

## SENIOR LEADERSHIP TEAM

23 May 2011

### 2011 Budget Highlights

#### Overview of the Government's Budget

The Government announced new operating expenditure of approximately \$4 billion mainly in health and education, offset by estimated savings of \$5.2 billion from changes to Working for Families tax credits, student loans and KiwiSaver. Most of the changes will not occur until after the election.

Some of the announcements will have a direct effect on Massey University's revenues and costs, others will change the environment within which we operate which is likely to affect the University's cost structure in the medium term. This paper details the budgetary effects of the initiatives. A comment on the budget from the New Zealand Vice-Chancellor's Committee is also attached.

#### Snapshot of Announcements Having Significant Effect on Massey's Revenues and Costs

In summary, there is a 2% increase in funding for degree and post-graduate courses offset by Massey having to absorb an extra 1% in employer contributions to kiwisaver. Employees are unlikely to significantly benefit from such increase.

Enrolments may be affected for over 55 year olds whose entitlement for a student loan is restricted to tuition fees; and for part-time, full-year students who are no longer entitled to borrow for course-related costs.

#### Detail of Announcements

##### Revenue Changes

- *Effect on Massey Budget: Primary change is 2% increase in funding for degree and post-graduate courses.*

Initiatives announced which affect Massey University include:

- A 2 per cent increase in the funding rate for all degree and post-graduate courses.
- Setting a limit on the fees charged for pilot training and excluding solo flight hours from the student loan scheme.
- Equalising the funding rate for post-graduate courses across universities polytechnics and wānanga.

- Increased funding of \$40 million over four years to raise the profile of New Zealand education overseas.

Other initiatives of interest include:

- Up to 750 additional funded places in new and high performing private training establishments.
- \$17.5 million over four years for English as a second language courses for refugees and migrants.
- Reprioritisation of \$36 million of Government funding over four years - \$24 million for business R&D and commercialisation and the balance for earthquake research to help rebuild Christchurch

## **Additional Costs and Pressures on Massey University's Budget**

### **KiwiSaver reforms**

*Effect on Massey Budget: Massey will have to fund a 1% increase in employer contributions for Kiwisaver from 1 April 2011*

- *Effect on staff: Employees will have to fund 1% increase in member contributions from 1 April 2011. Employees lose tax credits from 1 July 2011 which are reduced to 50 cents in the dollar to a maximum of \$521.43. Staff may not benefit from increased employer contributions as these will be taxed from 1 April 2012.*

The rate of minimum employer contributions and member contributions will increase from 2% to 3% from 1 April 2013. Employees will retain the option to opt out. Kick-Start payments remain unchanged.

The member tax credit is reduced to 50c per dollar of contribution up to a maximum of \$521.43 per annum. The changes to KiwiSaver take effect after the election, but this aspect of the change comes into force from 1 July 2011.

There is no exemption from the Employer Superannuation Contribution Tax after 31 March 2012. Employers have to increase their contributions from 1 April 2013, but these will be taxed, hence the net employer contribution may only increase marginally. For example, an employee earning \$60,000 per annum, the minimum employer contribution increases from \$1,200 per year to \$1,800 per year, but only \$1,260 of this will benefit the employee's KiwiSaver fund after the Employer Superannuation Contribution Tax has been deducted, resulting in only a \$60 increase.

### **Student Loan Scheme**

- *Effect on Massey Budget: Reduction in enrolments from affected categories.*

Tighter lending criteria have been announced for student loans. Those affected are persons aged 55 years or older, part-time students and students with loans overdue or in default.

The following initiatives are of note:

- restricting student loan eligibility for those with an overdue student loan repayment obligation of \$500 or more who are in default for more than one year;
- restricting borrowing for people aged 55 and over to tuition fees only;
- removing the entitlement for part-time, full-year students to borrow for course-related costs.

## Savings in the State sector

- *Effect on Massey Budget: For those areas where Massey is consulting to Government there may be less funds available.*

There is to be a three-year initiative commencing 1 April 2012, aimed at making further savings through greater efficiency in the public sector. The State sector is expected to find nearly \$1 billion in savings over the next three years. They are to bear their own costs of KiwiSaver and employee retirement schemes.

## Partial State Asset Sales

- *Effect on Massey Budget: Will have cost implications in the future. Sale of Air New Zealand stake may affect air services to Palmerston North.*

If elected the Government from 2012 will apply a mixed ownership model to the power companies, Mighty River Power, Genesis Energy, Solid Energy and Meridian Energy. The Crown retains majority ownership. The Government's stake in Air New Zealand will be reduced.

## Taxation

- *Effect on Massey Budget: No effect presently but may have effect on charitable giving and remuneration costs in future.*

The few tax-related measures in the Budget are mostly directed at tax compliance and tax system integrity. A number of proposals have been announced which may have an effect on costs/ profits if effected:

- the tax treatment of charitable giving;
- the tax treatment of employee benefits paid in lieu of salary;
- a change to livestock valuation elections for farmers.

## Canterbury Earthquake Recovery Fund

- *Effect on Massey Budget: May increase cost of capital if Massey needs to borrow as removes cheaper sources of lending as the public invests in these bonds.*

The Canterbury Earthquake Recovery Fund will initially include up to \$5.5 billion to meet all of the Government's earthquake-related costs, other than those funded by EQC and ACC. Of this sum \$4.8 billion will come from Canterbury Earthquake Recovery Bonds. These bonds will have a four-year term and will pay interest based on wholesale government bond rates, with the initial interest rate set at 4% per annum.

## **Other Major Budget Announcements Without Apparent Effect on Massey University's Budget**

### **Working for Families (WFF)**

- *Not expected to have impact for Massey budget and minor changes for staff.*

The WFF tax credit is to undergo minor changes. A four-stage programme alters the abatement threshold and abatement rate. Lower-income families and beneficiaries will be largely unaffected.

Changes will see the scheme will begin abating at \$35,000 of income (currently \$36,827). When it does so it will abate at 25 cents in the dollar (compared to the current abatement of 20 cents in the dollar). The changes will be made at the time the scheme is adjusted for inflation, which occurs when cumulative inflation reaches 5%. Based on current forecasts, the final step of the changes will not take place until 2018.

The changes should be considered in conjunction with the significantly widened concept of "family income" which came into effect from 1 April 2011. The broader concept of a person's income may include, among other things, trust income (if the person is a settlor of the trust, as defined for income tax purposes) and income of companies controlled by such trusts, along with attributable types of fringe benefit from a company controlled by the person. These changes, more than the abatement thresholds, will impact most on the ability of the more well-off to access the WFF scheme.

### **New Zealand Vice-Chancellors' Committee (NZVCC) Comment on the Budget**

The response to the budget by the Vice Chancellors was reasonably restrained as the result of the current economic environment. This is essentially a cut for the tertiary sector; given the fact that CPI increases are in excess of 3% and university costs are in excess of CPI. The NZVCC press release is attached.

<http://www.universitiesnz.ac.nz/node/663>

Rose Anne MacLeod  
Assistant Vice-Chancellor, Finance, Strategy and Information Technology  
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