

Tertiary Education Report: 'Unwind' Cabinet paper and other tertiary education Budget matters

Executive Summary

A redrafted version of the Cabinet paper "Unwinding unfunded Budget 2008 commitments for Economic Transformation: Innovation" is attached. As requested at Cabinet on Monday, this is for your initial consideration, and then discussion with Ministers English, Mapp, and Brownlee. Once the paper is agreed, we will make arrangements with the Ministry of Economic Development to have Minister Brownlee resubmit this paper to the Expenditure Control Committee (by 10am Thursday 19 March, for discussion on 24 March).

In addition, this note updates you on the overall Budget situation for tertiary education, and seeks your final decisions on:

- Tripartite adjustment funding (which was included in the line by line review rather than the 'unwind' paper to allow further time for legal and financial impacts to be assessed)
- A fiscally neutral adjustment to implement the PTE equity fund.

Recommended Actions

It is recommended that the Minister for Tertiary Education:

- Indicate** any changes to the attached draft Cabinet paper "Unwinding unfunded Budget 2008 commitments for Economic Transformation: Innovation".
- Refer** the attached Cabinet paper to Ministers English, Mapp and Brownlee for discussion.
- Note** that the revised Cabinet paper is to be resubmitted to Expenditure Control Committee on Thursday 19 March, for consideration on Tuesday 24 March 2009.
- Note** that this paper provides a summary of tertiary education Budget issues, for your information.

Universities tripartite adjustment fund savings

- Note** that savings for universities tripartite adjustment funding were included in the line by line review (rather than the 'unwind' paper), to allow time for further advice on:

[Information deleted in order to maintain legal professional privilege]

ii. Financial impacts: these are significant for most universities, given that they add to other funding reductions proposed through the Budget, and are likely to have disproportionate impacts on a small number.

f. Note that the TEC is providing you with separate advice on the effects of the Budget package in general on the viability and sustainability of Tertiary Education Institutions, including universities;

g. Indicate whether you wish to:

i. make no reduction to universities tripartite adjustment funding

YES NO

OR

ii. reduce universities tripartite adjustment funding from 2012 only, reducing the total savings over four years by \$13.044 million to \$33.206 million

~~YES~~ ~~NO~~ AT

OR

iii. reduce universities tripartite adjustment funding from 2011, saving \$55.343 million over four years, an increase of \$9.093 million above the savings currently included in the line by line review

AT. YES NO

h. Note that if you take either of options g(i) or g(ii) above, you will need to discuss the change with the Minister of Finance at the Budget bilateral on 16 March.

PTE equity funding

i. Note that you agreed to seek a fiscally neutral transfer to establish equity funding for PTEs, and that this will cost \$1.676 million over four years.

- J. **Agree** to include the following recommendation in the Budget decisions, to enable a fiscally neutral adjustment to be made later in the year when areas of underspend become apparent.

"Agree to extend equity funding for Maori and Pacific students to Private Training Establishments (based on the existing funding mechanism used for Tertiary Education Institutions) and authorise the Minister for Tertiary Education and the Minister of Finance to make the required fiscally neutral changes to put this into effect as part of the October Baseline Update."

AGREE / DISAGREE



Rob McIntosh
Deputy Secretary
Strategy and System Performance
Ministry of Education

NOTED / APPROVED



Hon Anne Tolley
Minister for Tertiary Education

____/____/____

Tertiary Education Report: Budget 2009 – remaining tertiary education matters

Purpose of Report

1. This briefing provides a redrafted version of the 'unwind' Cabinet paper and advice on two minor tertiary education Budget matters in advance of the bilateral.

Unwinding Unfunded Budget 2008 Commitments

2. On 9 March Cabinet discussed the paper "Unwinding Unfunded Budget 2008 Commitments: Economic Transformation (Innovation)", and requested that an amended paper be prepared. That paper is attached.
3. In addition to the further information requested by Cabinet, the paper has been updated to:
 - a. Reflect your decision on the scope for further administration savings from StudyLink due to the removal of Step Up and Bonded Merit Scholarships.
 - b. Include full financial recommendations for the TEC operating savings.
 - c. Make small technical corrections.

Tertiary education Budget package

4. At the Budget bilateral on 16 March, remaining Budget matters will be discussed. Whilst the focus will be upon the medium term work programme, Budget bids (including savings initiatives) will still be covered.
5. The following Budget bids are under consideration:
 - a. Increasing medical training places
 - b. Ensuring young people have access to training
 - c. Tertiary Education Capital Investment Fund
 - d. Voluntary student loan repayment.
 - e. Savings from discontinuing the R&D tax credit
 - f. Savings – line by line review, including
 - i. Small funds: Figures reflect your decision last week.
 - ii. Adult and Community Education
 - iii. Universities tripartite adjustment funding. This paper provides further advice on these savings.

- g. High priority cost pressures. This includes:
 - i. Student Achievement Component enrolment pressures: see 10 March paper "Tertiary education sector capacity 2009"
 - ii. Raising the Parental Income Threshold by 10% on Student Allowances
 - iii. Workplace Literacy Fund: see aide memoire for 10 March pre-bilateral briefing meeting.
 - h. PTE equity funding. As agreed on Monday, this is to be pursued such that it is fiscally neutral. The arrangements for this are discussed later in this paper.
6. Finally, work is underway on funding Employment Summit proposals. Costings on three proposals will be provided to you tomorrow, for forwarding to the Minister of Finance by mid-March:
- a. Additional promotion of New Zealand to international students
 - b. Summer employment internships in universities
7. These costings exclude Employment Summit proposals that are already included in the Budget i.e. the Youth Guarantee and Student Achievement Component participation pressures.

Remaining Budget matters

Universities tripartite adjustment funding

- 8. In the line by line review for Vote Education, we identified the need to offer further advice on the implications of reducing tripartite adjustment funding to universities. This section provides that advice.
- 9. Total tripartite funding amounts to \$73 million per year from 2011 onwards, including adjustment funding of \$22.137 million.
- 10. The funding under consideration relates only to the tripartite adjustment fund. Tripartite funding is made up of two parts – an increase to postgraduate funding rates and an adjustment fund (which ensures institutions with a higher number of postgraduate EFTS do not receive a disproportionate amount of the total funding).

[deleted – confidentiality of advice]

[Information deleted in order to maintain legal professional privilege]

Policy implications

15. The removal of tripartite adjustment funding would explicitly end government funding of staff salary increases without removing all the tripartite funding that has been allocated to universities for this purpose.
16. Ending explicit government funding of staff salary increases is desirable given that tertiary education uses a bulk funding model. Specific funding for staff salary increases does not fit with this model and could be seen as inequitable given that it is only available to universities.
17. Ending this policy is also desirable given that price increases can be directly influenced by universities and unions.
18. Funding staff salary increases in this way has also proven to be unsustainable in the long-term, with cost quickly exceeding allocated funding. Furthermore, the allocation methodology is complex and is not very transparent.

[deleted – confidentiality of advice]

Impact on universities' financial position

19. You are being provided with separate advice on the possible impact of Budget savings on TEI viability and sustainability [S/09/795 refers]. This advice explains that most universities are likely to face a low to medium risk to long-term sustainability after the Budget savings take effect. Three universities may need to make significant changes as a result of the savings, though they are not a high long-term risk.
20. Removal of tripartite adjustment funding would amount to an additional reduction of total government funding of between 0.3% and 3.2% (to a total of between 3% and 8%). It is notable that the universities that would be most affected by the removal of the adjustment fund are generally those facing the largest funding reductions (and risks) as a result of the existing savings package.

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

Other implications

23. Removal of tripartite adjustment funding (and the policy of funding university staff salary increases) would likely result in both public comment from the universities and correspondence from Vice Chancellors to you.
24. This comment is likely to focus on the need for universities to receive sufficient funding to maintain sustainability and world-class research.
25. This will provide you with an opportunity to engage with the universities on the future shape of the funding system, and particularly the balance between government price and volume adjustments and the level of fees institutions are able to charge.

Conclusions

26. The table below summarises the financial impacts of different options. Note that the total level of funding under consideration has been increased from \$18.5 million per year to \$22.1 million per year, to reflect the full amount of tripartite adjustment funding.

[Information deleted in order to maintain legal professional privilege]

Tripartite adjustment fund savings

	2009/10	2010/11	2011/12	2012/13	4-year total
Current line by line review savings	-	9.250	18.500	18.500	46.250
Option 1 – remove tripartite adjustment fund from 2011	-	11.069	22.137	22.137	55.343
Option 2 – remove tripartite adjustment fund from 2012	-	-	11.069	22.137	33.206

PTE equity funding

28. You have indicated that you would like to see equity funding for Māori and Pacific students extended to Private Training Establishments. This would align with the principle that sectors should be treated similarly unless there is a strong policy reason for different treatment.
29. You have indicated that you wish to pursue this as a priority and that this should be offset against underspends from elsewhere in the tertiary funding system. It is not possible to identify future underspends at this stage, because known underspends for 2009/10 have been offered as savings in the line by line review. However, it is likely that underspends will be identified once enrolment figures are available later in the year, and the Budget changes are fully implemented.
30. Therefore we recommend that you include the following recommendation as part of the tertiary education Budget package:
 "Agree to extend equity funding for Maori and Pacific students to Private Training Establishments (based on the existing funding mechanism used for Tertiary Education Institutions) and authorise the Minister for Tertiary Education and the Minister of Finance to make the required fiscally neutral changes to put this into effect as part of the October Baseline Update."
31. The full costs over four fiscal years are as follows. This assumes that the policy will achieve a marginal growth in Māori and Pacific participation at higher levels in PTEs over the period 2010-12.

	2009/10	2010/11	2011/12	2012/13	4-year total
Extending equity loading to Private Training Establishments	0.225	0.463	0.488	0.500	1.676