



## Briefing Note: Fees-free industry training for 2018 - draft costings and options for duration of entitlement

<b>To:</b>	Hon Chris Hipkins, Minister of Education		
<b>Date:</b>	30 November 2017	<b>Priority:</b>	High
<b>Security Level:</b>	In Confidence	<b>METIS No:</b>	1094453
<b>Drafter:</b>	[REDACTED]		
<b>Key contact:</b>	Julie Keenan, Policy Director [REDACTED]		
<b>Messaging seen by Communications team:</b>	No	<b>Forward to:</b>	Minister of Finance Associate Minister of Education (Hon Martin)

### Key messages

- Our 28 November report "Fees-free tertiary education in 2018: advice on industry training" [Metis 1091986] advised that fees-free industry training apply to trainees' fees over the first *12 months* of any eligible programme.
- We noted that a 12-month entitlement is consistent with the concept of funding a first year of free tuition but, as trainees take less than a fulltime study load, it raises issues of equity with provider-based students (who can carry over any unused part of their one-EFTS entitlement).
- Draft costings for fees-free industry training indicate there may be scope to fund up to the first two years of fees for eligible trainees, within the \$20m per year provision for industry training costs that was included in the fiscal parameters for the fees-free and student support policies as agreed by Cabinet on 27 November. These costings are not finalised. There are risks that demand growth will create fiscal pressure in outyears.
- We recommend that Ministers consider three options to fund the fees eligible industry trainees starting training programmes in 2018:
  - cover the first 12 months (including the up-front fees generally charged), as we previously advised (our draft costings see costs rising to \$13m in 2021/22)
  - commit now to fund the first 12 months' fees, and to consider funding a second year from 2019 when uptake and costs are clearer, either in Budget 2018, or after the planned July Cabinet report on implementation of fees-free, or
  - cover up to two years' fees (draft costings see costs rising to \$19m in 2021/22)

  
Julie Keenan  
Policy Director  
Graduate Achievement, Vocations and Careers

Hon Chris Hipkins  
Minister of Education

30/11/17

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## Background

1. You are meeting with the Associate Minister of Education (Hon Tracey Martin) on 30 November to discuss implementation of the Government's fees-free tertiary education policy for 2018.
2. The agenda includes further decisions for fees-free industry training.
3. Our 28 November report *Fees-free tertiary education in 2018: advice on industry training* advised that fees-free industry training should apply to trainees' fees over the first twelve months of an eligible programme. We noted that implementing a policy with eligibility over some calculated equivalent to a year of full time provider based study would be complex, but could be considered for future years.

## We are working to complete costings for fees-free industry training

4. Cabinet has agreed to the overall fiscal parameters for the fees-free policy and the \$50 per week increases to student support. This included a provision for fees-free industry training of \$10m in 2017/18 and \$20m each following year.
5. We are completing work to cost fees-free industry training, to include this in changes to appropriations for the fees-free policy. Our draft costings are appended to this note.
6. Our draft costings indicate that:
  - funding twelve months of fees for eligible trainees will cost around \$7m in 2017/18, rising to around \$13m in 2021/22
  - funding a second year of fees for eligible trainees will increase outyear costs by about \$6m-\$7m (with no extra cost in 2017/18).

## Funding a second year of fees-free industry training could align support for trainees more closely to that for provider-based students

7. Our 28 November report on fees-free industry training policy for 2018 noted that:
  - the "standard training measure" (STM) used in industry training funding is notionally equated to 120 credits (1 EFTS)
  - apprentices' average annual 'consumption' is around 50 credits (0.42 EFTS)
  - but actual training and assessment activity ('credits consumed') varies over the course of a training programme and between programmes, depending on how formal assessment is phased with work experience time
  - defining the industry training equivalent of "a year" of study, in terms of credits, is complex and would not be administratively feasible for a January 2018 start.
8. In that report we recommended that:
  - e. *for 2018, the fees-free industry training policy will cover trainees' fees for the first 12 months of their programme, and*
  - f. *that options to cover a longer period of training (e.g.: until trainees have completed the equivalent of a year of full-time study) be explored in work to develop options for the future design of the fees-free policy.*

9. We considered funding twelve months of fees to be consistent with the fees-free policy intent and affordable:
  - trainees commencing in 2018 will expect to pay no fees for the first 12 months of their programme, reflecting the announced 'first year free' policy intention, and
  - initial cost estimates were premised on paying fees for the first 12 months, and could significantly increase if multiple annual cohorts were to be funded each year.
10. However, funding only trainees' first 12 months of fees will mean the fees-free support they receive is less than that for provider-based students in similar fields – both in the notional credit load covered and dollar value. Provider-based students are generally funded at higher rates and will be able to carry forward any unused part of their one-EFTS entitlement.
11. Our draft costings indicate that the indicative \$20m annual provision for fees-free industry training may be able to fund up to two years of fees for eligible trainees. This would result in a similar level of funding for an industry trainee and for a provider-based student entering tertiary education for the first time. Covering a second year of fees does not double costs, as the training programmes eligible for fees-free generally have up-front fees and/or induction block courses, with second year fees generally lower.
12. Our draft costings are subject to further review. There are risks that demand growth and fee increases could create pressure on baselines in outyears. However, given its small scale and limited costing risks, we do not consider that funding a second year of trainees' fees would risk breaching the overall fiscal parameters Cabinet has agreed for the fees-free policy and student support increases.

#### There are three options for fees-free coverage in industry training in 2018

Option	Option A Fund the first <b>12 months'</b> fees for eligible trainees.	Option B Commit now to fund the first 12 months' fees.  Consider funding a second year from 1 Jan 2019 in Budget 2018 or following Cabinet report-back in July.	Option C Fund the first <b>24 months'</b> fees for eligible trainees, provided that ITOs verify trainees remain actively engaged and are progressing.
Comment	<p>Meets "first year free" commitment, including the up-front fees most trainees face.</p> <p>Average value of fees-free support for trainees will be significantly less than for provider-based students studying in similar fields.</p> <p>Maximises flexibility for future policy and funding change for industry training.</p>	<p>As for option A, gives trainees certainty for 2018, but leaves 2019 coverage unclear for trainees starting in 2018 and their employers.</p> <p>Highlights disparity in provider-based and industry training support, without directly addressing it.</p> <p>Preserves flexibility and signals the need for further work on industry training funding and policy.</p>	<p>Aligns fees-free support for trainees more closely with the provider-based students' 1 EFTS entitlement, in terms of training value.</p> <p>May constrain policy and funding change options for industry training.</p> <p>Risk outyear costs will exceed the \$20m provisioned due to unforeseen fees and demand growth.</p>
Draft costing	≈\$7m in 2017/18 rising to ≈\$13m pa from 2021/22	≈\$7m in 2017/18 rising to ≈\$13m pa from 2021/22  ≈\$6m pa extra in outyears if 2 years' cover later agreed	≈\$7m in 2017/18 rising to ≈\$19m pa from 2021/22

### **Next steps**

13. We are finalising financial implications of the two 100 days tertiary education policy changes, and will work with Treasury to review these industry training costings. It is possible that costings may change further in review.
14. Cabinet has agreed interim financial authority for the fees-free policy, and delegated to joint Ministers (Finance, Education, Social Development and Revenue) authority to agree final detailed appropriation changes. We are working to include completed costings ready for inclusion in final changes to appropriations to be submitted to joint Ministers by 6 December.

## Annex 1: Fees-free industry training - summary of draft costings as at 29 November\*

### Key volume and price assumptions

#### **Demand and phasing assumptions**

Calendar Year	2019	2020	2021	2022	2023
Annual growth in Y1 fees-free Trainees	5%	5%	5%	0%	0%
cumulative growth	5%	10%	16%	16%	16%
Attrition Year 1 –Year 2	0%				

#### **Annual number of fees-free eligible people starting a 120+ credit L3+ programme**

Calendar Year	2018	2019	2020	2021	2022	2023
Year 1 Trainees	6,500	6,825	7,166	7,525	7,525	7,525
Year 2 Trainees		6,500	6,825	7,166	7,525	7,525
Total fees free trainees	6,500	13,325	13,991	14,691	15,049	15,049

Fee Assumptions		2018	2019	2020	2021	2022	2023
	incl gst	excl gst	excl gst	excl gst	excl gst	excl gst	excl gst
Average year 1 fee	\$2,000	\$1,739	\$1,774	\$1,809	\$1,846	\$1,882	\$1,920
Average year 2 fee	\$900	\$783	\$798	\$814	\$831	\$847	\$864
Fee Inflation p.a.	2%						
Y2 fee % of Y1 fee	45%						

### Draft Costing Results

	Fiscal years						
\$ millions (excl gst)	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Year 1 fees	\$6.783	\$11.643	\$12.226	\$12.837	\$13.086	\$13.086	\$13.086
Year 2 fees	\$0.000	\$3.052	\$5.240	\$5.502	\$5.777	\$5.889	\$5.889
excl gst	\$6.783	\$14.696	\$17.465	\$18.338	\$18.863	\$18.975	\$18.975

#### \*Caveats on these draft costings

These are draft costings that have not yet been subject to full review and quality assurance to meet the Ministry of Education's standards for budget advice. They have not been reviewed by the TEC or by the Treasury.

Key risks that could increase costings are:

- a higher number of fees-free eligible trainees (the starting number of 6500 used here is slightly above current estimates that are still being refined)
- higher average fees (the \$2,000 average first year fee applied here exceeds the weighted average maximum programme fee ITOs have reported to the TEC for eligible programmes)
- larger demand responses and
- a higher rate of fee inflation.