18. **agree** to equalise the SAC-funded subsidy for postgraduate study between universities and other subsectors from 2012 onwards, at a cost of \$1.6 million in 2011/12 and \$3.3 million in 2012/13 and outyears

English for Speakers of Other Languages (ESOL) for migrants and refugees

19. **agree** to fund up to 700 new ESOL places from 2012 as a stream within the existing Intensive Literacy and Numeracy fund to meet the needs of refugees and migrants with low levels of English, at a cost of \$3.4 million per annum
20. **agree** to cover the fees of 400 refugees a year studying at higher levels in mainstream tertiary education from 2012, at a cost of \$1.6 million per annum

Youth Guarantee

21. **agree** to provide more fees-free places for 16 and 17 year olds in tertiary education, and to simplify how Government funds this provision by merging the current Youth Guarantee and Youth Training programmes into a new combined programme
22. **note** that this proposal is fiscally neutral and, at current baselines, the provisional rates will purchase approximately 7,500 places in the new programme
23. **note** that provisional funding rates have been set, which incorporate pastoral care funding
24. **agree** that the Minister of Education and the Minister for Tertiary Education make final decisions about funding rates following communication with the sector
25. **note** that transport assistance will be provided as a separate rate for a capped number of learners allocated on a needs basis
26. **note** that the Minister of Education and the Minister for Tertiary Education will consider detailed policy on how needs-based transport funding will be allocated before it is incorporated into the Minister for Tertiary Education's funding determination for the programme
27. **agree** that the new programme be phased in through the 2012 academic year to give existing Youth Training providers time to adapt

28. **agree** that the Vote Tertiary Education costs associated with the Youth Guarantee - Trades Academies initiative - \$33.0 million over four years - be funded from Vote Education's Budget 2011 allocation

[2]

[2]

International education

33. **note** that Cabinet has previously agreed to increase the funding for international education promotions by \$10 million per annum, as part of the budget for the new Crown Agent for International Education, from \$3.45 million in 2010/11 to \$13.45 million in 2011/12 and outyears [CAB Min (10) 36/6 refers]

Additional medical student places

34. **note** that the Vote Tertiary Education package for Budget 2011 includes \$11.750 million over four years for the tuition subsidy costs of an additional 40 medical student places from 2012, funded from the Health allocation for Budget 2011

Annual Maximum Fee Movement for 2012

35. **agree** to maintain a four percent Annual Maximum Fee Movement for 2012, using the funding that was appropriated under Budget 2010

[2]

38. **note** that, as a result of the introduction of performance-linked funding for Industry Training Organisations and Student Achievement Component-funded providers from 2011, there will be residual funding of up to five percent of the Industry Training Fund and Student Achievement Component appropriations each year from 2012

39. **agree** either:

39.1 that the residual funding that will arise due to performance-linked funding remain within Vote Tertiary Education to assist with the management of cost and demand pressures within the Vote

Or

39.2 that the residual funding that will arise due to performance-linked funding should be returned to the centre, in-line with Cabinet's agreement on windfall gains (Treasury recommended option)

Or

39.3 to delegate authority to the Minister for Tertiary Education and the Minister of Finance to decide each year whether cost and demand pressures within Vote Tertiary Education warrant retention of residual funding that will arise due to performance-linked funding within the Vote

Or

39.4 to establish a contingency into which residual funding that will arise due to performance-linked funding will be allocated, with Cabinet deciding annually how residual funding will be allocated within Vote Tertiary Education

Proposals agreed to in the Cabinet paper "Christchurch Earthquake: Responding to Tertiary Education Issues"

40. **agree** that the \$2 million which Cabinet has agreed be allocated to fund costs associated with students deceased in the February 22 Christchurch earthquake be funded from within the savings of Vote Tertiary Education

Financial implications of the tertiary education package

41. **note** that financial recommendations for those initiatives where the Treasury has proposed alternative recommendations are included in this paper

[2]

43. **note** that the remaining financial recommendations for the tertiary education package for Budget 2011, including those for the student support package, will be included in the final Budget Cabinet paper.

44. **agree** that the proposed changes to appropriations and/or projected balances of net assets for 2010/11 above be included in the 2010/11 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply

45. **authorise** the Minister of Finance and the Vote Minister to approve jointly any technical adjustments to baselines necessary to remove any errors or inconsistencies identified while finalising the 2010/11 Supplementary Estimates, the 2011/12 Estimates and the fiscal forecasts

46. **authorise** the chief executives of departments that monitor Crown entities directly affected by decisions in this minute to inform the chair and/or 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
47. **note** that all communications relating to the 2011 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.

Hon Steven Joyce
Minister for Tertiary Education

_____/_____/_____