

# 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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- [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.

## Budget 2014: Investing in tertiary education and research to drive growth

**Responsible Person:** Grace Campbell-Macdonald

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### Purpose

1. The Minister for Tertiary Education is seeking Cabinet's agreement to consider investing in additional funding in tertiary education in Budget 2014 to support a stronger contribution of higher education and research to the Government's business growth agenda and better support tertiary education providers to compete internationally.
2. In particular, the paper includes three investment initiatives which the Minister for Tertiary Education is seeking Cabinet's agreement on, subject to final decisions at Budget 2014:
  - a. increasing funding rates for fields of study that are relatively under-funded in the tertiary education system, such as agriculture and science, at an indicative cost of \$22.5 million per year
  - b. purchasing additional Centres of Research Excellence (CoREs), at an indicative cost of \$10 million per year, and \$4 million per year start-up costs per additional CoRE, and
  - c. funding graduate programmes to meet information and communications technology industry needs at an indicative cost of \$10 million per year.
3. The paper also seeks Cabinet's agreement, subject to final decisions at Budget 2014, to suspend CPI adjustments to student loans repayments thresholds by a further 1 or more years with indicative savings of \$5 million per year and a one-off advantageous change in value of \$50 million.

### Comment

4. Treasury agrees that further improvements in the tertiary sector can be made to lift performance of providers and improve the quality of research conducted by the tertiary education system.
5. However, we do not support the three initiatives in the paper. Our first best advice is not to increase investment in tertiary education as part of Budget 2014. Financial and non-financial performance forecasts of the sector indicate no funding pressure for tertiary education institutions.
6. Similarly, there are no immediate quality concerns or cost pressures relating to research produced by the tertiary system. New Zealand universities have fallen in international rankings, but the rankings are not necessarily a good indicator of the quality of research and they do not necessarily align with the Government's strategic objectives for our tertiary education system. The paper refers to the potential reputational impact of rankings on our universities' ability to attract international students and staff. However, analysis of the international rankings has shown that there is little association between per EFTS expenditure and universities' ability to attract international students and staff.

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

*SAC funding increase for Agriculture, Science and selected Health Sciences*

8. 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.

*Centre(s) of Research Excellence*

8. 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 could 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*

9. 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 address the concerns raised by industry around skills development by agreeing to performance commitments with providers in the next Investment Plan round.

*Alternative initiatives if additional investment in tertiary education is intended*

10. 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).
11. 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 Loan Scheme savings initiative*

12. Treasury supports the savings initiatives in the student loan scheme. Freezing the repayment threshold until at least 1 April 2016<sup>1</sup> 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.

**Treasury Recommendation**

13. **Note** that Treasury does not support an increase in investment in tertiary as part of Budget 2014 because there are no immediate funding pressures and evidence of quality concerns. We therefore recommend that you **do not support** the respective recommendations in this paper.

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<sup>1</sup> Alternative options are 1 April 2017 and 1 April 2018

14. We agree with the student loan savings option outlined in the paper. We recommend that you **support** the respective recommendation in this paper.

The following table goes into the Executive Summary of the paper

Title	Pg	Recommend	Fiscal Implications (\$m GST excl.)					Treasury Comment
			13/14	14/15	15/16	16/17	Out years	
Budget 2014: Investing in tertiary education and research to drive growth		Do not support investment initiatives and note Treasury's recommendation  Support student loan savings initiative	<i>Operating</i>					Additional investment in tertiary education as part of Budget 2014 is discretionary. Financial and non-financial performance forecasts of the sector indicate no funding pressure in tertiary education institutions.  Similarly, there are no immediate quality concerns or cost pressures relating to research produced by the tertiary system.  The value of the proposals outlined in the paper is unclear. If Ministers wish to consider additional investment, we recommend considering alternatives, e.g. increases in the PBRF funding.  Freezing the repayment threshold until at least 2016 will reduce repayment times for borrowers and future lending costs for the Crown.
			-	-	-	-	-	
			<i>Capital</i>					
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