

20 March 2009

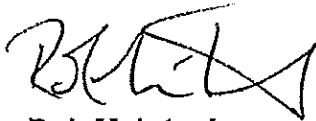
ED 30/44/00/2

**Education Report: Aide Memoire for "Unwinding unfunded Budget
2008 commitments for ET: Innovation"**

Recommended Actions

It is recommended that you:

- a. **note** that the amended Cabinet paper "Unwinding unfunded Budget 2008 commitments for ET: Innovation" will be considered by the Expenditure Control Committee on 24 March 2009; and
- b. **note** that the attached aide memoire provides supporting material for your attendance at that meeting.



Rob McIntosh
Deputy Secretary, Strategy and System Performance

NOTED / APPROVED



Hon Anne Tolléy
Minister of Education

22, 3, 09.

Aide Memoire: Unwinding unfunded Budget 2008 commitments for ET: Innovation

- This note provides background for the ECC consideration of the "unwinding" Cabinet paper, which proposes savings to repay unfunded commitments from Budget 2008.
- Savings were identified first from the areas funded at Budget 2008, as far as this was consistent with protecting frontline services at 2008/09 levels and meeting Manifesto commitments. Additional savings were found in areas of low value, based on the criteria for the line by line review.
- The result is a substantial savings package that maintains frontline services at 2008/09 levels, but asks almost every part of the tertiary sector to absorb some level of funding reduction.

Amendments to the Cabinet paper

- The paper incorporates the amendments requested by Cabinet on 9 March. Whilst the proposals are unchanged, the paper has been amended as follows:
 - A new 'rationale' section explains how the savings were identified, and why it was decided not to seek all the savings from within Budget 2008 allocations (which would have required the removal of 2010 CPI adjustment for SAC, TEOC, and PBRF) (paragraphs 19 to 24).
 - Detailed sections discuss each area funded at Budget 2008, and the reasons why each was/was not to be offered as savings.
 - The Treasury comment on the literacy, language and numeracy savings has been removed, because they are now content with the proposals.
 - An appendix sets out figures for Budget 2008 and proposed savings.
- Note that Step Up and Bonded Merit savings have been increased by \$2 million over four years (due to further reductions in StudyLink administration costs), and that \$2 million of the Adult and Community Education savings have been transferred from this paper to the line by line review to maintain the correct totals (paragraphs 56 to 58).

Risks and information on specific proposals

- The removal of CPI adjustments will raise concerns about the ongoing basis for funding, particularly in universities. The concerns will centre on their ability to compete for quality staff and meet increasing costs, in the context of restrictions on increases to tuition fees. Further work on the overall financing of tertiary education will be carried out during 2009 to address this (paragraphs 25 to 28).
- The Encouraging and Supporting Innovation fund is to be halved from 2011. This scale of reduction was suggested based upon an assessment of the quality of the projects funded, and a judgement that this new level would be sufficient to advance innovation in the tertiary sector in a cost-effective way (paragraph 35).

- [deleted to protect collective and individual ministerial responsibility] briefing on this for a possible discussion (paragraph 36).
- The Adult and Community Education funding proposals are likely to create significant public comment (paragraphs 43 to 49).
 - The changes will affect a large number of students. Past proposals to improve value for money in ACE prompted a strong response from students and providers (e.g. through Ministerial correspondence).
 - Whilst we cannot avoid the risk of adverse public comment, we can attempt to make the changes as fair as possible, by targeting savings to hobby courses as tightly as possible.
 - For example some ACE provides foundation and life skills programmes, or a pathway into mainstream programmes. We will offer further advice on ways to implement the proposed savings so whilst protecting these courses (without assessing each course, which would be a lengthy and expensive process).
 - For example, many Other Tertiary Education Providers are focussed upon literacy, language and numeracy provision, while wānanga tend to use ACE to support progression into mainstream education. Of course if the reductions were smaller in these subsectors, reductions would have to be larger in schools and Institutes of Technology and Polytechnics. (Wānanga and receive around 5% of total ACE funding, and OTEPs receive around 25%).
- If a decision is made to remove savings for any of the proposals in the paper, the next available source of savings is the funding proposed in the line by line review, as set out in the table below.

	2009/10	2010/11	2011/12	2012/13	Four-year
Adult & Community Education	-1.694	-9.149	-21.802	-21.802	-54.447
Small funds	-0.396	-2.052	-3.311	-3.311	-9.070
TEO Component - Universities tripartite adjustment		-11.069	-22.137	-22.137	-55.343
Total savings	-2.090	-22.270	-47.250	-47.250	-118.860

Related Budget decisions

- A Workplace Literacy Fund bid has been included in Jobs Summit proposals, to address an immediate need for provision (paragraph 40).
 - Embedded provision in ITOs and ITPs has the potential to offer greater value for money in the longer term (because it requires a relatively small top-up on existing funding to pay for smaller class sizes and appropriately skilled tutors).
 - Workplace literacy programmes are considerably more expensive on a per-learner basis, although they have demonstrated benefits for learners and business. Ultimately, these would operate as a smaller,

specialised element of tertiary education where lower cost interventions are not likely to be effective.

- The immediate benefit of workplace literacy programmes is that they have capacity for expansion (and indeed are substantially oversubscribed) that does not exist in embedded programmes.
- The paper notes that a Budget bid to redirect the savings from the removal of the Research and Development Tax credit would mean that the overall impact on the Performance-based Research Fund would be an increase. We understand this bid is unlikely to proceed, although this does not affect the rationale for savings in the PBRF (paragraph 28).