

## Tertiary Education Report: **Further Tertiary Education Advice on Budget 2009**

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### Executive summary

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- 1 Over the past week, you have made a number of decisions about tertiary education savings to be considered at Budget 2009. The current savings package is as set out in the table in the recommendations.
- 2 Appendix 1 provides a first draft of the line-by-line review for tertiary education. This will be provided to you on Friday as part of the Vote Education line-by-line review. You are asked to indicate any changes you would like to this.
- 3 The decisions discussed with officials on Tuesday morning are reflected in the recommendations below, to allow you to formally record your decision. The aide memoire provided for Tuesday's meeting is included at Appendix 2.
- 4 In addition, this paper provides further information in a number of areas. It provides further detail on the impacts of removing Student Achievement Component funding for regulatory compliance qualifications, Skill Enhancement, and universities tripartite adjustment funding. It also:
  - a Seeks your agreement to the final list of small funds to be disestablished. Twelve small funds are recommended for disestablishment which generally carry high compliance or administration costs.
  - b Seeks your views on timing issues for removing the Top Achiever Doctoral Scholarships. It is recommended that the May 2009 round for applications be the final round, since this round has already been opened for applications.
  - c Explains that the 200 medical student places and the removal of the Step Up and Bonded Merit Scholarships will all have flow-on capital impacts due to increased student loan borrowing. There is no capital funding that can off-set these costs, and we recommend seeking this as new funding (in light of the substantial operating savings that are being offered).

### Recommendations

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- 5 It is recommended that you:
  - a **note** that this paper incorporates updated savings figures for Budget 2009, and presents decisions that will allow you to further refine the budget package;
  - b **note** that this paper provides an opportunity for you to formally record your decisions on the matters discussed at your meeting with officials on 27 January, and that the aide memoire for that meeting is attached as Appendix 2;
  - c **note** that you will receive final papers on Friday 30 January, for your consideration prior to submitting them to the Minister of Finance on 5 February;

*Unwinding pre-commitments from Budget 2008*

- d **note** that the following savings are proposed to achieve the \$521 million saving that is required to unwind expenditure from Budget 2008 that was pre-committed against future budgets;

|  | 2009/10        | 2010/11         | 2011/12         | 2012/13         | 4-year total    |
|--|----------------|-----------------|-----------------|-----------------|-----------------|
| Remove CPI adjustments (SAC and TEOC from 2011, Industry Training, Modern Apprenticeships and ACE from 2010) | -7.600         | -43.100         | -70.300         | -70.300         | -191.300        |
| Reduce TEOC: Capability - ITO strategic leadership   |                | -1.750          | -3.500          | -3.500          | -8.750          |
| Disestablish TEOC: Capability - Priorities for Focus from 2011   |                | -5.000          | -10.000         | -10.000         | -25.000         |
| Reduce TEOC: Capability - Encouraging and Supporting Innovation  | -4.000         | -8.000          | -8.000          | -8.000          | -28.000         |
| Remove Bonded Merit, Step Up and Top Achiever Doctoral Scholarships  | -11.394        | -21.104         | -31.245         | -35.910         | -99.653         |
| Reduce funding for Literacy, Language and Numeracy   | -8.100         | -23.900         | -27.900         | -34.400         | -94.300         |
| Reduce TEC operating funding   | -9.300         | -7.375          | -7.375          | -7.375          | -31.425         |
| Reduce ACE (TEIs)  | 0.000          | -4.445          | -8.889          | -8.889          | -22.223         |
| Remove SAC funding for regulatory compliance and health and safety qualifications (part)                     | 0.000          | -4.000          | -7.473          | -1.403          | -12.876         |
| Disestablish small funds with high compliance costs (part)   | -1.301         | -2.411          | 0.000           | 0.000           | -3.712          |
| Disestablish Skill Enhancement   | -2.150         | -4.300          | -4.300          | -4.300          | -15.050         |
| <b>Total savings</b>   | <b>-43.845</b> | <b>-125.385</b> | <b>-178.982</b> | <b>-184.077</b> | <b>-532.289</b> |

- e **note** that once you have taken the decisions set out in this paper, this package will be amended to reflect them, and will then be included in the Cabinet paper led by the Minister of Economic Development, which will be submitted to you on 30 January;

*Costs of 200 additional medical places*

- f **note** that the following savings are proposed to fund the costs of 200 additional medical places, and that these will be included as offsetting savings in the budget bid to be submitted to you on 30 January;

|  | 2009/10      | 2010/11      | 2011/12      | 2012/13      | 4-year total |
|--|--------------|--------------|--------------|--------------|--------------|
| 200 extra medical places   | 1.316        | 4.204        | 8.441        | 14.511       | 28.472       |
| Disestablish small funds with high compliance costs (part)                               | -1.316       | -4.204       | -7.914       | -7.914       | -21.348      |
| Remove SAC funding for regulatory compliance and health and safety qualifications (part) |              |              | -0.527       | -6.597       | -7.124       |
| <b>Total savings</b>   | <b>0.000</b> | <b>0.000</b> | <b>0.000</b> | <b>0.000</b> | <b>0.000</b> |

*Line by line review*

- g **note** that appendix 1 sets out a proposed line by line review for tertiary education, that will be included as part of the Vote Education line by line review to be provided on Friday 30 January;
- h **indicate** whether you would like any changes to the line by line review for tertiary education;
- i **note** that the following savings are now available as part of the line by line review, in addition to those shown above:

|  | 2009/10       | 2010/11        | 2011/12        | 2012/13        | 4-year total   |
|--|---------------|----------------|----------------|----------------|----------------|
| Reduce ACE (schools)   | -6.472        | -12.913        | -12.913        | -12.913        | -45.211        |
| Reduce TEOC: Capability - Universities tripartite adjustment |               | -9.250         | -18.500        | -18.500        | -46.250        |
| <b>Total savings</b>   | <b>-6.472</b> | <b>-22.163</b> | <b>-31.413</b> | <b>-31.413</b> | <b>-91.461</b> |

*Matters discussed on Tuesday 27 January*

- j **agree** that when CPI adjustments for Industry Training (including Modern Apprenticeships) and Adult and Community Education cease at the end of 2009, funding rates should remain at 2009 levels rather than reverting to 2008 levels;

AGREE / DISAGREE

- k **agree** to revise the 2010 CPI adjustment for the Student Achievement Component and TEO Component to 1.95%, in line with the latest Treasury forecast;

AGREE / DISAGREE

- l **agree** to disestablish the \$10 million per annum university portion of the Priorities for Focus element of the TEO Component from 2011;

AGREE / DISAGREE

- m **agree** to halve funding for Adult and Community Education in Tertiary Education Institutions from 2011;

AGREE / DISAGREE

- n **agree** to halve funding for community-based Adult and Community Education from 2010;

AGREE / DISAGREE

*Further information on specific savings proposals*

- o **note** that removing regulatory compliance qualifications is likely to have a significant impact on three polytechnics, and that while the additional cost to employers is likely to be lower than the current Government subsidy, this is dependent on the response of both employers and providers to the change;

- p **indicate** any changes you would like to the recommended list of savings from disestablishment of small funds of less than \$2 million in Appendix 3;
- q **note** that disestablishment of Skill Enhancement would affect the viability of a small number of Private Training Establishments;

*[Information deleted in order to maintain legal professional privilege]*

- s **agree** that this saving should be considered as part of the line by line review rather than included in the package of savings required to unwind expenditure from Budget 2008 that was pre-committed against future budgets

AGREE / DISAGREE

*Top Achiever Doctoral Scholarships*

- t **note** that applications for Top Achiever Scholarships are open for the next allocation round in May and that (although no funding has yet been committed) if they were discontinued before May communications would have to be carefully managed;
- u **agree** to discontinue Top Achiever Scholarships from 1 June 2009;

AGREE / DISAGREE

*Capital implications at Budget 2009*

- v **note** that the initiative to fund 200 extra medical places, and the removal of Step Up Scholarships and Bonded Merit Scholarships, will increase Student Loans Borrowing, and that the capital costs of this amount to \$22 million over four years;
- w **note** that there are no capital funds available that can be reduced, and therefore that new funding will need to be sought to meet these costs;

- x **note** that you will be provided with further advice on capital funding issues, including decisions to abolish capital contingencies, by 30 January 2009.

**Dr Roy Sharp**  
Chief Executive  
Tertiary Education Commission

**Rob McIntosh**  
Deputy Secretary  
Strategy and System Performance  
Ministry of Education

**Hon Anne Tolley**  
Minister for Tertiary Education

# Tertiary Education Report: **Further Tertiary Education Advice on Budget 2009**

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## Purpose of Report

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- 1 This report provides further advice and seeks further decisions on the package of savings for Budget 2009. It follows the 16 January briefing, *Budget 2009 – tertiary education*, and the aide-memoire provided to you on 26 January.
- 2 The report provides some further information on parts of the package, updates advice on the likely impacts of the changes on the sector and learners as well as updating the financial implications of the package. The report includes a draft of the full line-by-line review of tertiary education, for your review prior to submission of a final draft on Friday 30 January.

## Overview

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### Background

- 3 On 20 January you made decisions on a package of savings for tertiary education. You also asked for further advice in a number of areas.
- 4 This paper provides further information in areas you requested, and other matters that have arisen in the past week. These are:
  - a Student Achievement Component-funded regulatory compliance qualifications;
  - b The impact of savings from abolishing funds of less than \$2 million;
  - c Top Achiever Doctoral Scholarships;
  - d Skill Enhancement;
  - e TEO Component: University tripartite funding; and
  - f Capital implications from the package.
- 5 Appendix 1 provides a draft of the full line-by-line review of tertiary education. You are asked to indicate any changes you would like made to this document.

### Process

- 6 On Friday 30 January, you will receive the following tertiary education material included in the Vote Education deliverables that are due with the Minister of Finance on 5 February:
  - a A line-by-line review for tertiary education, included as part of the line by line review of Vote Education.
  - b A package of Budget bids, including bids for 200 medical student places, a 10% bonus for voluntary loan repayments, and the Youth Guarantee.

- c A new Budget bid to re-establish the contingency for the Capital Investment Fund and the New Zealand School of Music.
  - d A final draft of a Cabinet paper, led by the Ministry of Economic Development, on unwinding the unfunded Innovation allocation from Budget 2008.
- 7 On Friday we will also provide letters for you to send to your Ministerial colleagues to alert them about the potential impact of the changes upon their portfolios.
- 8 Other Budget related work is underway as follows:
- a You will be meeting with Hon Dr Mapp on Wednesday 28 January to discuss the allocation of funding released from the discontinuation of the Research and Development Tax Credit.
  - b Further investigation of the composition of the savings offered on Literacy, Language and Numeracy. The Department of Labour will be offering advice to the Minister for Social Development and Employment on this issue on Friday 30 January.
  - c A more detailed impact analysis will be carried out during the week of 2 February, to better understand how individual Tertiary Education Institutions will be affected, and to carry out a more detailed check on issues such as Treaty of Waitangi and Human Rights implications.

### Overall savings package

- 9 This paper recommends that you agree to the final package of savings required to unwind expenditure committed at Budget 2008 that was funded from pre-commitments against future budgets.
- 10 The proposed package is shown in the recommendations.
- 11 Following our discussions with you today, we have structured the package so that the universities' tripartite adjustment fund can be treated as part of the line by line review.
- 12 You also requested information about the phasing of the introduction of the savings proposed, which is shown in the table below.

| Timing                          | Initiative  | Expected Reaction   |
|---------------------------------|---|---|
| <b>Starting from 2009</b>       | Top Achiever Doctoral Scholarships, Step Up and Bonded Merit Scholarships         | Major reaction unlikely as no funding committed to individuals will be withdrawn. Student associations may comment publicly   |
| <b>Early 2010</b>               | Removal of CPI adjustments for Industry Training, Modern Apprenticeships, and ACE | Some public comment from the ITF and some ACE providers may be expected, unlikely to be particularly strong.  |
| <b>Early 2010</b>               | Discontinue Skill Enhancement programme   | Does not affect a large number of people or providers, though some PTEs will be severely affected, significant public comment from these providers likely. Will primarily affect Maori learners |
| <b>Starting from Early 2010</b> | Discontinuing Small Funds   | Reaction will vary for each fund. A limited number are likely to result in a significant public reaction  |

|                   |   |   |
|-------------------|---|---|
| <b>Early 2010</b> | Reduction in Community Based ACE                            | Significant reaction possible from some providers   |
| <b>Early 2010</b> | Literacy, Language, and Numeracy funding reductions         | Significant level of funding will be maintained, will not lead to reduction of existing services, little reaction                                       |
| <b>Early 2010</b> | Encouraging and Supporting Innovation                       | No funding that has been committed will be removed, major reaction unlikely, though some comment from TEIs possible (especially universities)           |
| <b>Early 2011</b> | Removal of CPI adjustment for TEIs                          | Major reaction expected from TEIs, especially universities. Significant public comment can be expected  |
| <b>Early 2011</b> | Removal of Priorities for Focus funding                     | Significant reaction from universities likely in conjunction with reaction to CPI removal. Will have a significant impact on Maori and Pacific learners |
| <b>Early 2011</b> | Removal of funding for regulatory compliance qualifications | Significant reaction likely from ITPs closely affected by this change. Will also have some impact on other government departments                       |
| <b>Early 2011</b> | Reduction of ACE funding in TEIs                            | Significant reaction possible from providers reliant on income from ACE (particularly ITPs)   |
| <b>Early 2011</b> | Removal of ITO strategic leadership component               | Some public reaction from the ITF likely. Probably not major as does not affect ITOs' core business   |

### Student Achievement Component funding for regulatory compliance qualifications

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- 13 On 20 January you agreed to remove funding for regulatory compliance qualifications. The TEC has been undertaking consultation with other government agencies as part of the programme of policy analysis that supports this proposal. The principal agencies with an interest were the Accident Compensation Commission, Department of Labour, Environmental Risk Management Authority and the Ministry of Agriculture and Fisheries. You are likely to need to consult with the relevant Ministers during the Budget process. This section provides information about the impact on providers and employers.
- 14 In addition, further review of the costings has led to an adjustment to the savings proposed, down to \$8 million per year from 2011 (the previous estimate was \$10 million per year). This is because there have been falling enrolments in this area recently, leading to a reduction in the level of funding required.

*[information deleted in order to protect the commercial position of the person who supplied the information, or who is the subject of the information]*

## Cost to employers

- 16 There is a wide range of courses with varying costs to employers. For example, the FarmSafe workshops are free of charge for the user and the Skills Agrichemical Approved Handler/Growsafe workshop costs the user \$75.00.
- 17 It is difficult to predict what the cost to employers would be in the future if the subsidy for this type of education and training were removed. Although we know there will be significant behavioural changes from both providers and employers, it is difficult to predict exactly what these may be.
- 18 Providers are unlikely to charge the user the full value of the current subsidy. Instead, they may find ways to provide this training more cheaply or in some cases they may withdraw from providing this type of training because other providers (eg PTEs) may provide it more cheaply.
- 19 Employers are likely to seek the most cost-effective way to meet regulatory compliance. This will create a more competitive market and, as a result, providers are likely to respond to this by lowering costs to the user.
- 20 The subsidy saving may also mean employers reduce the number of employees they send on this type of training, as the low cost of this type of training may mean that businesses utilise the training beyond their actual regulatory compliance needs.

## Small Funds (less than \$2 million)

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- 21 On 20 January you agreed to remove funding for small funds equivalent to 75% of total funding in this area, but sought further advice on their impacts.
- 22 An analysis of fifteen small funds has been undertaken to establish whether or not each fund should be disestablished. Three funds have not been recommended for disestablishment, as they are required to meet New Zealand's obligations to other countries (Chair of Malay Studies, NZ / EU Exchange Fund), or, in the case of the Migrant Levy, ceasing delivery of the programme would not represent a saving to the Crown.
- 23 Twelve small funds are recommended for disestablishment, with a total value of \$25.180 million over four years. The funds considered are set out in appendix 3.
- 24 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 vary significantly. Any reduction of services will need to be managed carefully, and in consultation with relevant agencies, to ensure government priorities are met.
- 25 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.

- 26 While the outcomes previously supported by some of these small funds could be supported through mainstream funds (primarily and TEOC and SAC), this is not likely to be possible in every case.
- 27 As a number of these small funds relate to programmes run by other government agencies, or where they have a strong interest in their delivery, it is advisable that you, as Minister, consult with other relevant Ministers (particularly the Minister of Labour) on the proposal to disestablish these funds. Officials will provide you with further advice on which Ministers to consult with.

## Top Achiever Doctoral Scholarships

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- 28 On 20 January you agreed to remove funding for Top Achiever Doctoral Scholarships, and that the programme would be disestablished through a managed process, including continuing to fund scholarships for existing recipients. We would like to clarify the timing for the final round of applications for this programme.
- 29 The TEC is currently considering applications from the December 2008 scholarship round. It would be unadvisable to cancel the December 2008 scholarship round as this would disadvantage applicants. Another scholarship round is due in May 2009.
- 30 The TEC has published information on the next scholarship round on its website (with a closing date of 13 May 2009). Scholarship offices are also disseminating this information. To discontinue prior to the May 2009 rounds, would require communications in advance of formal Budget 2009 announcements.
- 31 There are two options for discontinuing these Scholarships:
- a Discontinue from 1 January 2009 (with December 2008 being the last round), with a saving of \$30.025 million over 4 years; or
  - b Discontinue from 1 June 2009 (with May 2009 being the last round), with a saving of \$25.936 million over 4 years.
- 32 These costings assume existing doctoral students would continue to be supported, and allow some flexibility for students who suspend in the case of ill health or other circumstances.

## Skill Enhancement

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- 33 On 20 January you agreed to the removal of Skill Enhancement, but requested further advice on the implications of this change.
- 34 The purpose of Skill Enhancement is to provide vocational training for young Māori and Pacific people at level 3 and above on the National Qualifications Framework, leading to further tertiary education or sustainable employment. Skill Enhancement is delivered in two strands: *Rangatahi Māia* and *Tupulaga Le Lumana'i*, for Māori and Pacific learners respectively. The programme provides extra learning and pastoral care support for learners as a means to enhance outcomes.

- 35 Skill Enhancement evolved from earlier trades training programmes targeted particularly at Māori learners, and the programme maintains a high level of support from this constituency.
- 36 However, the programme regularly fails to meet outcome targets. For a number of years it has under delivered on the number of learners participating in the programme, and in 2008 had its funding baseline halved.
- 37 The programme does achieve good destination outcomes, with nearly 85% of learners on the programme progressing to further education or employment. However, credit achievement outcomes are regularly not achieved. Actual achievement in 2008 was less than 40 credits per learner, against an expected achievement of 60 credits per learner.
- 38 Most providers of Skill Enhancement are PTEs. At least one provider receives no other funding from the TEC. While other providers also receive other targeted training funding through Training Opportunities and/or Youth Training, many have recently experienced funding reductions in these funds in 2009.

### TEO Component: Universities Tripartite Adjustment Fund

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- 39 Tripartite funding is provided to universities to assist them in paying for salary increases. The agreement that this funding will be provided was between the Government, the Vice Chancellors of the universities and the unions. Previous agreements indicate that funding for this purpose will be provided up to and including 2011, with the level of allocation to be determined annually.
- 40 Tripartite funding is distributed in two ways – through a postgraduate funding rate increase and an adjustment fund to ensure that universities with lower post graduate enrolments are still able to pay for salary increases. The proposed saving would be achieved by removing the adjustment fund, which is the aspect of tripartite funding that is not consistent with the government's intention to move to a simple, streamlined funding system.

*[Information deleted in order to maintain legal professional privilege]*

*[information deleted in order to protect the commercial position of the person who supplied the information, or who is the subject of the information]*

*[Information deleted in order to maintain legal professional privilege]*

## Capital Implications

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- 46 Thus far, advice has focussed upon the operating impacts of the new initiatives and savings proposals for Budget 2009. However, three proposals for Budget 2009 also have capital implications, arising from flow-on effects on Student Loans borrowing. The table below summarises these capital costs.

|                                   | 2009/10 | 2010/11 | 2011/12 | 2012/13 | 4-year total |
|-----------------------------------|---------|---------|---------|---------|--------------|
| 200 extra medical students places | 0.105   | 0.352   | 0.702   | 1.182   | 2.341        |
| Bonded Merit Scholarships         | 1.215   | 2.43    | 3.645   | 4.131   | 11.421       |
| Step Up Scholarships              | 0.834   | 1.713   | 2.622   | 3.228   | 8.397        |
| <b>Total</b>                      | 2.154   | 4.495   | 6.969   | 8.541   | 22.159       |

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

- 48 The withdrawal of the Bonded Merit Scholarships and Step Up Scholarships will lead to an increase in borrowing, because at present receipt of these scholarships is linked to a reduction in the amount of Student Loans that can be drawn down (e.g. if a scholarship pays students' fees, they cannot borrow for those fees).<sup>1</sup>

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<sup>1</sup> Note that the removal of the Top Achiever Doctoral Scholarships is not expected to have an impact on the uptake of Student Loans. This is because recipients of these scholarships are not restricted in their ability to take out Student Loans, and because potential recipients of these scholarships may replace the revenue with university and private scholarships (which are currently undersubscribed).

- 49 There is no real scope for finding off-setting capital savings to pay for these costs. The two capital appropriations in tertiary education are as follows:
- a Borrowing through the Student Loans Scheme (\$1,296 million in 2008/09, continuing into the outyears); and
  - b Projects at Tertiary Education Institutions (\$147 million in 2008/09, \$6 million in 2009/10, with no funding thereafter).
- 50 So the only appropriation with sufficient capital to cover these changes is the Student Loans Scheme. Changes in this area are not straightforward (particularly in light of existing commitments in this area), and the line-by-line review does not recommend any immediate savings.
- 51 Therefore, we recommend that you seek new capital to fund these initiatives, noting that the operating savings proposed are large relative to the amount of capital sought.

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

## Consultation

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- 53 The Ministry of Economic Development, Treasury, and the Ministry of Research, Science and Technology have commented on issues to do with the unfunded innovation allocation. The Treasury has been briefed on the line-by-line review. The Ministry of Social Development has been consulted on the removal of the Step Up and Bonded Merit Scholarships. The Department of Labour is aware of the literacy, language and numeracy changes, and we will discuss the details with them later this week.

Appendix 1: draft line by line review of tertiary education

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## **Tertiary education savings for Budget 2009**

**26 January 2009**

### **Purpose**

- 1 This aide-memoire sets out four further options for the proposed tertiary education savings for Budget 2009:
  - a retain the 2009 CPI adjustment for Industry Training, Modern Apprenticeships and Adult and Community Education (ACE),
  - b reduce the 2010 CPI adjustment to allow for forecast changes in the rate,
  - c further savings from Priorities for Focus, and
  - d further work and/or savings from ACE.
- 2 In order to assist these decisions, we have attached an update of the current savings package, plus the impact of the further options presented here.
- 3 You may wish to discuss these with officials at your meeting on 27 January. Following that meeting a briefing will then be provided with formal recommendations for you to consider. That further briefing will also provide information as requested last week.

### **Retain 2009 CPI adjustment for Industry Training, Modern Apprenticeships and ACE**

- 4 On 20 January you approved savings through the removal of CPI adjustments, involving:
  - a Removal of the adjustment for 2011 only for the Student Achievement Component and TEO Component
  - b Removal of the adjustments for 2009, 2010, and 2011 for Industry Training, Modern Apprenticeships and ACE.
- 5 This would save \$176.3 million over the four years from 2009/10 to 2012/13.<sup>2</sup>
- 6 This note suggests an amendment to the amount of savings from the removal of the CPI adjustment for Industry Training, Modern Apprenticeships and ACE. Because current savings are based upon removing the CPI adjustment for 2009 funding rates in 2010 fall back to 2008 levels, after a one-off increase during 2009.

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<sup>2</sup> Note that this figure is \$3.6 million higher than the previous estimate, following technical peer review of the costings.

- 7 In light of the overall savings achieved in the tertiary Budget package, it would be possible for you to maintain these funding rates at the 2009 level. This would mean that the 2010 and 2011 CPI adjustments for Industry Training, Modern Apprenticeships and ACE would still be removed, but not the 2009 CPI adjustment.
- 8 This alternative approach would be somewhat anomalous – Industry Training, Modern Apprenticeships and ACE rates would have a one-off CPI adjustment only, but it would lessen the severity of the operational implications for each tertiary organisation affected.
- 9 If you take this option, it would reduce the available savings by \$25.3m over four years. This can be done without affecting the savings required for the unfunded innovation allocation and the cost of 200 medical places, although it would reduce the savings offered in the line-by-line review.

### **Adjust the 2010 CPI rate from 2.5% to 1.95%**

- 10 At your meeting on 20 January, you indicated a preference for retaining 2010 CPI adjustments to the Student Achievement Component and the TEO Component. There is a consequential issue arising from this decision – whether the CPI adjustment for 2010 should remain at the level set in Budget 2008 (2.5%), or whether it should be updated for the latest forecast (1.95%).
- 11 This issue only applies for 2010. The 2009 CPI was not intended to change at Budget 2009 (the year will be half over before the Budget), while the 2011 CPI adjustment will be removed at Budget 2009, so does not need to be updated.
- 12 The issue does not apply to Industry Training, Modern Apprenticeships and ACE, since the CPI adjustment for 2010 is to be removed as part of the savings at Budget 2009.
- 13 The table below shows the CPI adjustments made to the Student Achievement Component and the TEO Component, and the current forecasts. In 2008 the adjustment made was significantly lower than the final CPI result.

|      | Adjustment made (%) | Latest forecast (%) |
|------|---------------------|---------------------|
| 2008 | 2.1                 | 3.6 (actual)        |
| 2009 | 2.6                 | 2.2                 |
| 2010 | 2.5                 | 1.95                |
| 2011 | 2.3                 | 2.0                 |
| 2012 | None                | 1.9                 |

- 14 If the 2010 CPI adjustment was reduced from 2.5% to 1.95%, it would be consistent with the approach taken to CPI in previous years, and would save around \$41.2 million over four years (note that these figures are still being peer reviewed). However, in the light of the other reductions intended, and the higher than forecast result in 2008, it is worth considering retaining the current CPI adjustment.

### **Further savings from Priorities for Focus**

- 15 At your meeting on 21 January you indicated that you wished to consider further reductions to Priorities for Focus, beyond those set out in the submission of 16 January, which proposed halving the value of the fund<sup>3</sup> from the start of 2011.

<sup>3</sup> Priorities for focus involves \$16.478m in 2009/10, which includes a number of items of expenditure (such as funding for embedding literacy and numeracy capability) which are being considered as part of the budget process. This aide-memoire relates only to the \$10m per annum available for allocation to universities.

- 16 We have considered four options:
- a Retaining the current proposal to reduce the fund by half from 2011 (\$12.5 million savings, as set out in the current package)
  - b Abolishing the fund entirely from 2011 (\$25 million savings)
  - c Reducing the fund by 50% in 2009 and 2010 and abolishing it from 2011 (\$32.5 million savings)
  - d Reducing the fund by 50% in 2009 and abolishing it from 2010 (\$37.5 million savings)

*[Information deleted in order to maintain legal professional privilege]*

### *Operational risks*

- 17 Priorities for Focus supports the following types of initiatives in universities:
- a Māori and Pacific achievement initiatives: Increasing participation and achievement for Māori and Pacific students and creating pathways from schools to tertiary education (\$5 million per year).
  - b Network initiatives: Enhancing differentiation and collaboration among regional groupings of universities (\$3.5 million per year).
  - c University cross-sector initiatives: Increasing collaboration across the whole university sector. In particular, an integrated approach for measuring graduate outcomes and a research project on future university workforce needs (\$1.5 million per year).
- 18 The first of the four options set out above was designed to preserve the \$5 million of the fund which supports initiatives to increase participation and achievement for Māori and Pacific students and create pathways for them from schools to tertiary education.
- 19 The basis for this was that this funding more directly supported government priorities, and in particular services of direct benefit to students, than the capability-building initiatives funded from the remaining \$5 million.
- 20 Choosing the second of the four options (abolishing the fund from 2011) would mean removing support for Māori and Pacific achievement initiatives.
- 21 There would be little direct operational effect given the extensive lead-in time, and while it would also have limited direct effect on current frontline services, it would result in a loss of opportunity to improve services for Māori and Pacific students. However, some support would continue for these groups through the equity component of the TEO Component: TEI Base Grant (around \$7 million per year).

### **Further savings from Adult and Community Education**

- 22 This section discusses the contribution of ACE, in order to support a decision about whether to seek further savings as part of Budget 2009, or whether to review this

provision over the medium term. The table below summarises total ACE funding and current savings proposals.<sup>4</sup>

**Table: Funding and savings proposals for ACE**

|   | 2008/09       | 2009/10       | 2010/11       | 2011/12       | 2012/13       |
|---|---------------|---------------|---------------|---------------|---------------|
| <b>Current ACE funding</b>  |               |               |               |               |               |
| Tertiary Education Institutions   | 17.778        | 17.778        | 17.778        | 17.778        | 17.778        |
| Community providers (mainly schools)  | 22.481        | 27.213        | 27.837        | 28.141        | 28.141        |
| Other Tertiary Education Providers (Literacy Aotearoa and ESOL Home Tutors) | 4.695         | 4.695         | 4.695         | 4.695         | 4.695         |
| <b>Total</b>  | <b>44.954</b> | <b>49.686</b> | <b>50.310</b> | <b>50.614</b> | <b>50.614</b> |
| <b>Agreed savings</b>   |               |               |               |               |               |
| Tertiary Education Institutions: Reduce volumes                             |               |               | -3.000        | -6.000        | -6.000        |
| Community providers: Remove CPI adjustment                                  |               | -0.844        | -1.949        | -2.315        | -2.315        |
| <b>Adjusted funding levels</b>  |               |               |               |               |               |
| Tertiary Education Institutions   | 17.778        | 17.778        | 14.778        | 11.778        | 11.778        |
| Community providers   | 22.481        | 26.369        | 25.888        | 25.826        | 25.826        |
| Other Tertiary Education Providers  | 4.695         | 4.695         | 4.695         | 4.695         | 4.695         |
| <b>Total</b>  | <b>44.954</b> | <b>48.842</b> | <b>45.361</b> | <b>42.299</b> | <b>42.299</b> |

- 23 You have asked for further advice on savings options for ACE, and on the share of ACE courses which are hobby-related. While there are some challenges to measuring the proportion of hobby courses, in general:
- a Tertiary Education Institutions report ACE provision using the 'field of study' classification that also applies to full qualifications, which is rather broad for ACE purposes. Nearly three-quarters are identified as "mixed field programmes" which include employment and life skills programmes, literacy language and numeracy programmes, as well as programmes that do not fit into any other classification.
  - b Community provider funding is primarily provided to schools, although a range of other small community providers are also funded. Schools have been allocated \$16.1 million (GST excl) for ACE in 2009. This includes additional funding provided in Budget 2008 linked to the CPI. 23% of provision in schools is for "art, music, craft", 19% is for "fitness sport recreation", and 8% is for "home management maintenance". This suggests that at least half of funding for ACE in schools supports hobby courses.
  - c Other Tertiary Education Providers are funded for training volunteer tutors and other community-based activities for literacy, language and numeracy.  
*[deleted – free and frank]* None of this funding is directed to hobby courses.

## Analysis

- 24 There are strong public policy reasons to withdraw funding for hobby courses. The courses are unlikely to have an economic impact (e.g. by increasing incomes or employability). Furthermore, many of the students undertaking these courses would be able to meet the full cost themselves.

<sup>4</sup> Note that as well as the specific Budget proposal to reduce ACE funding for Tertiary Education Institutions, the CPI savings affect community-based ACE

- 25 The remaining argument in favour of hobby-based courses is to enhance social cohesion. It is true that these programmes offer some opportunity for people to meet others in their community, but this is a side-effect rather than a central objective of hobby courses. In contrast, community-based literacy programmes enhance social cohesion through helping people with low skill levels both to re-engage in learning and to function more effectively in a modern, literate society.
- 26 Whilst there are clear policy arguments for reduced funding for hobby courses, it does present risks.
- a There will be substantial public concerns. An earlier proposed funding system would have established a lower funding rate for hobby courses, and this led to substantial concerns from community providers. For example, the number of Ministerial responses that the TEC provided for the Minister's signature increased from 329 in 2003/04 to 918 in 2004/05, primarily as a result of this proposed change to ACE funding arrangements.
  - b *[deleted – protect the commercial position of supplier ]*. The impact on individual TEIs will depend on the size of their ACE allocation compared to the size of the TEI. Most TEIs receive less than \$1m for ACE per year. *[information deleted in order to protect the commercial position of the person who supplied the information, or who is the subject of the information]*. We will carry out further analysis to assess the likely impact upon schools.
  - c Finally, this has the potential to be administratively complex. There will be a number of hobby courses that arguably have wider objectives (e.g. a language course that is primarily for people going on holiday, but may also help some in their work). Furthermore, even where there is no grey area, current information does not allow a simple line to be drawn between 'hobby' and 'non-hobby' courses.
- 27 Because of these risks, you may wish to consider further savings to ACE over the medium term. However, if you wish to achieve savings as part of Budget 2009 the most feasible approach seems to be to focus reductions in areas where there is a higher concentration of hobby courses, and to advise providers that the government funding they use is not to be directed to hobby courses. A more specific approach that separated out and withdrew funding for all hobby courses would be very expensive for both TEC and the affected providers, and would be unlikely to provide a substantial improvement in clarity about what 'is' a hobby course.
- 28 In light of these matters, there are several options:
- a Retain current savings proposals for ACE in TEIs and the CPI adjustment to ACE in communities.
  - b Carry out further work to explore this issue in more detail.
  - c Take immediate savings by halving funding for Tertiary Education Institutions and community-based ACE from 2011. *[deleted - confidentiality of advice]*.

The savings arising from this option are  
as follows.

**Table: Additional savings proposals for ACE**

|  | 2009/10 | 2010/11 | 2011/12 | 2012/13 | Four-year total |
|--|---------|---------|---------|---------|-----------------|
|  |         |         |         |         |                 |

|   |       |        |         |         |         |
|---|-------|--------|---------|---------|---------|
| ACE in TEIs (in addition to savings already agreed) |       | -1.445 | -2.889  | -2.889  | -7.223  |
| ACE in Communities                                  |       | -6.472 | -12.913 | -12.913 | -32.298 |
| <b>Total</b>  | 0.000 | -7.916 | -15.802 | -15.802 | -39.521 |

### Appendix: Summary of savings for consideration at Budget 2009

|  | 2009/10        | 2010/11         | 2011/12         | 2012/13         | 4-year total    |
|--|----------------|-----------------|-----------------|-----------------|-----------------|
| <i>Unwinding the unfunded Innovation allocation from Budget 2008</i>                                   |                |                 |                 |                 |                 |
| CPI adjustment   | -7.900         | -38.000         | -65.200         | -65.200         | -176.300        |
| TEO Component: Encouraging and Supporting Innovation   | -4.000         | -8.000          | -8.000          | -8.000          | -28.000         |
| TEO Component: ITO Strategic Leadership  |                | -1.750          | -3.500          | -3.500          | -8.750          |
| TEO Component: Priorities for Focus (option 1)   |                | -2.500          | -5.000          | -5.000          | -12.500         |
| TEO Component: University tripartite agreement   |                | -11.000         | -22.000         | -22.000         | -55.000         |
| Scholarships   | -10.005        | -20.261         | -30.744         | -37.491         | -98.501         |
| Literacy, Language and Numeracy  | -8.100         | -23.900         | -27.900         | -34.400         | -94.300         |
| TEC operating funding  | -9.300         | -7.375          | -7.375          | -7.375          | -31.425         |
| Small funds with high compliance costs   | -1.746         | -3.167          | -0.671          | -0.671          | -6.255          |
| Student Achievement Component funding for regulatory compliance qualifications                         |                | -5.000          | -9.674          | -3.900          | -18.574         |
| <b>Total savings</b>   | -41.051        | -120.953        | -180.064        | -187.537        | -529.605        |
| <b>Target</b>  | -72.540        | -136.500        | -156.000        | -156.000        | -521.040        |
| <i>Funding 200 extra medical student places</i>  |                |                 |                 |                 |                 |
| Remaining savings from: Small funds with high compliance costs   | -1.170         | -3.927          | -7.682          | -7.682          | -20.461         |
| Remaining savings from: Student Achievement Component funding for regulatory compliance qualifications |                |                 | -0.326          | -6.100          | -6.426          |
| <b>Total savings</b>   | -1.170         | -3.927          | -8.008          | -13.782         | -26.887         |
| <b>Target</b>  | -1.170         | -3.927          | -8.008          | -13.782         | -26.887         |
| <i>Line-by-line review</i>   |                |                 |                 |                 |                 |
| Adult and Community Education  |                | -3.000          | -6.000          | -6.000          | -15.000         |
| Skill Enhancement  | -2.150         | -4.300          | -4.300          | -4.300          | -15.050         |
| <b>Total line by line savings</b>  | -2.150         | -7.300          | -10.300         | -10.300         | -30.050         |
| <b>Overall savings</b>   | <b>-44.371</b> | <b>-132.180</b> | <b>-198.372</b> | <b>-211.619</b> | <b>-586.542</b> |
| <i>Further options</i>   |                |                 |                 |                 |                 |
| Retain 2009 CPI adjustment for ITOs and ACE ( <b>COST</b> )  | +6.000         | +6.400          | +6.500          | +6.500          | +25.400         |
| Adjust the 2010 CPI rate from 2.5% to 1.95%  | -5.800         | -11.800         | -11.800         | -11.800         | -41.200         |
| Increased savings from Priorities for Focus (option 2)   |                | -5.000          | -10.000         | -10.000         | -25.000         |
| Increased savings from ACE   |                | -7.916          | -15.802         | -15.802         | -39.521         |

## Appendix 3: Detailed analysis of small funds

### Savings available from disestablishment of small funds

- 1 This Appendix lists the fifteen small funds under \$2 million per annum that were considered for disestablishment, and gives further information and comment on each of them.
- 2 In each case, the TEC has considered current contractual commitments in relation to each fund and the savings presented allow these commitments to be seen through.
- 3 The following table shows the savings that are now achievable.

|   | Uncommitted Funding (\$m, GST ex) |              |              |                    |               |
|---|-----------------------------------|--------------|--------------|--------------------|---------------|
|   | 2009/10                           | 2010/11      | 2011/12      | 2012/13 & outyears | Total         |
| <b>Funds below \$2m</b>                       |                                   |              |              |                    |               |
| Building Research Capacity in Social Sciences | 0.667                             | 1.333        | 1.333        | 1.333              | 4.666         |
| Targeted Education Training Grants            |                                   | 0.040        | 0.080        | 0.080              | 0.280         |
| Pathfinders                                   | 0.605                             | 1.211        | 1.211        | 1.211              | 4.238         |
| Special Education SSG                         |                                   | 0.408        | 0.816        | 0.816              | 2.040         |
| Advance Centre                                | 0.044                             | 0.089        | 0.089        | 0.089              | 0.311         |
| Centre for Refugee Education                  | 0.400                             | 0.801        | 0.801        | 0.801              | 2.803         |
| ESOL Assessment Service                       | 0.210                             | 0.420        | 0.420        | 0.420              | 1.470         |
| Academic Migrant Grant                        |                                   | 0.189        | 0.378        | 0.378              | 0.945         |
| Refugee Study Grants                          |                                   | 0.662        | 1.324        | 1.324              | 3.310         |
| Bilingual Tutor Grants                        | 0.142                             | 0.284        | 0.284        | 0.284              | 0.994         |
| ACE Innovation Development Fund               | 0.500                             | 1.000        | 1.000        | 1.000              | 3.500         |
| Community Learning Aotearoa New Zealand       | 0.089                             | 0.178        | 0.178        | 0.178              | 0.623         |
| <b>Total</b>                                  | <b>2.657</b>                      | <b>6.615</b> | <b>7.914</b> | <b>7.914</b>       | <b>25.100</b> |

#### Building Research Capability in Social Sciences - \$1.333 m annual value

- 4 The purpose of the Building Research Capability in Social Sciences fund was to support initiatives to build the capability of the tertiary education social science sector, as well as promote greater quality and relevance in social science research.
- 5 It is currently allocated to a consortium of universities led by Massey University; however, contract commitments expire in June 2009.
- 6 While the fund has met its intended outcomes (including an improvement in research quality), the fund is a capability initiative and by definition is time-limited. The Performance Based Research Fund is designed to support ongoing research

outcomes in all fields, and as such removing Building Research Capability in Social Sciences funding poses low risk.

#### Targeted Education and Training Grants - \$0.080 m annual value

- 7 The Targeted Education and Training Grants are allocated to two tertiary education organisations to provide living support for selected at risk 16 and 17 year olds. The grants are for student support rather than direct subsidies of educational programmes.
- 8 The grants are administered through a one-year funding agreement which expires in December 2009.

#### Pathfinders - \$1.211 m annual value

- 9 Pathfinders funding purchases support to ensure the successful transition to further education, training or meaningful employment for young people from selected rurally isolated areas who have left school and have the aptitude to achieve at levels 3 and 4 on the National Qualifications Framework.
- 10 Pathfinders was established as a pilot and is received by two TEOs under funding agreements which expire in December 2009. Removal of this funding poses low risk.

#### Special Education Special Supplementary Grant - \$0.816 m annual value

- 11 The purpose of the Special Education Special Supplementary Grant is to assist tutorial staff to work with resource-intensive learners on a one-to-one basis. It is currently allocated to eleven providers, including nine institutes of technology and polytechnics (ITPs) and two universities
- 12 There is insufficient information to establish whether they are covering the target group adequately and whether this fund performs well. The risks of removing this fund are negligible as learners with special education needs can be supported through the Equity Loading for Students with Disabilities (a part of the Tertiary Education Component).

#### Advance Centre for the Deaf - \$0.089 m annual value

This fund provides support for deaf students' learning through its one recipient – Life Unlimited, which is a charitable organisation. Situated in Auckland, the service is largely facilitation, support and assessment of the tertiary needs of deaf students. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

- 14 Removal of this fund is likely to affect the viability of this provider. However, in general, learners with special education needs are supported through the Equity Loading for Students with Disabilities (a part of the Tertiary Education Component).
- 15 The funding agreement for this expires in December 2009.

#### Centre for Refugee Education - \$0.801 m annual value

- 16 This funding supports the Centre for Refugee Education, which provides a settlement service, through which the national quota (750 adults and children) of refugees each year are initiated into New Zealand society. The fund is currently administered under a joint contract between the Ministry of Education (MoE) and the TEC. MoE administers the funding for children while TEC is responsible for the funding for adults. It has one recipient, Auckland University of Technology (AUT).

- 17 The purpose of the Centre does not directly fit within core tertiary education objectives, as it assists refugees to participate in community life, rather than providing education to students.
- 18 The performance of this fund is difficult to assess as participants are not tracked and there is no measure of outcome achievement.
- 19 While there is low legal risk associated with discontinuing this funding, as the three-year contract expires in December 2009, New Zealand does have obligations to meet the needs of refugees under its commitments to the United Nations Human Rights Council.

English for Speakers of Other Languages (ESOL) Assessment Service - \$0.420 m annual value

- 20 This funding supports its recipients to assess the needs of migrants and refugees and provide information on choice of course and providers, in order to determine the best ESOL education for individuals. Four providers, including two Other Tertiary Education Providers (OTEPS), 1 Private Training Establishment (PTE) and one community provider, receive this funding.
- 21 The service is jointly funded with the Ministry of Social Development and the service supports a range of functions other than tertiary education.

Academic Migrant Grant - \$0.378 m annual value

- 22 Academic Migrant Grant funding enables migrants with tertiary qualifications and links to the Department of Labour Skills Shortages lists to participate in designated English language programmes with no cost to the learner. It is received by eight providers, including five ITPs and three universities.
- 23 There is insufficient evidence to determine the effectiveness of this funding as academic migrants are not tracked. Some programmes appear to be more successful than others (such as Victoria University, which provides workplace experience).

Refugee Study Grants - \$1.400 m annual value

- 24 Refugee Study Grants enable adult refugees to participate in designated English language programmes free of cost. This funding is received by thirteen providers including nine Institutes of Technology (ITPs) and four Universities with indicative on-plan funding to 2010.
- 25 The funding currently achieves its intended outcome, including progression (refugees achieving level 5 qualifications). However, this funding has relatively high compliance.

Bilingual Tutor Grants - \$0.284 m annual value

- 26 Bilingual tutor grants enable tutors with bilingual abilities to undertake study to become adult language tutors in designated language teaching programmes with no fee. Five providers currently receive this funding, including four ITPs and one University.
- 27 The funding has achieved intended outcomes. However, as there is now an over-supply of ESOL tutors, the purpose of this fund is less valid and removal of the fund poses limited risk.

ACE Innovation and Development Fund - \$1.000 m annual value

- 28 The ACE Innovation and Development Fund was designed to support emerging ACE provision, encourage responsiveness and innovative provision in ACE at local levels, and increases the capability of individual organisations and the tertiary education sector as a whole.
- 29 There are two funding rounds per year and it is received by a number of TEOs on the basis of initiative proposals.

#### Community Learning Aotearoa New Zealand - \$0.178 m annual value

- 30 Community Learning Aotearoa New Zealand provides small grants to support small one off projects delivered by ACE community providers at a 'grass-roots' level. It is received by a number of community organisations as one-off payments based on initiative proposals.
- 31 There is low risk associated with removal of this funding. Both this and ACE IDF carry high administration costs for a small amount of funding.

#### **Small funds not recommended for removal**

##### Chair of Malay Studies

- 32 The purpose of the Chair of Malay Studies (\$76,000 per annum) fund is to promote greater awareness and understanding in New Zealand of Malaysia and is allocated to Victoria University of Wellington.
- 33 Due to the nature of the arrangement, whereby the fund was established during a visit of the Malaysian Prime Minister to New Zealand, abolishing the fund would involve high diplomatic risk.

##### European Union-New Zealand Industrialised Countries Instrument Joint Mobility Project

- 34 This fund (\$600,000 over three years) was recently established to support exchanges between project partners, in order to strengthen tertiary education links between New Zealand and European Union partner countries.
- 35 Massey University is the lead New Zealand organisation for this joint project and there is high project commitment from partners. As it is a joint initiative there is high diplomatic risk involved and the possibility of legal challenge if the fund is abolished as Massey University's approved investment plan includes reference to this fund.

##### Migrant Levy

- 36 The Migrant Levy (variable per annum) provides home and community based ESOL support for adult migrants who are not job seekers and who have not pre-purchased English language training.
- 37 The fund is serviced by the levy therefore abolishing the fund would not result in reduced cost to government. The only savings would be in compliance cost which is minimal and the cost of removing this fund is likely to outweigh any savings.