

The Treasury

Budget 2014 Information Release

Release Document

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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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- [13] Not in scope
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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: Further advice on the Vote Tertiary Education Budget 2014 package

Date:	13 March 2014	Report No:	T2014/391
		File Number:	SH-4-6-0

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Bill English)	<p>Note that Treasury does not support an increase in investment in Vote Tertiary Education as part of Budget 2014 because there are no immediate funding pressures nor clear evidence of quality concerns</p> <p>Note that the Ministry of Education has indicated that the TEC may report underspends in Vote Tertiary Education for 2013/14</p> <p>Indicate if you wish to discuss the content of this report with Treasury officials</p>	Prior to Budget Ministers Meeting #2, on 24 March 2014.

Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
{8}			
Grace Campbell-Macdonald	Manager, Education and Skills	04 917 6958 (wk) 021 321 288 (mob)	

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

Return the signed report to Treasury.

Enclosure: No

Treasury Report: Further advice on the Vote Tertiary Education Budget 2014 package

Executive Summary

The Minister for Tertiary Education is proposing to increase investment in Vote Tertiary Education as part of Budget 2014. The spending initiatives he proposes include:

- a. increasing funding rates for agriculture, selected health sciences and science (indicative cost - \$22.5 million per year)
- b. purchasing additional Centres of Research Excellence (CoREs) (indicative cost - \$6.8 million per year, and \$8 million one-off start-up costs), and
- c. funding graduate programmes to meet information and communications technology industry needs (indicative cost - \$10 million per year).

Treasury does not support the spending initiatives. Our first best advice is not to increase investment in Vote Tertiary Education as part of Budget 2014. Financial and non-financial performance forecasts for the sector indicate no funding pressure for tertiary education institutions. Similarly, there are no immediate quality concerns or cost pressures relating to research produced by tertiary education providers.

Note that international university rankings are not a good indicator of the quality of research and teaching. The international rankings should be monitored but policy and funding decisions should support the outcomes the Government is seeking from the tertiary system (i.e. BPS targets and contribution to the Business Growth Agenda).

The Budget package for Vote Tertiary Education also includes savings initiatives in the student support schemes:

- a. suspend CPI adjustments to student loans repayments thresholds by a further one or more years

[7]

[7]

We support the student support savings initiatives, subject to the Ministry of Education, Ministry of Social Development, and IRD's capability to implement them.

The Ministry of Education has indicated that the TEC may report underspends in Vote Tertiary Education up to \$20 million for the fiscal year 2013/14.

If Ministers wish to increase investment in Vote Tertiary Education to improve research capability and provide more funding to research intensive institutions, we recommend considering increasing the amount in the Performance-Based Research Fund (PBRF).

Alternatively, we recommend that Ministers consider establishing a separate research fund which directly incentivises the transfer of skills and knowledge, and commercialisation of research. This would address the relatively low levels of collaboration between public research institutions and firms, and potentially increase the leverage of public investment in research activities.

Recommended Action

We recommend that you:

- a** **note** that Treasury does not support an increase in investment in Vote Tertiary Education as part of Budget 2014 because there are no immediate funding pressures nor clear evidence of quality concerns
- b** **note** that the Ministry of Education has indicated that the TEC may report underspends in Vote Tertiary Education up to \$20 million for the 2013/14 financial year
- c** **note** that if Ministers wish to invest in tertiary education as part of Budget 2014, we recommend considering increasing PBRF funding (preferred) or a separate funding mechanism to support technology and knowledge transfer
- d** **indicate** if you wish to discuss the content of this report with Treasury officials

Grace Campbell-Macdonald
Manager Education & Skills

Hon Bill English
Minister of Finance

Treasury Report: Further advice on the Vote Tertiary Education Budget 2014 package

Purpose of Report

1. The Minister for Tertiary Education is proposing to increase investment in Vote Tertiary Education as part of Budget 2014. The Social Policy Committee (SOC) considered a paper outlining the Vote Tertiary Education Budget package on 12 March 2014, subject to final decisions at Budget 2014.
2. This report provides you with a more detailed assessment and Treasury's views on the Budget initiatives in Vote Tertiary Education.

Background

3. The current spending initiatives in the budget package for Vote Tertiary Education as outlined in the SOC paper include:

Initiative (\$m)		2013/14	2014/15	2015/16	2016/17	2017/18 & Outyears
SAC funding increase for Agriculture, Science and selected Health Sciences	Opex	-	11.250	22.500	22.500	22.500
	Capex	-	-	-	-	-
Centre(s) of Research Excellence	Opex	-	3.420	6.830	6.830	6.830
	Capex	-	8.000	-	-	-
ICT graduate programme in an innovation precinct	Opex	-	5.000	10.000	10.000	10.000
	Capex	-	-	-	-	-
Total Spending	Opex	-	19.670	38.330	38.330	38.330
	Capex	-	8.000	-	-	-

4. The SOC paper also includes a number of student support changes which lead to savings in Vote Social Development:

Initiative (\$m – operating)	2013/14	2014/15	2015/16	2016/17	2017/18 & Outyears
Freezing the CPI adjustment to the Student Loans repayments thresholds until at least 1 st April 2016*	(24.500)	(6.200)	(6.200)	(5.800)	(5.000)
[7]					

* Savings would increase if repayment thresholds are not adjusted until 2017 [7]

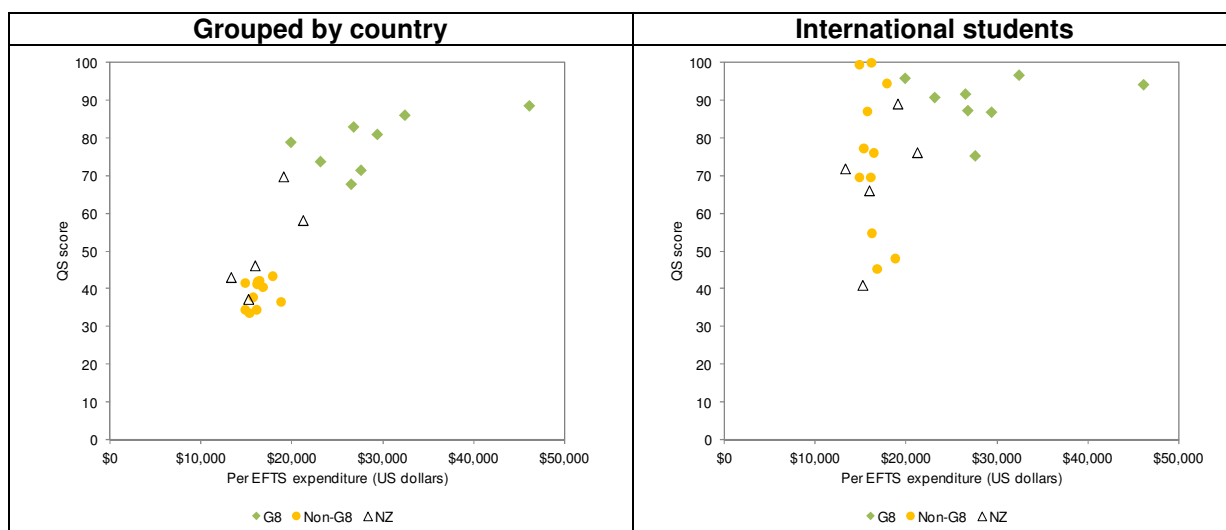
5. Treasury does not support the tertiary spending initiatives but does support the saving initiatives in the student support systems as part of Vote Social Development.

Are there cost pressures or quality concerns in the Tertiary system?

6. Treasury agrees that further improvements in the tertiary sector can be made to lift performance of providers and improve the quality of research produced by the tertiary education system. However, we believe this can be achieved by continuing to improve the effectiveness of the existing spend.
7. Our first best advice is not to increase investment in Vote Tertiary Education as part of Budget 2014. Financial and non-financial performance forecasts for the sector indicate no funding pressure for tertiary education institutions.
8. Similarly, there are no immediate quality concerns or cost pressures relating to research produced by the tertiary education providers.
9. New Zealand's top ranked universities have recently declined in the QS World University rankings although all eight New Zealand universities were listed in the QS top 500 for the first time. New Zealand universities have improved their scores in a number of areas, e.g. research citation component, but have seen their rankings decline because universities in other countries are improving faster.
10. Rankings are not a good indicator of the quality of research or teaching and they do not necessarily align with the Government's strategic objectives for our 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).
11. The latest world rankings by Times Higher Education on the internationalisation of higher education institutions demonstrate that New Zealand universities attract top international students and staff.¹ Five of New Zealand's eight universities appear in the top fifty places on this ranking.
12. This is supported by the Ministry of Education analysis of overall rankings which shows that there is no direct relationship between per student expenditure and the international outlook scores by institutions, e.g. international students/total students (see Figure One). This highlights that other factors also influence international students' decisions about where to study.

¹ Times Higher Education has compiled a list of the top international universities based on each university's international student numbers, its percentage of international staff and the proportion of its research papers published with a co-author from at least one other country.

Figure One: Per EFTS expenditure vs QS overall score and international component score for individual Australasian universities²



Source: Ministry of Education

13. 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).
14. 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).

Treasury's views on the Vote Tertiary Budget Package

15. In our view, the value for money of investing in the following initiatives has not been clearly established:

SAC funding increase for Agriculture, Science and selected Health Sciences

16. Investment in Science has been increased as part of Budgets 2012 and 2013. The Ministry of Education has highlighted that there is no current labour market shortage for people with science degrees. Also, evidence of skill shortages in the areas of Agriculture and Health Sciences has not been provided. Therefore, we do not see the need for additional investment in these areas.
17. In our view, there is a need to establish a framework for decisions on Student Achievement Component funding levels rather than considering decisions in isolation. Changes should be driven less by the costs for providers, and more by the value for New Zealand.

Centre(s) of Research Excellence

² Note that G8 is a group of the highest performing universities in Australia

18. The Minister for Tertiary Education proposes increasing funding research through Centres of Research Excellence (CoREs) as part of Vote Tertiary Education and through increased contestable funding which is an initiative to be considered as part of the Vote Science and Innovation package. CoREs provide research intensity and critical mass by consolidating high-performing researchers across different institutions.
19. The current selection process for the next investment round is to be finalised in the first half of 2014, with selection recommendations to be sent to the TEC by the Royal Society of New Zealand. Four of the existing CoREs have not been shortlisted for funding, thereby raising concerns about the quality of existing CoREs.
20. Cabinet increased funding for CoREs as part of Budget 2013 which allows the TEC to fund seven existing and one additional CoRE, subject to the quality of applications in the current selection round. Any additional CoRE would potentially be of lower quality in regard to research excellence and linkages to Government priorities, and therefore provide lower value for money.

ICT graduate programme in an innovation precinct

21. In our view, there are more cost effective ways for businesses to access ICT skills that do not necessarily require a precinct (e.g. internships and increased cooperation between universities and businesses). We suggest that Ministers invite the Tertiary Education Commission to get the tertiary education sector to address the concerns raised by agreeing to performance commitments with providers in the next Investment Plan round.

Alternative initiatives if additional investment in tertiary education is intended

22. If Ministers wish to increase investment in Vote Tertiary Education to improve research capability and provide more funding to research intensive institutions, we recommend considering increasing the amount in the Performance-Based Research Fund (PBRF).
23. Alternatively, we recommend that Ministers consider establishing a separate research fund which directly incentivises the transfer of skills and knowledge, and commercialisation of research. This would address the relatively low levels of collaboration between public research institutions and firms, and potentially increase the leverage of public investment in research activities.

Student Support savings initiatives

24. As at 12 March 2014, we understand that the Minister for Tertiary Education intends to include [7] student support saving initiatives in the Budget package for Vote Tertiary Education. Treasury supports [7] savings initiatives in the student support schemes.

Freezing the repayment threshold until at least 1 April 2016³ (Treasury supported)

25. Freezing the repayment threshold until at least 1 April 2016 will reduce repayment times for borrowers and future lending costs for the Crown. Broadening the base of those required to make repayments may also help strengthen incentives around borrowing decisions.
26. Based on early estimates, the Ministry of Education and IRD believe that freezing the threshold will have relatively small impacts on general borrowers (see table below).

³ Alternative options are 1 April 2017 [7]

The Ministry of Education will conduct a more detailed analysis of the impacts on borrowers, including target groups, and we will provide additional advice to you then.

Table One: Increase in repayments under the [7] options for those earning over \$19,080 per year

	Suspend repayment threshold until 1 April 2016		Suspend repayment threshold until 1 April 2017		[7]
	p.a.	weekly	p.a.	Weekly	
\$					
2015/16	43.68	0.84	43.68	0.84	
2016/17	43.68	0.84	106.08	2.04	
2017/18	49.92	0.96	112.32	2.16	

(Source: Ministry of Education)

[7]

Expected Underspends in Vote Tertiary Education

31. The Ministry of Education indicated to the Treasury that the TEC have identified up to \$20 million in underspends in the Vote Tertiary Education appropriations *Student Achievement Component* and *Training for Designated People* in 2013/14. We expect to receive more information from the TEC on final forecasts of underspends by the end of next week.

Next Steps

32. We understand that an updated version of the SOC paper on the Vote Tertiary Education Budget package will include more detail on the savings options and will be submitted to Cabinet on Monday 24 March 2014.
33. The Vote Tertiary Education Budget package will be finalised at the Budget Ministers meeting on Monday 24 March 2014.