

The Treasury

Budget 2014 Information Release

Release Document

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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.

Treasury Report: Briefing on SOC Paper on additional investment in Vote Tertiary Education in Budget 2014

Date:	10 December 2013	Report No:	T2013/3016
		File Number:	SH-4-6-0

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Bill English)	<p>note that Minister Joyce is submitting a paper to SOC on investing in Tertiary Education in Budget 2014</p> <p>note that the Tertiary Four Year Plan has still not been submitted to Central Agencies and it is important that the Budget process is followed</p> <p>indicate if you wish to discuss budget issues relating to Vote Tertiary Education with Treasury officials</p>	SOC meeting on Wednesday 11 December

Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
[8]			
Grace Campbell-Macdonald	Manager, Education and Skills	04 917 6958 (wk)	[3]

Actions for the Minister's Office Staff (if required)

Return the signed report to Treasury.

Enclosure: No

Treasury Report: Briefing on SOC Paper on additional investment in Vote Tertiary Education in Budget 2014

Executive Summary

Minister Joyce has submitted a paper for consideration by Ministers at SOC next Wednesday, 11 December 2013, on '*Budget 2014: Investing in tertiary education and research to drive growth*'.

The paper is seeking agreement from Ministers to consider additional investment in tertiary education in Budget 2014 (which could potentially be \$50 million to \$60 million per annum) to:

- support a stronger contribution of higher education and research to the Government's business growth goals
- support better performance and efficiencies in vocational education while maximising educational and workplace outcomes for individuals

Four areas of new initiatives are proposed:

- Boosting funding for teaching and learning (\$10 to \$15 million)
- Increases in research funding (\$15 to \$30 million per year)
- A more direct approach to purchase teaching and research through ICT programmes (\$5 to \$10 million)

[7]

We agree that further improvements could be made to lift tertiary sector performance, but are concerned that the general policy direction in the paper appears to be driven to a large extent by the international rankings.

As far as we can see there are no immediate cost pressures that require an increase in Vote Tertiary Education in Budget 2014. [7]

We expect that more work will need to be undertaken to support new budget initiatives in the Tertiary Four Year Plan which we have yet to receive.

Recommended Action

We recommend that you:

- a **note** that Minister Joyce is submitting a paper to SOC on investing in Tertiary Education in Budget 2014 on Wednesday 11 December
- b **note** that the Tertiary Four Year Plan has still not been submitted to Central Agencies
- c **indicate** if you wish to discuss budget issues relating to Vote Tertiary Education with Treasury officials

yes / no

Grace Campbell-Macdonald
Manager, Education and Skills

Hon Bill English
Minister of Finance

Treasury Report: Briefing on SOC Paper on additional investment in Vote Tertiary Education in Budget 2014

Purpose of Report

1. Minister Joyce has submitted a paper for consideration by Ministers at SOC Wednesday, 11 December 2013, on '*Budget 2014: Investing in tertiary education and research to drive growth*'.
2. This report provides advice on the proposals in the SOC Paper and outlines our initial views on the proposals.

Initiatives outlined in the Cabinet Paper

3. The paper is seeking agreement from Ministers to consider additional investment in tertiary education in Budget 2014 (which the Minister suggests could potentially be \$50 million to \$60 million per annum).
4. The areas discussed in the Cabinet paper which Minister Joyce may wish to pursue as part of Budget 2014 include:
 - Boosting funding for teaching and learning (\$10 to \$15 million)
 - Increases in research funding (\$15 to \$30 million per year)
 - A more direct approach to purchase teaching and research through ICT programmes (\$5 to \$10 million)

[7]

Is further investment in tertiary education needed?

Forecast demand for tertiary education remains steady over the next four years

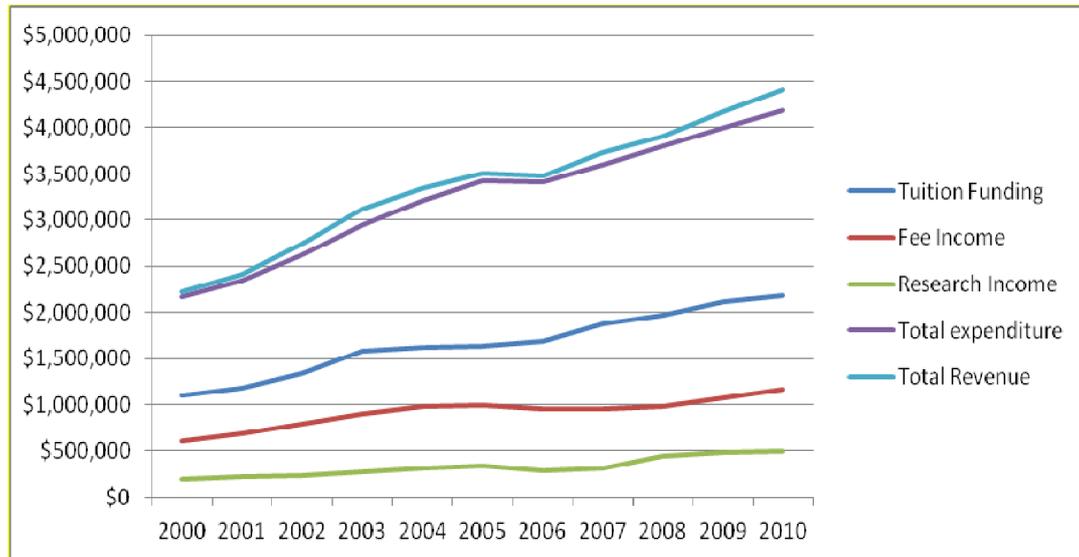
5. The tertiary system has no current fiscal pressures above existing baselines. There does not appear to be any imminent cost pressures affecting the volume or quality of provision that may require an increase in baseline funding.
6. Demand for tertiary education is regularly monitored by the Ministry of Education and the Tertiary Education Commission (TEC). Overall demand for tertiary education is forecast to remain well within the 5% upper tolerance band above baseline funded levels in the Tertiary Education Investment Plan.
7. Forecast demand at levels 3 and above peaks in 2014 at 2.8% above funded baseline levels, and drops to 1.9% above funded baseline levels by 2017 due to a drop in the core tertiary education age group.

The financial and educational performance of the tertiary education sector appears to be good

8. The latest data provided by the Ministry of Education on historical trends in revenue and expenditure show a steady increase in revenue from fees, government funding and

research income (see Figure One below). The increases in revenue have exceeded total expenditure.

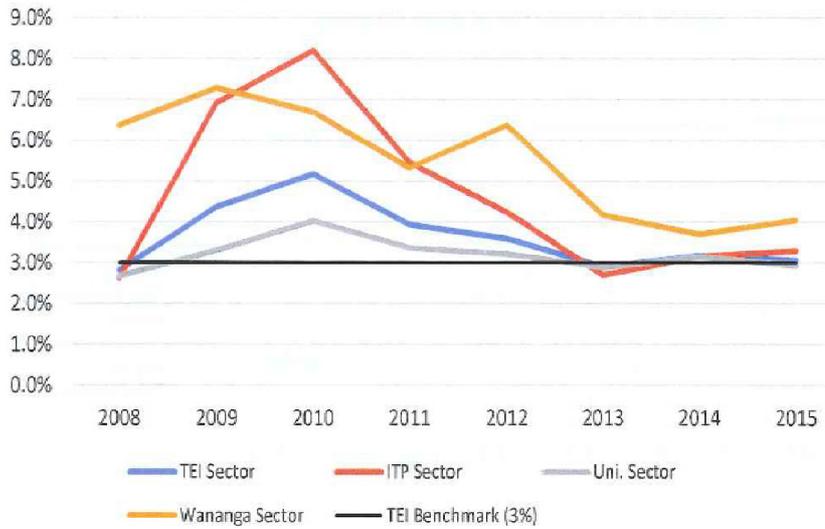
Figure One: Historical trends in TEI revenue and expenditure before unusual items



Source: Ministry of Education

9. Personnel costs make up around 60% of total TEI expenditure. The total personnel spend across the sector is forecast to remain fairly constant in 2013. We have asked for more information on the tertiary workforce to be provided in the Four Year Plan.
10. Research income (from all sources including the PBRF) is predominantly created in the University sector and represents around 99% of total reported research income in the TEI sector in 2012. The key players are: University of Auckland (41%), Otago University (19%) and Massey University (11%).
11. The TEC has also analysed the 2013 to 2015 financial forecasts provided by TEIs in May 2013. TEIs as a group are generally profitable with strong balance sheets.
12. The sector as a whole is forecasting a return on income of 3% which is the TEC's recommended level. Most TEIs are meeting this mark and forecast to continue doing so over 2013 to 2015. The forecasts provided by TEIs continue to project high growth in capital spend across the sector, funded through a mixture of debt, cash flow from operations and cash reserves.
13. Overall, the sector and various sub-sectors have managed to achieve the 3% TEC surplus benchmark each year since 2008 as highlighted in Figure Two. The ITP and University sub-sectors are forecasting a result just below the 3% target in 2013 before recovering in future years.

Figure Two: Trends in TEI net surplus before unusual items



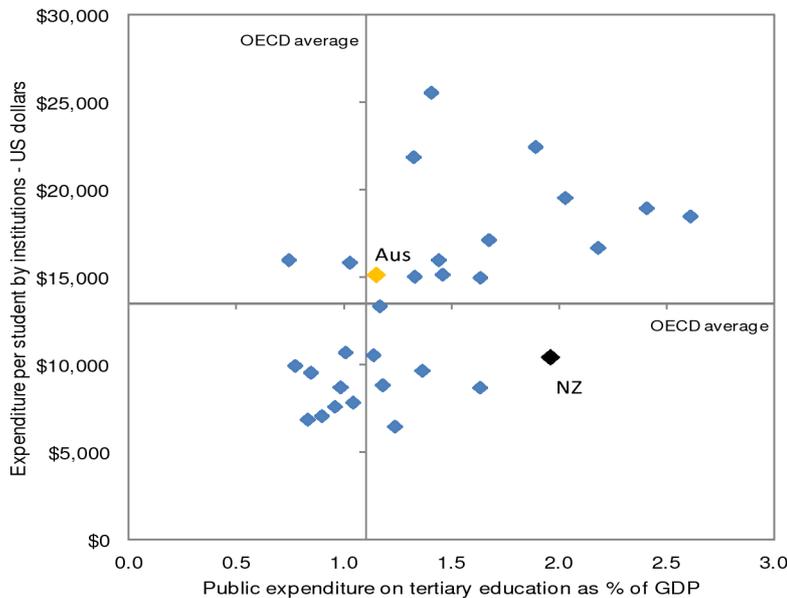
Source: Tertiary Education Commission

[4]

International ranking have reputational effects but should not drive policy and / or funding decisions...

- Our spending on tertiary education is above the OECD average. New Zealand's public spending on tertiary education constitutes 2% of our GDP, compared to the OECD average of 1.4%.¹

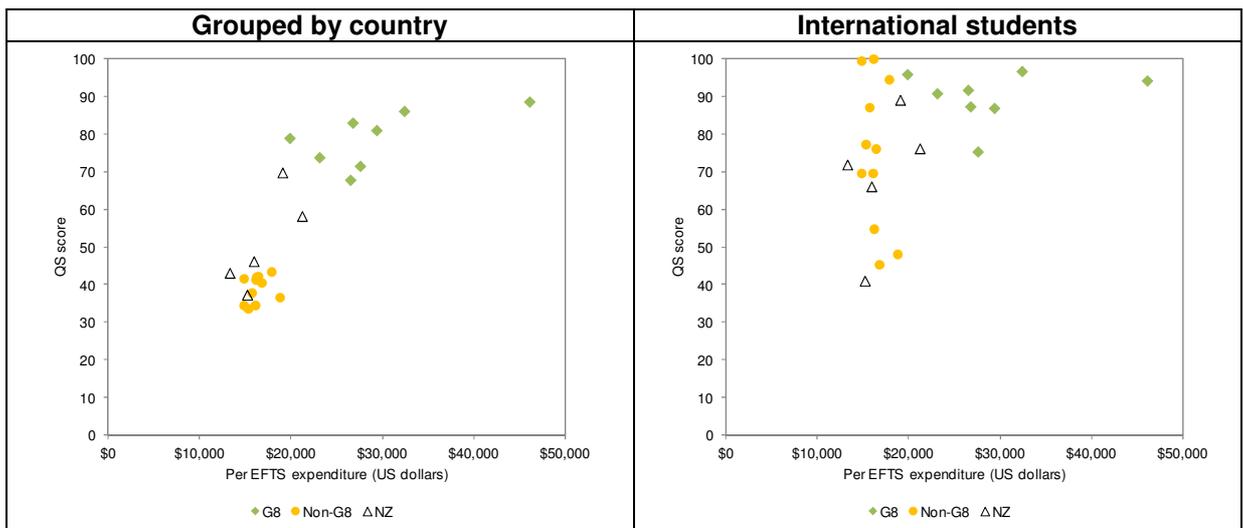
Figure Three: Public expenditure on tertiary education as a percentage of GDP and expenditure per student by institutions 2010



¹ OECD. (2013). Education at a Glance 2013. p. 218.

16. New Zealand's top ranked universities have recently declined in the QS World University rankings although all of New Zealand's universities were listed in the QS top 500 for the first time. In some cases, New Zealand universities have improved their scores but have seen their ranking decline because universities in other countries are improving faster.
17. Rankings may affect our international reputation and there is concern that this may influence international students' decisions about where to study. However, it is less clear how they affect our overall objectives and priorities for the tertiary education system (for example, improving tertiary qualification rates and equity of access across the population; links with industry; employment outcomes for learners; or its contribution to national economic, social and cultural development).
18. Ranking systems such as the QS World University Ranking show a positive relationship between overall scores of institutions and total per student funding. However, the evidence does not suggest that there is a direct relationship between per student expenditure and the international outlook scores by institutions, e.g. international students/total students (see Figure Four). This highlights that other factors influence international students' decisions about where to study.

Figure Four: Per EFTS expenditure vs QS overall score and international component score for Australasian universities



Source: Ministry of Education

19. The Government's ability to directly influence the components used to determine the rankings of New Zealand universities is limited (for instance, only 7.35% and 20% of the total weighting in the Times Higher Education and the QS World University Rankings respectively could potentially be influenced by Government funding). It is also likely that other countries may continue to invest even more and effectively outbid us (refer Annex Two for further information on the factors contributing to the rankings).
20. For these reasons, Treasury's view is that international rankings should be carefully monitored because they have reputational effects. However the rankings should not drive policy and/or funding decisions by the government which should be based on national priorities to achieve the outcomes government is seeking from the tertiary system (i.e. BPS targets and contribution to the Business Growth Agenda).
21. Based on current information relating to demand forecasts, cost pressures and financial performance, as well as international rankings we do not see a strong case for

additional investment in tertiary education in Budget 2014. However, we will be monitoring these factors to identify any areas where additional investment may be required in future budgets.

SOC proposals and Treasury's views

22. Treasury agrees that further improvements in the tertiary sector could be made to lift performance by improving the transfer of skills, knowledge and technology between the tertiary sector and firms, and increasing the quantity and quality of the research. However, there could be more cost-effective ways to achieve these outcomes. A summary of the initiatives is provided in the following table.

Table one – SOC proposals and initial Treasury view

SOC proposal	Description	Treasury's views
<i>Boosting funding for teaching and learning (low priority)</i>		
General increase in tuition subsidies through the SAC (\$27m)	An across the board increase to funding rates at degree level and above to focus investment on higher-end skills and on the institutions facing greatest pressure internationally.	The financial and educational performance forecasts do not indicate a need for an across the board increase to funding rates above existing baselines until at least 2015.
Increase tuition subsidies for STEM subjects (\$10m - \$15m)	A more targeted increase in tuition subsidies for STEM subjects or where the NZ Benchmarking Tool indicates institutions are relatively under-funded.	Targeted funding for Science and Engineering has been increased in Budgets 2012 and 2013. The sector has expressed concerns about the capability of additional students to meet the entry requirements for engineering programmes.
<i>Increases in Research Funding (high priority)</i>		
Increase funding for the PBRF (\$27m)	Increase the total pool of funding allocated under the PBRF and increase the external research component, while not lowering the funding available for the other components.	In Budget 2012, the Government increased the PBRF funding from \$250 million to \$300 million by 2016/17.
[7]		
Establish a new CoRE (\$5m-\$10m)	Investment in a new CoRE – the specific area has not been identified.	We suggest considering an increase of the weighting given to external research in the PBRF funding formula (e.g. from 15% to 20%). This would encourage technology and knowledge transfers while being fiscally neutral.

		<p>If Ministers are considering an increase in tertiary research funding, we suggest increasing the external research component in the PBRF and exploring a scheme that directly promotes technology and knowledge transfer from TEIs to industry while leveraging existing knowledge in the TEIs (refer T2013/2490). This mechanism could be funded from Vote Tertiary Education and/or Vote Science and Innovation.</p>
<p><i>A more direct approach to purchase teaching and research (low priority)</i></p>		
<p>Establish an ICT precinct (\$5m - \$10m)</p>	<p>Establish an ICT programme to be delivered in the Auckland and/or Christchurch innovation precincts to address skill shortages in the industry.</p>	<p>The SOC paper does not outline or discuss the nature of and mechanism of the proposed ICT programmes. Therefore, it is difficult to assess the value for money and effectiveness of this proposal. We have therefore given it a low priority.</p>
<p>[7]</p>		
<p>[7]</p>		

Next Steps

23. Minister Joyce has not yet submitted a Four Year Plan for Vote Tertiary Education which outlines the policy and funding direction for Vote Tertiary Education. The Four Year Plan is part of the budget process because it provides Ministers with the context for making their decisions.
24. We expect the Ministry of Education to provide Treasury with a first draft of the Four Year Plan before the end of the year and we will be in a position to provide you with further advice on any potential budget bids for tertiary education then.

Annex One

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) students in: student achievement component (SAC); adult and community education; and Youth Guarantee programmes. Place numbers are based on calendar years rather than fiscal years.

Annex Two

Factors contributing to the QS and THE rankings

It is important to note that rankings are not the same as quality measures. They use rough proxies for quality, i.e. number of students per academic staff, proportion of international students, and number of citations per academic staff.

What does the QS World University Rankings measure?	
Component	Weightings
A survey of academics	40%
A survey of employers	10%
The number of students per faculty member*	20%
The number of citations per faculty member	20%
The proportion of international faculty	5%
The proportion of international students	5%

**Note the shaded areas are influenced by Government funding*

What does the Times Higher Education World University Rankings measure?	
Broad component	Specific measures within component
Research (30%)	<ul style="list-style-type: none"> • Reputational survey of academics (18%) • Research income / academic staff (6%)* • Scholarly papers / academic and research staff (6%)
Citations (30%)	<ul style="list-style-type: none"> • Citation impact (normalised average citations per paper) (30%)
Industry income (2.5%)	<ul style="list-style-type: none"> • Research income from industry / academic staff (2.5%)
International outlook (7.5%)	<ul style="list-style-type: none"> • International academic staff / total academic staff (2.5%) • International students / total students (2.5%) • Scholarly papers with one or more international co-authors / total scholarly papers (2.5%)
Teaching (30%)	<ul style="list-style-type: none"> • Reputational survey of academics (15%) • PhD awarded / academic staff (6%) • Staff-to-student ratio (4.5%)* • Institutional income / academic staff (2.25%)* • PhDs awarded/undergraduate degrees awarded (2.25%)

**Note the shaded areas are influenced by Government funding*