

Tertiary Education Report: Budget 2009 – tertiary education

Executive Summary

This paper sets out reprioritisation options to meet the costs of providing an additional 200 medical student places, to meet the pre-commitments approved at Budget 2008 for the innovation allocation (along with the Ministry of Economic Development and the Ministry of Research, Science and Technology), and to provide initial advice to support the line by line review required as part of Budget 2009 for your consideration.

In Budget 2009, you will need to make some difficult choices to rebalance expenditure within the tertiary education system in order to meet the fiscal constraints set by the Minister of Finance. The two key options that we have developed for you are:

- Making a few large changes by removing the Consumers Price Index (CPI) adjustment for 2010 and 2011, along with reductions in scholarships programmes and changes to reduce compliance costs (through reducing TEC operating funding and removing funds with high compliance costs).

OR

- Making multiple smaller changes by advancing the above package but with a smaller saving from removing CPI for 2011 only, and making larger reductions in other areas, such as the TEO Component, Literacy, Language and Numeracy Programmes and Skill Enhancement. This package would also involve reductions in lower-priority spending areas: regulatory compliance qualifications, Adult and Community Education.

While these savings options have been selected to minimise disruption to frontline services, and to minimise compliance and administration costs, each of these does carry risks for the longer-term quality and sustainability of the tertiary system, particularly due to the scale of the reductions required, and is likely to elicit negative public comment. Some of the more targeted reductions may have serious implications for certain groups, students or providers, and all reductions will need to be managed carefully to maintain the government's over-arching priorities.

Removing the CPI adjustment in 2010 is a major area of risk. Over time, progressively reducing the real price per student will reduce the quality of the programmes offered, particularly in universities where the salary costs for high-quality teaching and research staff present significant cost pressures. Although some efficiency savings are possible, if the government removes CPI adjustments, it will at some stage have to consider a high-level choice between restricting student numbers and allowing tertiary providers to charge higher student fees.

On the other hand, making the reductions through more direct reductions of a larger number of specified programmes may have implications for government priorities and commitments. For example, you may need to make reductions to the funding for language, literacy and numeracy programmes, when raising workforce productivity is a priority in current circumstances.

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Following your decisions on this paper, the Budget template for 200 medical student places will be completed, we will supply material to the Ministry for Economic Development for a Cabinet paper on the pre-commitments for the innovation allocation, and we will include other savings and medium term work items in the line by line review of Vote Education. These will be provided for your consideration in time for them to be provided to the Minister of Finance by 5 February 2008.

Recommended Actions

It is recommended that the Minister for Tertiary Education:

- a. **Note** that the Minister of Finance has requested the following by 5 February:
 - i. Budget initiatives, including the template for 200 additional medical student places with offsetting savings.
 - ii. A Cabinet paper from the Ministry of Economic Development, developed with the Ministry of Education, Ministry of Research, Science and Technology, and the Treasury, on funding the unfunded elements of the innovation allocation from Budget 2008.
 - iii. A line by line review of Vote Education, including tertiary education funding.

- b. Indicate whether all of the elements of the proposed savings package should be provided to meet the costs of 200 additional medical student places and the unfunded allocation.

	2009/10	2010/11	2011/12	2012/13	4-year total	Agreed?
Savings required						
Innovation allocation Budget 2008	72.540	136.500	156.000	156.000	521.040	
200 additional medical places	1.170	3.927	8.008	13.782	26.887	
Total	73.710	140.427	164.008	169.782	547.927	
Options for savings						
Option 1: Remove CPI adjustment for 2010 and 2011	-33.259	-95.307	-123.052	-123.005	-374.623	YES/NO
Option 2: Remove CPI adjustment for 2011 only	-5.423	-33.847	-66.737	-66.709	-172.716	YES/NO
Remove Top Achiever Doctoral Scholarships	-2.500	-5.000	-7.500	-10.000	-25.000	YES/NO
Reduce Step Up and Bonded Merit Scholarships (excluding capital impact)	-7.505	-15.261	-23.244	-27.491	-73.502	YES/NO
Reduce TEC operating funding	-9.300	-7.375	-7.375	-7.375	-31.425	YES/NO
Remove small funds with high compliance and administration costs (supports TEC operating savings)	-3.841	-7.682	-7.682	-7.682	-26.887	YES/NO
Reduce TEOC - Encouraging and Supporting Innovation	-2.000	-4.000	-8.000	-8.000	-22.000	YES/NO
Total (Option 1)	-58.405	-134.625	-176.853	-183.553	-553.437	
Total (Option 2)	-30.569	-73.165	-120.538	-127.257	-351.530	

- c. Indicate whether you would like further savings options to be developed, either to replace elements of the package above (in particular if option 2 for the CPI adjustment is selected), or to provide further savings as part of the line-by-line review.

	2009/10	2010/11	2011/12	2012/13 & outyears	Four-year total	Agreed?
Alternative savings options						
Remove Student Achievement Component funding for regulatory compliance qualifications		-5.000	-10.000	-10.000	-25.000	YES/NO
Remove Skill Enhancement	-2.150	-4.300	-4.300	-4.300	-15.050	YES/NO
Reduce TEOC: ITO strategic leadership fund		-1.750	-3.500	-3.500	-8.750	YES/NO

*need to consult colleagues.
or reductions possible?*

	2009/10	2010/11	2011/12	2012/13 & outyears	Four- year total	Agreed?
Reduce TEOC: Priorities for Focus		-2.500	-5.000	-5.000	-12.500	(YES/NO)
Reduce funding for universities tripartite agreement		-11.000	-22.000	-22.000	-55.000	(YES/NO)
Reduce Adult and Community Education Funding for Tertiary Education Institutions		-3.000	-6.000	-6.000	-15.000	(YES/NO)
Reduce Literacy, Language and Numeracy Package	-14.200	-22.700	-28.700	-28.700	-94.300	(YES/NO)
Total	-16.350	-47.750	-77.000	-79.500	-225.600	

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- d. **Note** that all of these options (or new savings options) would be required if option two is selected for CPI adjustments.
- e. **Note** that these figures are indicative, and will be confirmed via the Budget process.

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- g. **Note** that the package of savings recommended by officials has been selected to minimise the impact upon frontline services and reduce compliance and administration costs, but that each saving proposed carries policy and public interest risks to the government, which are set out in the body of the paper.
- h. **Note** that removal of CPI adjustments carries a risk to the quality of tertiary education in the medium term, and that it is likely to elicit a public reaction, led by university vice-chancellors.
- i. **Note** that the proposed reduction in small funds with high compliance and administration costs is likely to lead to a public reaction, albeit from small numbers of directly affected people.
- j. **Note** that some proposals, particularly reductions in regulatory compliance qualifications and Adult and Community Education at tertiary institutions, carry a risk of financial failure at some public tertiary institutions

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Chief Executive
Tertiary Education Commission

NOTED / APPROVED



Hon Anne Tolley
Minister for Tertiary Education

____/____/____

Tertiary Education Report: Budget 2009 – tertiary education

Purpose of Report

1. This briefing provides advice on savings options for Budget 2009, in preparation for the provision of advice to the Minister of Finance by 5 February.

Background

Line-by-line review

2. The government has asked all government departments to undertake a line-by-line review of their departmental spending in the lead-up to Budget 2009. All departments are asked to identify:
 - a. Programmes that are inconsistent with the government's priorities, and that should be discontinued;
 - b. Programmes that may be inconsistent with the government's priorities, and that should be looked into;
 - c. Programmes and expenditure that are not efficient or effective; or
 - d. Areas where performance information is insufficient to make a judgement about efficiency or effectiveness.
3. Appendix One summarises the initial findings of the line-by-line review for tertiary education spending.
4. This paper uses the key conclusions from that review to suggest possible areas for savings in tertiary spending. These savings are needed not only to support the line-by-line review but also in order to fund two areas of increased spending in the absence of new appropriations:
 - a. A Manifesto commitment to provide 200 additional medical student places; and
 - b. Unfunded elements of an allocation of "innovation" spending established at Budget 2008.
5. We seek your approval of a package of savings, and also seek your direction on related areas of work in the medium term.

Other Budget 2009 work

6. You are being briefed separately on several other tertiary education Budget matters:
 - a. We are preparing initiative templates for two other Manifesto commitments: a 10% write-off for voluntary student loans repayments, and the introduction of the Youth Guarantee;

- b. We are working with the Ministry of Research, Science and Technology on the allocation of funding from the removal of the Research and Development Tax Credit.
- c. We are preparing advice on the implications of removing contingency funding for the Tertiary Education Capital Investment Fund, and for fee reimbursement for provider failure, and whether the three specific fiscal risks for tertiary education that were identified in the Pre-Election Fiscal Update (PREFU) should continue to be considered.
- d. The Tertiary Education Commission is providing advice on the proposed reductions to its operating funding and staffing.

Current funding policy

- 7. The key choices that face government in tertiary education funding relate to decisions on;
 - a. participation rates (volume);
 - b. levels of government funding (price);
 - c. levels of private contribution from students, their families and employers (fees); and
 - d. student support (loans and allowances).
- 8. The balance of policy choices made across all of these areas influences the level of funding that Tertiary Education Organisations (TEOs) receive and the amount of funding that the government provides.
- 9. Government funding flows to TEOs in two ways – indirectly, through student loans and other scholarships, and directly, as a subsidy to meet the costs of providing educational services.

Indirect subsidies

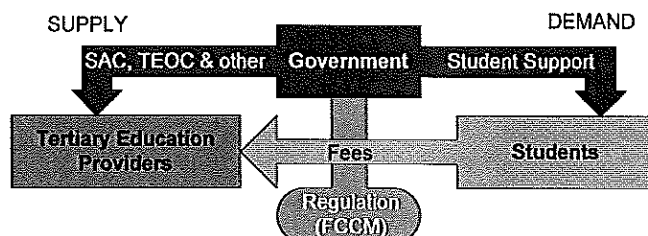
- 10. Indirect subsidies, in the form of student support, cover funding for student loans, allowances, and scholarships. They account for just under a quarter of all government funding for tertiary education.
- 11. Funding decisions to pay for policy changes to the student support system are made as the need arises, typically as part of the Budget process. Changes in uptake are automatically incorporated into baselines via forecasting.

Direct subsidies

- 12. Direct subsidies support general teaching, learning and research. More than three-quarters of all direct subsidies are paid through the general bulk grant to TEOs, which is divided into the Student Achievement Component and the TEO Component.
- 13. The government sets the levels of direct subsidy on an annual basis through the Estimates, and the Tertiary Education Commission (the TEC) then allocates

funding in accordance with policy set by the Minister via agreed Plans. The government also regulates the level of fees and course costs that providers can charge domestic students through the Fee and Course Costs Maxima policy.

Table One: Government funding for tertiary education



14. The TEC manages direct funding within a three-year Plan cycle (2008 to 2010 at present). This cycle was introduced from 1 January 2008 to create greater stability and certainty of funding for the Crown and for TEOs. As a consequence, the Crown has contractual arrangements with TEOs to 2010 that constrain its ability to make changes to funding allocations that are detailed in Plans.
15. Funding rates for 2010 and beyond have not been explicitly set within Plans, as they were to be adjusted to reflect updated Consumer Price Index (CPI) forecasts. These rates present the best opportunity for the Crown to lower its fiscal commitments without facing legal risks from renegeing on existing Plan commitments.
16. Any reduction in volume or other funding covered by existing Plans would be more legally risky and reductions could be applied from 2011 with less risk.
17. Further information about these matters is set out in *Tertiary Education Funding System* (8 December, B/08/1457 refers).

Fiscal pressures to be met within current baselines

18. This section discusses two fiscal pressures that must be met within existing baselines.

200 additional medical student places

19. The Manifesto includes a commitment to boost the number of funded medical student places by 200 per year, phased in over five years.
20. The Manifesto commitment indicates that 60 new places will be funded in 2010, an additional 20 in 2011, and an additional 40 in each of the following three years. Costings have been completed on that basis.
21. These places will be funded directly through the Student Achievement Component and TEO Component as additional places at the medical schools at Auckland University and Otago University. Indirect costs will arise from uptake of student loans and allowances by those new students, and increased uptake of the Trainee Medical Intern Grant in out-years.

22. We understand that the government's commitment is for the additional medical student places are to be funded from within the education allocation. The required operating savings are included in the figures provided in the following section. You have indicated you will speak further with the Minister of Health on whether this ought to be funded from Vote Health.
23. The Ministry of Health has confirmed that it will meet the additional costs incurred by the Clinical Training Authority, which will not arise until 2016 (the sixth year of education for people starting in 2010).
24. There is also a question to consider the additional investment that the universities may need for infrastructure requirements to accommodate the additional students. Although they are considering these and have indicated that up-front investment will be required, they have not yet provided costed proposals for capital investment and may not do so in time for Budget 2009.

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Unfunded elements of the Budget 2008 Innovation Allocation

26. Budget 2008 allocated funding of \$1.156 billion over four years to "innovation" funding for tertiary education (78 percent), economic development, and research, science and technology.
27. Part of the cost of this allocation was to be met from future Budgets. The table below summarises the funding that must be found.

Unfunded allocation and tertiary education share (\$ million, GST exclusive)

	2009/10	2010/11	2011/12	2012/13
Unfunded amount in the innovation allocation	93	175	200	200
Tertiary education share (78%)	73	137	156	156

28. In the absence of new appropriations, funds need to be found from within existing baselines to cover the allocation. Since tertiary education received 78% of the funding, we suggest that we should meet 78% of the unfunded allocation.
29. The Ministry of Economic Development is working with the Ministry of Education, the Ministry of Research, Science and Technology, and the Treasury, on a Cabinet paper on these savings.

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Savings options for Budget 2009

31. Appendix Two lists tertiary education initiatives from Budget 2008. The main spending areas for tertiary education were:
- a. \$587 million over four years for Student Achievement Component and TEO Component funding, in order to:
 - i. Adjust funding for CPI growth in 2009, 2010, and 2011;
 - ii. Purchase additional student places;
 - iii. Meet cost pressures in universities;
 - iv. Fund Industry Training Organisation strategic leadership; and
 - v. Increase the TEO Component to keep it in proportion to the Student Achievement Component;
 - b. \$168 million over four years for literacy, language and numeracy programmes;
 - c. \$131 million over four years for student support changes, to increase the student loan living cost component, increase eligibility for student allowances by adjusting the parental income testing threshold, and expand the Bonded Merit Scholarship Scheme; and
 - d. \$30 million over four years for operating funding for the TEC, to maintain and enhance TEC's leadership capability.
32. This section sets out a list of savings options based upon the principles for the line-by-line review, and focussing in particular upon the funding provided in Budget 2008.

Removing the CPI adjustments for 2009, 2010, and 2011

33. The largest area of spending at Budget 2008 was to adjust several funds for CPI inflation in 2009, 2010, and 2011: the Student Achievement Component, the TEO Component, Industry Training Fund and Adult and Community Education. These adjustments were spread across three different Bids and cost around 45% of the total tertiary education Budget package.
34. There are two options for generating savings from this area of spending. The first is to remove the CPI adjustments for 2010 and 2011, keeping funding at 2009 levels. This would require the TEC to amend its approval of current Plans for 2010. This would release a significant amount of money, paying for around two-thirds of the amount of savings required for the additional medical student places and the unfunded allocation.
35. The second option would be to remove CPI adjustments from 2011 only. This would mean the indicative funding for Plans would remain in place until Plans expire at the end of 2010. This would release a smaller but still substantial

amount of money, paying for around one-third of the savings required. All other savings options presented in this paper would be required to make up the other two-thirds.

Implications for Student Achievement Component

36. There is a core trade-off within tertiary education between quality, student numbers and costs. Since the introduction of the Fee and Course Cost Maxima policy, this has largely been managed through annual CPI to government subsidies, which has broadly allowed providers to respond to cost pressures.
37. If CPI adjustments are to be removed, and tertiary education providers are unable to generate efficiency gains, the government will have to consider how to manage the trade-off, with the major options being limiting student numbers, allowing greater flexibility in setting student fees or accepting some erosion in quality.
38. Removing CPI adjustments will elicit a public reaction, likely to be led by university vice-chancellors. In their Briefing to the Incoming Minister, the universities set out their case for significant increases in funding, including continuing with cost adjustments, but at 1.6 times the rate of CPI. By contrast, removing the adjustment would represent a reduction in real terms, and a reduction relative to the funding they currently expect to receive in 2010 and 2011.
39. Notwithstanding the likely reaction of the sector, it is important to note that there have been substantial funding increases in the past decade, and in light of the current fiscal situation, it seems reasonable to expect some efficiency gains to be achieved within the largest areas of the tertiary sector.
40. Removing CPI adjustments only from 2011 would be less controversial, and would allow time to consider the government's long-term approach to cost-effectiveness in the tertiary sector. However, it would require that many smaller areas of savings were found just to pay for the 200 new medical places and unfunded innovation allocation. It would also make it unlikely that any extra savings could be found from within the tertiary education budget for reprioritisation within Vote Education or elsewhere.

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Performance Based Research Fund

42. CPI adjustments were also made to the Performance Based Research Fund, as part of the unfunded Budget 2008 allocation, which we also propose you consider

reducing to meet current pressures. The Ministry of Education and MoRST have provided advice to you and the Minister for Research, Science and Technology on the options for allocating funding made available from discontinuing the R & D Tax Credit.

43. There are a number of options proposed for your consideration, which could be used to increase the PBRF. However, only the first and second of those options would fulfil the government's manifesto commitment to increase the PBRF, in the event that you remove CPI adjustments from the PBRF.
44. *Industry Training Fund and Adult and Community Education*
45. CPI adjustments for the Industry Training Fund and the Adult and Community Education sector were introduced for the first time at Budget 2008. These sectors do not face any constraints on the fees they can charge and there is less clarity as to whether they face sustained cost pressures, and we recommend reversing the decision to adjust these funds. This would return funding rates for these sectors to 2008 levels (down from a higher rate in 2009). This approach has been assumed in the figures discussed below.

Savings

46. The table below summarises the financial implications of the two options.

Table: Savings from removing CPI indexation (\$ million, GST exclusive)

	2009/10	2010/11	2011/12	2012/13
Option 1: Remove CPI indexation for 2010 and 2011:				
Student Achievement Component	19.670	58.577	77.196	77.160
TEOC	5.172	14.665	18.583	18.572
TEOC Research (PBRF)	2.994	8.864	11.573	11.573
Option 2: Remove CPI indexation for 2011 only:				
Student Achievement Component	-	18.769	37.466	37.448
TEOC	-	4.699	9.019	9.014
TEOC Research (PBRF)	-	2.840	5.617	5.617
Both: Remove CPI indexation for 2009, 2010 and 2011:				
Industry Training	4.580	11.252	13.386	13.386
Adult and Community Education	0.844	1.949	2.315	2.315
Option 1 total	33.259	95.307	123.052	123.005
Option 2 total	5.423	33.847	66.737	66.709

Further savings options for Budget 2009

47. In order to identify options for further savings, we assessed the contribution of current programmes to Government priorities, and focused on reducing unfunded elements of the 2008 innovation allocation. This work was complementary to the line-by-line review described in Appendix One.
48. The table below summarises savings options we have identified, including our assessment of whether the programme:
- is considered to be inconsistent with government priorities, and should be discontinued;
 - is not considered to be efficient or effective expenditure; or

- c. may be considered to be inconsistent with government priorities and should be reviewed.
49. There are several packages of savings that can be constructed from these options. The main ones are:
- Package A: Make a few large changes by removing CPI for 2010 and 2011, along with reductions in scholarships programmes and changes to reduce compliance costs (through reducing TEC operating funding and removing funds with high compliance costs).
- This option would largely preserve existing levels of student access to subsidised places, but would significantly erode quality in the medium term, and presents the most significant risks of damaging relationships with the tertiary sector.
- Package B: Make multiple smaller changes by advancing the above package but with a smaller saving from removing CPI for 2011 only, and making larger reductions in other areas, such as the TEO Component, Literacy, Language and Numeracy Programmes and Skill Enhancement. This package would also involve reductions in lower-priority spending areas: regulatory compliance qualifications, Adult and Community Education.
- This option introduces some restrictions on student access (albeit in lower-priority areas) and is likely to have some significant impacts on quality and financial viability at some tertiary institutions. However, it has a lesser impact on quality generally and on relationships with the tertiary sector.
- The implications of this package are less definite at this stage, and further work will be required to confirm costs and to consult with other agencies and stakeholders to manage these funding reductions as carefully as possible.
- Package C: Use Package A to meet the obligations for the unfunded innovation allocation and the 200 medical places, and pursue the additional options described in Package B as part of the line-by-line review.
50. Package C would involve reductions in funding of more than \$250 million per year by 2011/12, or around 7% of total tertiary education funding. Whilst each individual saving has merit, the total impact of this upon the sector could be disruptive. If you wish to explore further reforms (for example to streamline funding), it may be better to take minimal savings at this point, and retain your options to further reprioritise or reduce funding at Budget 2010.
51. Once you have indicated which savings you wish to proceed with, we will include the necessary level of savings in the initiative template we are preparing for the "200 new medical places" bid. It makes no technical difference which savings are identified, but we suggest offsetting this bid with funding secured by reducing the number of small funds with high compliance and administration costs

Table: Savings options

Package A: Remove CPI adjustments for 2010 and 2011, and:

	Purpose of fund	Reason for savings	2009/10	2010/11	2011/12	2012/13 & outyears	Four-year total
Remove Top Achiever Doctoral Scholarships	Supports high achieving PhD students.	Significant deadweight cost and high administration costs	-2.500	-5.000	-7.500	-10.000	-25.000
Remove Step Up and Bonded Merit Scholarships	Step Up helps with fees for young Student Allowance recipients in their first degree; Bonded Merit pays fees for high achieving students in the second year of their degree.	Significant deadweight cost and high administration costs	-7.505	-15.261	-23.244	-27.491	-73.502
Reduce TEC operating funding	Leadership of tertiary reforms	Inconsistent with government priorities	-9.300	-7.375	-7.375	-7.375	-31.425
Remove small funds with high compliance administration costs (supports TEC operating savings)	Multiple; includes research capability, various training and support arrangements for migrants, some training for underrepresented groups, adult and community education	High administration costs relative to outcomes	-3.841	-7.682	-7.682	-7.682	-26.887
Reduce TEOC - Encouraging and Supporting Innovation	Innovation projects.	Inconsistent with government priorities: does not cause a reduction in frontline services	-2.000	-4.000	-8.000	-8.000	-22.000

Package B: Remove CPI adjustments for 2011 only, adopt other options for Package A, as well as:

	Purpose of fund	Reason for savings	2009/10	2010/11	2011/12	2012/13 & outyears	Four-year total
Remove Student Achievement Component funding for regulatory compliance qualifications	Short qualifications required as a result of regulations e.g. health and safety.	Inconsistent with government's education priorities (although may be consistent with other Ministers' priorities)		-5.000	-10.000	-10.000	-25.000

Remove Skill Enhancement	Fee free training to help young Māori and Pasifika students progress to qualifications at level 3 or above.	Objectives could potentially be met via mainstream programmes,	-2.150	-4.300	-4.300	-4.300	-15.050
Reduce TEOC - ITO strategic leadership fund	ITO strategic planning and standard setting.	Inconsistent with government priorities: does not cause a reduction in frontline services	-1.750	-3.500	-3.500	-3.500	-8.750
Reduce TEOC - Priorities for Focus	Funds strategic priorities in universities	Inconsistent with government priorities: does not cause a reduction in frontline services	-2.500	-5.000	-5.000	-5.000	-12.500
Reduce TEOC funding for universities tripartite agreement	Salary pressures in universities.	Inconsistent with government priorities: outcomes may be achieved through other means	-11.000	-22.000	-22.000	-22.000	-55.000
Reduce Adult and Community Education Funding for Tertiary Education Institutions	Short, informal courses in universities and Institutes of Technology and Polytechnics.	Not efficient or effective: there is scope for reducing investment in this area, without affecting outcomes	-3.000	-6.000	-6.000	-6.000	-15.000
Reduce Literacy, Language and Numeracy Package	Literacy, language and numeracy programmes in work, community and provider settings, and capability building to support those programmes.	Scope for considering the current level of investment in this area, given increases made through Budget 2008.	-14.200	-28.700	-28.700	-28.700	-94.300
Total			-16.350	-50.250	-79.500	-79.500	-225.600

Summary of options

	2009/10	2010/11	2011/12	2012/13 & outyears	Four-year total
Savings required	73.710	140.427	164.008	169.782	547.927
Package A (fewer, larger savings)	-58.065	-133.884	-175.738	-181.645	-549.332
Package B (more, smaller savings)	-46.579	-122.674	-198.923	-204.849	-568.025
Package C (all savings options)	-74.415	-184.134	-255.238	-261.145	-769.932

Implications of savings options for Budget 2009

52. All of the savings options presented have trade-offs to some degree. Those associated with removal of CPI adjustments are presented earlier in this paper. This section now focuses on the major trade-offs associated with other savings. As noted above, all options will have implications for the system more broadly, or more directly for certain groups or providers. These changes will need to be managed carefully to minimise the negative effects.

Removing small funds with relatively high compliance and administration costs

53. This option would see the removal of funding for up to twelve small funds of under \$2m each, which are generally characterised by high compliance and administration costs (relative to the value of the grant), or which seek to achieve objectives that could be met by other parts of tertiary or other government funding.
54. Given that they also involve high administrative costs for the TEC, this saving is integral to reductions in TEC operating funding.
55. In general (but not exclusively) the funds are focussed on access for specific minority groups, education or other support for migrants, or specific forms of adult and community education. Some of them do not directly fund educational programmes, and both outcomes and utilisation of the funds varies significantly. Any reduction of services will need to be managed carefully, and in consultation with relevant agencies, to ensure government priorities are met.
56. Each fund is for a closely defined and specific purpose, and is generally paid to a small number of organisations, or in some cases individuals. Removal of the funds does represent a service reduction and is likely to elicit a strong response from those people directly affected by them.
57. A list of the funds is provided as part of Appendix One. Further advice on their purpose and impact is available from the TEC should you require it.

Regulatory compliance qualifications

58. This option deals with very short packages of learning that individuals require in order to comply with health and safety regulation, rather than offering a full qualification with a wider educational value.
59. While some further analysis is required to identify the distribution and value of such qualifications, in the past most of them have been offered by a small number of polytechnics, and a significant reduction in funding is likely to mean that they would struggle to remain financially viable, at least in the short term.

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Skill Enhancement

61. Skill Enhancement has been regularly underspent in the past and progressively reduced over time and is therefore not achieving the objectives initially set for it. This programme provides vocational training targeted at Maori and Pacific people. If this programme is disestablished we will do further work to ensure that the objectives of the programme for this target group are achieved.
62. In the context of the likely labour market downturn, it may be difficult for the government to be seen to be reducing this source of funding at this time. In addition, there may be some communications risks, given the programme's historic links to the Māori Trade Training programme.

Universities tripartite agreement

63. Approximately \$66m per year has been provided by the government to support tripartite agreements between unions, Ministers and the universities on the cost of recruiting and retaining academic staff. Much of this is applied as a loading on post-graduate funding rates, but an adjustment fund is retained that redistributes some funding so that those universities with lower post-graduate enrolments remain able to pay for salary increases.
64. In the medium term, this approach is likely to lead to rigidities in the university system, and as it is complex (although not particularly expensive) to administer, it is inconsistent with the government's wish to streamline and simplify the tertiary funding system.
65. Removing this funding will affect some universities more strongly than others, and reduce their ability to recruit and retain internationally competitive staff. It is also likely to lead to a negative response from vice-chancellors and staff unions.

[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]

Adult and Community Education at TEIs

67. The principal risk involved in reducing this funding is that many tertiary institutions, particularly polytechnics, use revenue from these programmes to cross-subsidise other activities. Therefore, there is a degree of risk that the government, which carries an ownership interest in these institutions, will need to intervene in order to prevent financial failure.
68. Such interventions are costly and often lead to protracted difficulties in securing a viable future for the institutions concerned.

Reduce funding for literacy, language and numeracy

69. Reducing funding for literacy, language and numeracy would be managed carefully to preserve a coherent package of interventions that would retain the focus on ensuring the quality of provision, and embedding literacy and numeracy within current provision. There is a risk to reducing this funding, given investing

in the workforce to raise productivity is a key way for New Zealand to move out of the current economic conditions.

Value for money reviews: Medium term options

[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]

Contingency funding: Capital investment fund

91. In addition to seeking savings through Budget 2009, tertiary education contingencies have been withdrawn. One contingency was for the Tertiary Education Institution Capital Investment Fund.
92. On establishment, the contingency was set at \$112.021 million. However, some appropriations have subsequently been made against it, and the remaining funding to be returned to the centre is \$87.889 million.
93. The risk associated with this decision is that it removes the contingency funding to be used in the event of financial failure of a tertiary education institution. A number of such interventions have been required over the years, particularly at times of rapid and significant change in the policy context.
94. Given the scale of changes that you are considering as part of Budget 2009, there is an enhanced risk of financial failure of tertiary education institutions, generally polytechnics but, depending on the scale and nature of the savings chosen, potentially also universities and wananga.
95. In general, the government has few choices in the event of financial failure, and almost all those choices involve at least a short-term capital injection. This is a

risk carried by the Crown, and therefore withdrawal of the Capital Investment Fund, combined with the savings package that you are considering, increases the scale of the Specific Fiscal Risk to be noted in the next Economic and Fiscal Update.

[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]

Conclusion

97. This paper presents a range of options to improve the alignment of tertiary education funding with government priorities, and to provide savings to support other government objectives. Your decisions on these options will be determined by the pace of change you wish to achieve and the level of risk that you are comfortable with.

Appendix One: Details of tertiary funding areas

98. You are required to undertake a line-by-line review of tertiary education funding. This section summarises the initial results of the line by line review of tertiary education funding, and includes a number of options for savings. We have based this on the criteria established for the 'line by line' reviews, with a particular focus upon funding approved at Budget 2008. Those criteria are:
- Programmes that are inconsistent with the government's priorities, and that should be discontinued
 - Programmes that may be inconsistent with the government's priorities, and that should be looked into
 - Programmes and expenditure that are not efficient or effective
 - Areas where performance information is insufficient to make a judgement about efficiency or effectiveness.
99. Tertiary education funding can be grouped into five areas as set out in the following table. The table shows funding levels in 1998/99, 2008/09, and 2012/13. This shows growth in funding over the past decade, as well as growth already built into the baselines. Appendix 2 provides more detail on the history of each fund, and describes the performance information that could be provided. This discussion will provide the basis for our advice on your response to the Minister of Finance for the line-by-line review.

	1998/99	2008/09	2012/13
Student Achievement Component and TEO Component	1,098,348	2,198,221	2,349,389
Skills and training programmes	108,182	333,202	372,619
Adult and Community Education	15,428	44,954	50,614
Student support	464,691	1,016,662	1,150,162
Tertiary education agencies ¹	46,733	121,386	93,892
Total	1,733,382	3,714,425	4,016,676

Student Achievement Component and TEO Component

100. This funding area covers the major funds to Tertiary Education Institutions, and to private training establishments offering the same kinds of programmes. It covers teaching and learning for much of 'formal' tertiary education, as well as research funding, and capability building funding for Tertiary Education Institutions and Industry Training Organisations.

Changes in funding over time (\$m, GST exclusive)

	1998/99	2008/9	2012/13
Student Achievement Component			
Universities	698,203	876,338	951,561
Institutes of Technology and Polytechnics	380,466	394,463	423,981
Wānanga	8,060	101,029	120,293

¹ This includes funding for the tertiary education-related functions of the following agencies: Ministry of Education, Tertiary Education Commission, NZQA and Career Services.

Private Training Establishments	11,199	133,996	144,414
Other Tertiary Education Providers	420	23,754	25,383
TEOC			
TEI Base Investment		313,688	328,698
Supporting Change		40,084	35,556
Priorities for Focus		21,124	13,202
ITO Core Component		5,625	6,750
Encouraging and Supporting Innovation		16,711	16,711
TEOC: Research			
Performance-based Research Fund		236,114	249,817
Centres of Research Excellence		33,962	31,690
Building Research Capability in the Social Sciences		1,333	1,333
Total	1,098,348	2,198,221	2,349,389

101. Funding increased substantially in this area over the past decade, due to:

- increased student numbers: Full-time equivalent students increased 33% from 1999 to 2007;
- increasing subsidies per student - funding rates were increased according to CPI from 2001 onwards, with additional increases provided as part of fee stabilisation policies and a funding category review;
- capability building funds for ITPs and wānanga, in the 'supporting change' element of the TEO Component (\$36 million per year);
- tripartite funding for universities, funded through the Base Grant, used to support pay increases (rising cumulatively to \$66 million per year); and
- increases in research funding, to support the establishment of the Performance-Based Research Fund.

102. At Budget 2008, funding increases were made to the funds as follows:

- Student Achievement Component received increased funding for CPI growth in 2009, 2010, and 2011 (\$334 million over four years), as well as funding for increased enrolments at universities and Institutes of Technology and Polytechnics (\$57 million over four years).
- TEO Component received an increase in proportion to the increases to Student Achievement Component (\$74 million over four years), as well as increases resulting from the universities tripartite process (\$60 million over four years), and to support Industry Training Organisation Strategic Leadership activities (\$8 million over four years).
- TEO Component: Research received an increase in the Performance-Based Research Fund to increase the fund to \$250 million per year (\$42 million over four years).

103. Considerable information is available about the performance of the Student Achievement Component, covering access, equity, achievement, and progression to further study for each sub-sector and at different qualification levels, as well as broader information about earnings and employment outcomes from different levels of tertiary education. The main observations about the contribution of each sub-sector are as follows:

- University performance is relatively strong, with completion rates above average. Labour market outcomes and economic growth are most strongly supported by qualifications at degree level and above. Participation and completion rates by Māori and Pasifika students are below average, although this is in part due to the prior educational attainment of this group.
- Institutes of Technology and Polytechnics performed unevenly. Completion rates are below average, and a high proportion of provision in certificates at NQF levels 1 to 3, where there is a lower wage premium. The completion rate may in part be due to the prior educational attainment of their students.
- Wānanga have increased the overall participation of Māori in tertiary education (particularly older Māori). Completion rates are around the average, although over half of provision is in certificates at NQF levels 1 to 3.
- Private Training Establishments provide good access for disadvantaged groups, and achieve around average completion rates.
- The outcomes of each Other Tertiary Education Provider (OTEP) would need to be reviewed individually, since they contribute to different objectives. Due to the relatively small amount of funding for these providers, there have not been any reviews of performance in this area.

104. It is more difficult to gauge the outcomes of the TEO Component, because it includes funds started over the past few years, with diverse purposes. Information is available as follows:

- The TEI Base Investment is intended to support TEIs to focus on their core roles and distinctive contributions. The bulk of the funding came from a top-slice of previous student component rates, and it is currently largely allocated according to student volumes, with the expectation that new policy settings, not based on student volumes, will be introduced by 2011. A small element in 2009 and 2010 is allocated to polytechnics based on the population of their regional catchments as a means of supporting smaller institutions. Therefore, no performance information is yet available for this fund.
- The Industry Training Organisation Core Component is a contestable pool of funding for Industry Training Organisation projects to build leadership capability and set standards for qualifications at intermediate levels on the National Qualifications Framework. This funding was new from 1 January 2008, and performance information is not yet available.
- Priorities for Focus funding is largely allocated to universities, and you recently received a briefing on how this funding is spent. There are also some other elements, for example funding in support of embedding literacy and numeracy teaching into mainstream qualifications. The funding was new from 1 January 2008 and no performance information is available.
- Supporting Change funding is allocated to Institutes of Technology and Polytechnics and wānanga to help them realign their portfolio of provision with national and regional priorities. This funding was initially approved in 2005 and offset against significant reductions in funding to polytechnics and wananga as part of the review of certificate and diploma provision.

The fund has been successful in that it has provided targeted support that has enabled individual polytechnics and wananga to maintain essential provision

during the transition to more sustainable business models, and has funded many essential transitional activities. However, it is relatively high in compliance costs.

The fund is being phased out in 2010, and while the funding is permanently in the baseline, it was intended that its purpose of the funding be revisited before the 2010/11 year. While there are a number of options for this, we do not recommend reprioritising this funding at this stage, as it would represent a very large baseline reduction to the polytechnic and wananga sectors and would leave a large number of institutions as financially unviable.

- Encouraging and Supporting Innovation funding is open to all TEOs, to support innovation projects including work to support links with business and build infrastructure. This is the latest configuration of innovation funding, which has been part of the tertiary system for some years. Some evaluation of previous approaches to this funding has been conducted, and this will be included in the more detailed line-by-line review.
105. Evaluation and monitoring information is available about the Performance-based Research Fund, which is the largest part of the TEO Component: Research. The introduction of the Performance-based Research Fund is associated with increased research activity, increased external research contract income in TEOs, and decreased first year attrition of doctoral students. The objectives of this fund are well aligned with the objectives of this Government.

Savings options for Budget 2009

106. Because of the size and diverse purposes of the Student Achievement Component and TEO Component, there are a number of different ways to achieve savings. Price increases form the bulk of the increase in the baseline in coming years, and hence will need to be considered (particularly as part of meeting the unfunded aspects of the Budget 2008 Innovation Allocation).
107. The options set out below tend to avoid affecting enrolments (except in very low value areas), in light of the Government objective of protecting frontline services. Therefore options to cut the volume of student places overall, or at certificate level, have not been pursued.
108. The most important option is to remove the CPI adjustments approved at Budget 2008. This has been discussed in the body of the paper.

Stop Student Achievement Component funding for regulatory compliance qualifications

109. Around \$10 million per annum is directed to funding short awards which assist employers in meeting regulatory requirements, such as Occupational Health and Safety standards. This funds training which employers would have to undertake even without public funding, and at a relatively low cost per employer. This funding has been constrained since 2005, but it could be withdrawn completely with minimal impact upon outcomes.
110. Note, however, that this funding is directed through a relatively small number of Institutes of Technology and Polytechnics, and that there is a very high likelihood that the long-term sustainability of these institutions would be compromised.
111. If you were to decide to withdraw this funding, we recommend that you consult with other Ministers, including of ACC and Agriculture and Forestry, because this funding is currently supporting objectives for these portfolios.

112. The savings forecast from this policy change are based on 2007 delivery of these qualifications. While we recommend that you reduce the baseline by this figure, it may be the case that, if the overall volume of such qualifications falls in the intermediate period, it may mean a small residual reduction in mainstream qualifications from 2011.

Table: Savings from addressing regulatory compliance qualifications

	2009/10	2010/11	2011/12	2012/13
Stop Student Achievement Component funding for regulatory compliance qualifications		-5.000	-10.000	-10.000

Reduce TEO Component funding

113. A broad option is to reduce parts of the TEO Component, excluding the TEI Base Investment and the money from 2010/11 that previously paid for the Supporting Change fund (for the reasons discussed in the body of the paper)

114. The remaining areas within the TEO Component are more discretionary, and might provide a focus for savings. Given the relatively resource-intensive nature of allocation of these funds (which are allocated on the basis of contestable applications and negotiation through investment plans), a reduction or removal of these funds would also support a reduction in compliance costs for the sector.

115. The specific savings offered would:

- a. Reduce the Encouraging and Supporting Innovation according to underspends in 2009/10, building up to savings of half the fund in 2011/12. This would reduce the scope for innovation and collaboration projects.
- b. Reduce the ITO strategic leadership fund by around half from 2011 onwards. This would reduce the scope for strategic planning and qualifications design projects in the ITO sector.
- c. Reduce the Priorities for Focus fund from 2012 onwards (when current agreements expire), by removing half the funding available to universities for projects in areas of Government priority.
- d. Reduce universities tripartite funding from 2011 onwards. This funding is part of the TEI Base Investment, and provides extra support to universities in meeting cost pressures from salary increases. As discussed in the body of the paper, legal advice is being sought on the feasibility of this.

Table: Savings within TEO Component

	2009/10	2010/11	2011/12	2012/13
Encouraging and Supporting Innovation	-2.000	-4.000	-8.000	-8.000
ITO strategic leadership		-1.750	-3.500	-3.500
Priorities for Focus		-2.500	-5.000	-5.000
Universities tripartite agreement		-11.000	-22.000	-22.000

Skills and training programmes

116. This area includes training for vocational purposes, primarily in workplace settings. Employees are funded through the Industry Training Fund and Modern Apprenticeships; job-seekers are funded through Youth Training; and school

students are funded through Gateway. Literacy, language and numeracy programmes are offered in work-based, provider, and community settings.

117. These programmes support labour market resilience in different ways, and a number of them relate to government priorities such as the Youth Guarantee and trades and skills policies. Therefore, caution must be taken in considering these areas for reprioritisation. However, some options are presented.

Changes in funding over time (\$m, GST exclusive)

	1998/99	2008/9	2012/13
Industry Training Fund	43,534	159,077	180,280
Modern Apprenticeships		48,532	48,699
Youth Training	54,618	61,551	56,220
Gateway		19,013	19,013
Skill Enhancement and Pathfinders	10,030	5,519	5,519
Literacy, language and numeracy		39,510	62,888
Total	108,182	333,202	372,619

118. Funding has increased in this area, primarily as a result of:

- An increase in volume and price for industry training. In 2006 there were 2.5 times more trainees than in 1999, and the price per trainee also rose as a result of a move to a single STM rate. Future funding for industry training does not include any volume increases, but does include a CPI adjustment.
- The establishment of Modern Apprenticeships, which supported 9,466 apprentices in 2006.
- The establishment of Gateway, which supported 6,684 students in 2006.

119. Budget 2008 included substantial increases in funding for literacy, language and numeracy to fund increased participation in a range of work- and community-based settings, as well as tutor training and other capability building activities.

120. The performance of the industry training system has primarily been assessed through participation and credit attainment. Participation has increased steadily, as has the representation of Māori, Pasifika, and women trainees (although women remain underrepresented). New information is available about completion rates, which shows that completion rates for industry training are comparable to those of similar provider-based qualifications, although performance varies considerably between Industry Training Organisations. Whilst more could be done to understand the contribution of industry training, this does not appear to be a priority for further work.

121. The performance of Modern Apprenticeships is monitored through participation and credit attainment, and an evaluation was completed in 2006. The programme has met its overall participation targets, although women remain underrepresented. New information about completion rates shows that Modern Apprenticeship completion rates are broadly the same as those of industry trainees of the same age.

122. Youth Training is targeted to 16 to 18 year olds, and is most appropriately assessed as part of work to design the Youth Guarantee. Furthermore, since it is targeted at young people who are not in work or other forms of training, the

demand is likely to increase as a result of the labour market. Therefore, we do not suggest seeking savings in this area.

123. Gateway is targeted to school students who wish to undertake one of their subjects in a work-based learning environment. As such, it is strongly aligned with Government objectives, and should be assessed as part of the development of the Youth Guarantee.
124. Literacy, language and numeracy programmes have grown steadily over the past few years, culminating in a substantial increase in investment at Budget 2008. Improving literacy and numeracy has benefits for individual earnings and economic growth. However, the increases in funding for this area have been substantial (especially at Budget 2008), and options for reducing this are presented below.
125. Further information will be given on a number of other small funds as part of the line by line review.

Savings options for Budget 2009

Remove Skill Enhancement

126. Skill Enhancement is a small fund (\$4.3 million per year) that supports young Māori and Pasifika students progress to qualifications at level 3 and above. The fund has been underspent in recent years, and has been reduced considerably in response and is therefore not achieving the objectives initially set for it.
127. This programme provides vocational training targeted at Maori and Pacific people. If this programme is disestablished we will do further work to ensure that the objectives of the programme for this target group are achieved.

Table: Savings for Skill Enhancement

	2009/10	2010/11	2011/12	2012/13
Remove Skill Enhancement	-2.150	-4.300	-4.300	-4.300

Reduce funding for literacy, language and numeracy

128. As discussed above, this received substantial funding at Budget 2008, due to its importance for individual and economic outcomes.
129. The Literacy, Language and Numeracy programme funds a coherent range of related interventions to target individuals who are in work in a range of different settings. This includes teaching in the workplace and in community settings, and in formal and informal styles of learning.
130. A significant part of the package is the embedding of literacy and numeracy into mainstream curriculum by 2011. The proposed reduction preserves a coherent package of interventions while reducing overall funding by approximately one-third. It is focussed on retaining the parts of the package that ensure quality of provision and secure embedding of literacy and numeracy curriculum, and therefore involves reduction in the volume of training.

Table: Savings for literacy, language and numeracy programmes

	2009/10	2010/11	2011/12	2012/13
Reduce Literacy, Language and Numeracy Package	-14.200	-22.700	-28.700	-28.700

Adult & Community Education

131. These funds have a wide reach across tertiary education. Adult and Community Education funding supports informal learning for around 250,000 learners.

Changes in funding over time (\$m, GST exclusive)

	1998/99	2008/9	2012/13	Underspends?
Adult and Community Education	15,428	44,954	50,614	\$5m in 05/06 only.

132. The main increase in Adult and Community Education funding is a result of a transfer of funding for TEI-based ACE in 2006 (previously funded through Student Component). In addition, there have been smaller increases to support expansion of high priority areas (new providers, and literacy).

133. Evidence about the effectiveness of these funds is limited. Some provision engages vulnerable groups in the community to re-engage them with learning, address literacy needs, or reduce their isolation. Other provision is targeted at middle- to upper-income students studying areas of personal interest (typically hobbies). In these areas outcomes would not be substantially affected if Government funding was reduced or withdrawn.

134. Note that considerable work was carried out to better match funding to Government priorities from 2003 to 2006. This work proved administratively complex, and provoked a strong response from affected learners and providers. Any further changes in this area would need to be designed to be administratively simple.

Options for savings at Budget 2009

Reduce funding for TEI-based Adult and Community Education

135. A small saving could be generated through reducing Adult and Community Education funding for Tertiary Education Institutions. Tertiary Education Institutions receive \$17.8 million per year for Adult and Community Education, *[deleted – free and frank]*, and with volumes as set in the 2005 (as part of decisions about “category 5.1” funding). Some small savings could be achieved through reducing the volume and/or rate, in the region of \$3 to \$6 million.

Table: Savings for Adult and Community Education

	2009/10	2010/11	2011/12	2012/13
Reduce Adult and Community Education Funding for Tertiary Education Institutions		-3.000	-6.000	-6.000

Student support

136. This area funds payments to students – mainly through Student Loans and Allowances, but also through scholarships. Whilst this funding is mainly administered through Vote Social Development, policy responsibility (including Budget responsibility) remains with the Minister for Tertiary Education.

Changes in funding over time (\$m, GST exclusive)

	1998/99	2008/9	2012/13	Underspend?
Student allowances	378,491	411,378	411,378	Not applicable
Scholarships (Vote Education)	0	22,517	23,017	\$1m in 05/06, \$3m in 06/07, \$5m in 07/08
Scholarships (Vote Social Development)	0	20,767	20,767	
Student loans operating impact	86,200	562,000	695,000	Not applicable
Total	464,691	1,016,662	1,150,162	

137. The largest funding increase in this area is due to policy changes to student loans, which increased the amount of interest written off on the loans, and hence the operating cost to Government.
138. Further cost increases arose due to the establishment of a number of scholarship schemes, administered through TEC and StudyLink. The increase in student allowances funding is due to changes in eligibility, and CPI adjustments to the level of student allowances.
139. Student Allowances support low income students with their living costs whilst studying, in order to reduce financial barriers to study. Eligibility for allowances has reduced as incomes have increased, although recent policy changes have slightly reversed this trend. Recent Ministry of Education research shows that Student Allowance recipients are more likely to complete qualifications. In addition, there is some international evidence that financial aid increases the probability that low-income students will undertake higher education.
140. The Student Loans Scheme provides credit for students who would otherwise be unable to borrow to fund the cost of study, and also provides subsidised loans to make it a less risky undertaking for students (compared, say, to a bank loan). Over the period of the Scheme, the number and diversity of students has increased dramatically, although the contribution of Student Loans is difficult to separate from a number of other reforms introduced from 1989 onwards. The Student Loan Scheme is expensive by international standards, and it would be possible to support the current level of participation at a lower rate of subsidy. The Student Loans Annual Report provides more performance information.
141. Through StudyLink, the Ministry of Social Development administers two scholarships – Bonded Merit Scholarships (paying fees for higher achieving students from second year onwards), and Step Up Scholarships (supporting young students from low income backgrounds to study in areas of skill shortage). Whilst these schemes are well subscribed, and meeting their objectives, these scholarships are unlikely to affect overall decisions to study, even for low income students, because the Student Loans Scheme already provides a comprehensive approach to addressing financial barriers to study.
142. The Tertiary Education Commission also administers a number of scholarships. The largest of these is the Top Achiever Doctoral Scholarships, which provide up to \$25,000 per year for three years to high achieving PhD students. This scholarship has been undersubscribed in recent years. The funding raises similar deadweight concerns as the StudyLink-administered scholarships.

Options for savings at Budget 2009

143. Student support presents the other major opportunity for reprioritisation, given the large amount of funding invested in this area.
144. Large savings could be achieved through marginal adjustments to the Student Loans Scheme, where the cost to the Crown has increased substantially over time, as a result of heavier interest rate subsidies, and a resulting change in borrower behaviour. At present, the Student Loans Scheme makes tertiary education very affordable to students, and has very few restrictions on eligibility.
145. However, these options would be more complex to develop, and would need to be considered carefully in light of Government priorities to maintain affordability of tertiary education. The more immediate areas that might provide savings are the scholarships, and these are set out below.

Bonded Merit Scholarships

146. 1460 students currently receive a Bonded Merit Scholarship, and funding increases approved at Budget 2008 will support a further 1500 scholarships to be awarded in 2009.
147. The Scholarships have a high rate of uptake, and a low attrition rate. Recipients consistently achieve above the B grade average required for application.
148. However, Māori and Pasifika students are greatly underrepresented, and the nature of the criteria means that recipients tend to be from qualifications such as medicine and engineering (which have high entry standards). These qualifications are also targeted by other scholarship schemes, as well as attracting high fee subsidies through the Student Achievement Component. Furthermore, graduates with these qualifications achieve high lifetime earnings.
149. It appears likely that the students targeted by this scholarship would achieve well without the support, with the result that funding in this area is largely deadweight. Bonded Merit Scholarships are also expensive to administer compared to student loans and allowances. Therefore, we propose phasing out this scholarship, by closing off new applications, but allowing current recipients to retain their entitlements of up to four years.

Table: Savings for Bonded Merit Scholarships²

	2009/10	2010/11	2011/12	2012/13
Remove Bonded Merit Scholarships				
Operating Impact	-4.168	-8.400	-12.723	-14.579
Capital Impact	1.171	2.280	3.317	3.575

Step-Up Scholarships

150. Step Up Scholarships are available to young Student Allowance recipients pay fees for degree-level study in areas of skill shortage. Recipients must remain in New Zealand for a period equivalent to the tenure of the scholarship.
151. There were 626 new scholarships granted in 2008. The scheme has been substantially over-subscribed, and is targeted effectively to low-income students.

² Note that costings also include the impact on student loans, given recipients would borrow from student loans scheme if each scholarship is disestablished.

152. A review of the scheme is scheduled for 2009. Whilst this scheme appears to more effectively target high need areas, it seems unlikely to affect decisions to study, in light of Student Loans and Allowances available to this group. These Scholarship are also expensive to administer compared to Student Loans and Allowances. It is suggested, therefore that Step Up Scholarships be phased out, retaining entitlements for current recipients. The full savings from phasing out the programme will be available from the 2013/14 financial year.

Table: Savings for Step-Up Scholarships

	2009/10	2010/11	2011/12	2012/13
Remove Step Up Scholarships				
Operating Impact	-3.337	-6.861	-10.521	-12.912
Capital Impact	0.804	1.609	2.390	2.824

Top Achiever Doctoral Scholarships

153. Top Achiever Doctoral Scholarships provide up to \$25,000 per year for up to three years, to support high performing doctoral students. Top Achiever Doctoral scholarships are merit-based awards, and such awards can be effective at recognising and rewarding academic excellence. However, the international literature on scholarships highlights a dead-weight loss component in such awards. This arises because there is a correlation between academic success and socio-economic status. It is likely that some recipients would have successfully completed their studies, even if they had not received the scholarship support.

154. This scheme was reviewed in 2008, and the previous government noted it was achieving its objectives, and agreed it should continue unchanged.

155. However, based on the changed fiscal circumstances, we recommend that this Scholarship be phased out, by closing any new applications, but allowing current recipients to retain their scholarships. Your other commitments in the research area, such as increased investment in the PBRF, Marsden Fund and Health Research Council may support similar objectives as this scheme.

Table: Savings for Top Achiever Doctoral Scholarships

	2009/10	2010/11	2011/12	2012/13
Remove Top Achiever Doctoral Scholarships	-2.500	-5.000	-7.500	-10.000

Agency operating funding

156. Agency operating funding covers the cost of administering tertiary education. Funding is allocated through Vote Education (for the Ministry of Education, Tertiary Education Commission, New Zealand Qualifications Authority, and Career Services). There is also funding for administering student support, which is provided by MSD (\$36.2m in 2008/90) and IRD (\$26.4m in 2008/09, which is not within the scope of your line-by-line review.

Changes in funding over time (\$m, GST exclusive)

	1998/99	2008/9	2012/13
Ministry of Education	21,324	16,159	15,319
Tertiary Education Commission/Skill NZ	18,397	71,459	53,072
New Zealand Qualifications Authority	2,164	17,599	10,419
Career Services	4,848	16,169	15,082
Total	46,733	121,386	93,892

157. Additional operating funding was provided to the Tertiary Education Commission at Budget 2008.

158. Separate processes are underway to review operating funding in each agency. Therefore, we do not propose reviewing that operating funding here. However, at the least there will be savings arising from a reduction in the Tertiary Education Commission operating baseline equivalent to the amount allocated at Budget 2008, and these have been included in this paper.

Table: Savings for TEC operating funding

	2009/10	2010/11	2011/12	2012/13
Reduce TEC operating funding	-9.300	-7.375	-7.375	-7.375

Cross-cutting theme: Reduce the number of funds below \$2 million

159. The Tertiary Education Commission administers a number of smaller funds that are generally characterised by high compliance and administration costs (relative to the value of the grant), or which seek to achieve objectives that could be met by other parts of tertiary or other government funding.

160. In general (but not exclusively) the funds are focussed on access for specific minority groups, education or other support for migrants, or specific forms of adult and community education. Some of them do not directly fund educational programmes, and both outcomes and utilisation of the funds various significantly.

161. Each fund is for a closely defined and specific purpose, and is generally paid to a small number of organisations, or in some cases individuals. Removal of the funds does represent a service reduction and is likely to elicit a strong response from those people directly affected by them.

162. In order to support the reduction in operating funding recommended above, a number of these funds will have to be removed. Those which continue will have to be reviewed, to assess whether they can be administered in a more cost effective manner (for example by rationalising them into larger funds).

163. Further information about the purpose of each of these funds will be provided as part of the line by line review.

	Total annual value
Funds below \$2m	
Building Research Capacity in Social Sciences	1.333
Targeted Education and Training Grants	0.080
Pathfinders	1.211
Special Education Special Supplementary Grant	0.760
Advance Centre	0.800
Centre for Refugee Education	0.800
ESOL Assessment Service	0.473
Academic Migrant Grant	0.425
Refugee Study Grants	1.400
Bilingual Tutor Grants	0.284
ACE Innovation and Development Fund	1.000
Community Learning Aotearoa New Zealand	0.444
Chair of Malay Studies	0.076
EU / NZ exchange fund	0.200
Migrant Levy	0.449

164. The savings below assume that just over three-quarters of these funds will be discontinued. The detailed advice to support a final decision on the funds to be discontinued will be provided later in February, as part of finalising the Budget package for tertiary education.

Table: Savings from reducing the number of funds below \$2 million

	2009/10	2010/11	2011/12	2012/13
Reduce the number of funds below \$2 million	-3.841	-7.682	-7.682	-7.682

Appendix Two: Budget 2008 for tertiary education

Table One: Operating funding appropriated through Budget 2008

Operating Initiatives	\$m - increase/(decrease)					Total over 4 years
	2007/08	2008/09	2009/10	2010/11	2011/12 and outyears	
Student Achievement Component: Access in Priority Areas	-	13.412	16.894	16.171	10.111	56.588
Flow-on costs for Student Support*	-	4.274	6.472	4.082	(3.462)	11.366
Total – Student Achievement Component	-	17.686	23.366	20.253	6.649	67.954
Investing Through the TEO Component	-	5.407	17.116	24.643	26.981	74.147
Increasing the Performance Based Research Fund	4.311	7.221	9.183	13.000	13.000	42.404
Priorities for Focus: Strengthening Universities	-	15.000	15.000	15.000	15.000	60.000
Skills Strategy - Literacy, Language and Numeracy	-	27.253	36.253	45.498	47.498	156.502
Skills Strategy Programme Office	-	1.240	1.240	-	-	2.480
Supporting an ITO Strategic Leadership Fund	-	1.125	2.250	2.250	2.250	7.875
TEC: Policy Advice and Leadership of Tertiary Reforms	-	8.310	7.075	7.075	7.075	29.535
Funding the National Qualifications Framework	-	0.750	-	-	-	0.750
Savings Identified in Vote Education	-	(5.500)	(3.500)	(3.500)	(3.500)	(16.000)
Increasing the Student Loan Scheme living cost component to \$155 per week*	-	2.774	5.233	6.072	6.187	20.266
Lowering the age limit for student allowance parental income testing by one year*	-	9.140	17.806	19.043	20.300	66.289
Increasing the student allowance parental income threshold by 10 percent*	-	4.314	8.431	8.854	9.260	30.859
Expansion of Bonded Merit Scholarship Scheme*	-	1.444	2.831	4.243	4.866	13.384
International Education Promotions	-	0.450	0.450	0.450	0.450	1.800
Taxation of Foreign Allowances [FNA]	-	-	-	-	-	-
TOTAL - OPERATING	4.311	96.614	142.734	162.881	156.016	558.245

Table Two: Capital funding appropriated through Budget 2008

Capital Initiatives	2007/08	2008/09	2009/10	2010/11	2011/12 and outyears	Total over 4 years
Student Achievement Component: Access in Priority Areas*	-	6.726	8.499	6.044	(5.791)	15.478
Increasing the Student Loan Scheme living cost component to \$155 per week*	-	6.139	13.583	16.185	16.957	52.864
Lowering the age limit for student allowance parental income testing by one year*	-	(2.437)	(5.095)	(5.118)	(5.107)	(17.757)
Increasing the student allowance parental income threshold by 10 percent*	-	(1.008)	(2.130)	(2.075)	(2.009)	(7.222)
Expansion of Bonded Merit Scholarship Scheme*	-	(0.399)	(0.777)	(1.131)	(1.221)	(3.528)
TOTAL - CAPITAL	-	9.021	14.080	13.905	2.829	39.835

Note: Student Support initiatives marked with an asterisk (*) were appropriated through Votes Social Development and Revenue. All other initiatives have been appropriated through Vote Education.

Table Three: Other significant initiatives not appropriated in Budget decisions

	2007/08	2008/09	2009/10	2010/11	2011/12 and outyears	Total over 4 years
Addressing Cost Pressures on Tertiary Education Funding [CBC Min (07) 26/15 refers]	-	22.523	67.536	111.440	132.856	334.355
Tertiary Capital Investment Fund (Contingency)	-	35.000	30.000	30.000	-	95.000

Table Four: Other tertiary-related initiatives funded through Economic Transformation - Innovation, but administered by other departments

	2007/08	2008/09	2009/10	2010/11	2011/12 and outyears	Total over 4 years
Skills Strategy - Literacy, Language and Numeracy (demand-side initiatives) Department of Labour		1.650	2.130	2.630	2.630	9.040
Pacific Modern Apprenticeship Action Campaign Ministry of Pacific Island Affairs	-	0.100	0.100	-	-	0.200
TOTAL	-	1.750	2.230	2.630	2.630	9.240