

# The Treasury

## Budget 2014 Information Release

### Release Document

### July 2014

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- [1] 6(a) - to prevent prejudice to the security or defence of New Zealand or the international relations of the government
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- [10] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice
- [11] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
- [12] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage
- [13] Not in scope
- [14] 6(e)(iv) - to damage seriously the economy of New Zealand by disclosing prematurely decisions to change or continue government economic or financial policies relating to the entering into of overseas trade agreements.

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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.

Reference: T2013/2052

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**THE TREASURY**

Kaitohutohu Kaupapa Rawa

Date: 6 August 2013

To: Minister of Finance (Hon Bill English)

Deadline: 6 August 2013

## **Aide Memoire: Information on Cost Pressures for Vote Tertiary Education**

This Aide Memoire provides you with some information on potential cost pressures in Vote Tertiary Education. We will continue to work on this and provide you with more information in the next few weeks.

There are four main areas where cost pressures may arise that we suggest you discuss with the Minister for Tertiary Education at your meeting on Tuesday 6 August 2013.

### ***Financial Performance of TEIs***

There is a relatively large number of providers that may have little capacity to cover cost pressures, including: academic and general staff wages; general inflation; increases in the price of specialist equipment; and insurance and building code costs. This poses a risk in terms of the funding that may be required to cover these costs for public Tertiary Education Institutions (TEIs). The TEC forecasts that the surplus of the Institutes of Technology and Polytechnic (ITP) will decline from 4.1% of total revenue in 2012 to 2.1% in 2013, due to funding decisions by the TEC.<sup>1</sup> Contrary to earlier expectations, the TEC now believes that no ITP is likely to make a loss in 2013.

With the exception of Lincoln University and the University of Canterbury, the financial performance of the university sector is not currently at risk and we do not have concerns over the viability of the other universities or Wānanga.

### ***Revenue pressures over long term***

The TEC is forecasting a decline in Effective Full Time Students (EFTS) from 250,526 EFTS provided in 2012 to 241,020 EFTS in 2017 (see Table 1 in Annex). At the same time, tuition funding, including the Student Achievement Component (SAC), Adult and Community Education and Training for Designated Groups, is forecast to increase from

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<sup>1</sup> These decisions come into effect during 2013 and shift some funding between subsectors in order to improve the value of overall tertiary education expenditure.

\$2.3 billion in 2013 to \$2.4 billion in 2017. The decline in EFTS is due to the following drivers:

- demographic change amongst the core tertiary age group, and
- economic recovery, which means that more people are entering and remaining in the workforce, rather than entering tertiary education.

The decline in EFTS provided may lead to increased financial pressure on TEIs and further rationalisation within the sector may be necessary, particularly for ITPs.

There are two options Ministers could consider to address these cost pressures:

- If Ministers wish to increase SAC funding, the Ministry of Education estimates that a 2% increase in SAC funding would cost \$40 million operating per annum.
- Alternatively, Ministers may choose to extend the Annual Maximum Fee Movement (AMFM) of TEIs at 4% beyond 2015/16. This would cost \$10 million in 2016/17 and \$20 million in 2017/18.<sup>2</sup> With inflation currently well below 4% this gives providers some flexibility to cover cost increases and would increase the private contribution to tertiary education relative to public funding.

### ***Welfare Reforms***

The Ministry of Social Development is still in the process of undertaking forecasts of demand for tertiary education deriving from the welfare reforms. The Ministry of Education believes that most demand will be for courses and qualifications at levels 1 to 4 where there appears to be adequate funding within baselines to provide for the additional uptake. (Note that this appears to be sensitive to the assumption that a large proportion of beneficiaries will enter the labour market instead of full-time tertiary education.)

### ***Capital Cost Pressures***

In November 2012, Cabinet agreed in-principle to provide support to the three Canterbury TEIs (University of Canterbury, Lincoln University and CPIT) subject to a satisfactory Project Business Case. This agreement did not include any dollar amounts. [11]

The TEIs are at various stages in the process of developing business cases. We are expecting Cabinet to consider the Project Business Cases for UC and the CPIT by the end of October 2013. Lincoln University is now on a longer timeframe and is expected to submit their Single Stage Business Case in September 2013, including an IQA on their options analysis.

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<sup>2</sup> Student Loans and Allowance impact.

We consider the CPIT's request for capital support to expand their trades training capacity to be low risk. They have developed a strong business case with a request for \$18.9 million in Crown capital funding which is lower than originally anticipated.

[10]

[10]

[8]

**Nic Blakeley**, Manager, Education & Skills, 04 917 6896

## Annex

**Table 1**

	Actual					Forecast				
(\$millions)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Tuition	2,172	2,287	2,398	2,354	2,306	2,329	2,433	2,421	2,421	2,423
Other tertiary funding	452	522	489	429	430	438	469	466	474	479
Student allowances	386	444	570	620	644	592	574	536	529	528
Student loans	256	1,311	1,008	588	415	760	647	664	680	703
Tertiary education expenses (total)	3,266	4,564	4,465	3,991	3,795	4,119	4,123	4,087	4,104	4,133
Source: The Treasury										
Number of places provided						244,516	241,366	240,946	241,001	241,020
Actual delivered places	229,224	246,041	250,440	240,618	250,526					
Source: Ministry of Education										

Tertiary places are the number of equivalent full time (EFT) student in: student achievement component; adult and community education; and youth guarantee programmes. Place numbers are based on calendar years rather than fiscal years.