



Education Report: Transfer within Vote Tertiary Education for Targeted Training and Apprenticeship Fund operational costs

To:	Hon Grant Robertson, Minister of Finance Hon Chris Hipkins, Minister of Education		
Date:	27 July 2020	Priority:	High
Security Level:	In Confidence	METIS No:	1235784
Drafter:	9(2)(a)	DDI:	9(2)(a)
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Messaging seen by Communications team:	No	Round Robin:	Yes

Purpose of Report

This paper recommends meeting the Tertiary Education Commission's operating costs for implementing the Targeted Training and Apprenticeship Fund through a fiscally-neutral Vote Tertiary Education transfer of \$2.365 million over three financial years.

Recommended Actions

The Ministry of Education recommends you:

- note** that the Targeted Training and Apprenticeship Fund (TTAF) has implementation costs for the Tertiary Education Commission that cannot be met within its operating baseline funding
- note** that your decisions on the funding for the TTAF authorised you to jointly approve technical changes to appropriations to support final settings for implementation
- agree** to transfer \$2.365 million (over three financial years) from the TTAF to provide the Tertiary Education Commission with additional operating funding to implement and administer the TTAF

[continued overleaf]

- d. **approve** the following fiscally neutral adjustment within Vote Tertiary Education to fund the implementation costs of the TTAF from funding appropriated for the initiative, with no impact on the operating balance and/or net core Crown debt:

	\$million – increase/(decrease)				
Vote Tertiary Education Minister of Education	2020/21	2021/22	2022/23	2023/24	2024/25 & Outyears
Non-Departmental Output Expense: Administration of and Support for the Tertiary Education and Careers Systems	1.189	0.672	0.504	-	-
Multi-Category Expenses and Capital Expenditure: Tertiary Tuition and Training MCA <i>Non-Departmental Other Expense:</i> Fees-free Payments	(1.189)	(0.672)	(0.504)	-	-
Total Operating	-	-	-	-	-

☒ **Agree** ☐ **Disagree**

☒ **Agree** ☐ **Disagree**

- e. **agree** that the proposed changes to appropriations for 2020/21 above be included in the 2020/21 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply

☒ **Agree** ☐ **Disagree**

☒ **Agree** ☐ **Disagree**

- f. **agree** that this Education Report is proactively released following your joint decision on the funding change.


☒ **Release** ☐ **Not release**


Katrina Sutich
**Group Manager, Tertiary Education
Graduate Achievement, Vocations and Careers**

27/07/2020


Hon Grant Robertson
Minister of Finance

20/ 9 /2020


Hon Chris Hipkins
Minister of Education

29/ 8 /2020

Implementation costs for the Targeted Training and Apprenticeship Fund

Operating costs from the policy change

1. The Targeted Training and Apprenticeship Fund (TTAF) will support fees-free study and training from 1 July 2020 to 31 December 2022. This will be for all apprenticeships and programmes within targeted areas at level 3-7 (excluding degrees) at tertiary providers, or through industry training in a workplace.
2. The TTAF is implemented by the Tertiary Education Commission (TEC). The TEC applies policy settings to determine eligible programmes and then make payments to tertiary education organisations (TEOs) to cover the fees for these eligible programmes that otherwise would have been charged by the TEO to the learner, or employer for industry training. For 2020, with a mid-year start date, this involves significant work on fee refunds.
3. Many provider-based programmes covered by the TTAF will involve the TEC and the TEOs working through fee refunds, as many programmes started prior to July 2020, where fees for the full-year were already paid. Some learners with programmes starting in July 2020 would have also already paid fees, including through student loans, prior to the policy coming into effect.
4. There are also fee refunds for apprentices and trainees that started prior to July 2020, as they can start at any time, and their programmes can run across multiple years. Making payments for industry training fees is also more complex than provider-based payments. Industry training fees (and fee increases) are not regulated. Fees can be charged to trainees by other entities (not just the TEO), and can vary for trainees within the same programme (for example, a mix of on-job and off-job training). Ongoing work on fee regulation is looking at options for managing risks around industry training fees within the settings for the TTAF from 2021 [METIS 1229901 refers].
5. Most of the implementation costs will be in the first financial year, where systems and processes will need to be designed and implemented, and there will be a significant amount of work for fee refunds. There will also be ongoing implementation costs related to determining and managing the payments and assessing programme eligibility over the period of the fund, especially if target areas are changed by the Government.

Additional operational funding needed

6. The TEC can meet some costs of implementing the TTAF through business and usual processes and within baselines of the Administration of and Support for the Tertiary Education and Careers System appropriation, especially as it involves payments to TEOs for existing provision that it funds through Student Achievement Component and Industry Training Fund. However, the TEC has advised that given the current demands for responding to COVID-19 and the Reform of Vocational Education, additional operating funding is needed to ensure the successful implementation of the TTAF. This is to meet staffing costs for sector management, operational policy and data systems.
7. The TEC has identified that over the next three financial years they will need \$2.365 million in additional operational funding to support the implementation of the TTAF. The largest need is in 2020/21, to develop and establish the systems and processes for payments and fee refunds.
8. The funding requirements will fall over time, especially in the last financial year, as the TTAF finishes on 31 December 2022. The TEC will also have some operational work in early 2023 to finalise payments and complete monitoring and reporting. The funding split by financial years is outlined in the financial table in recommendation c).

9. Due to the pace of work and uncertainty around the final settings and any additional costs to implement the TTAF, no specific funding was sought in the Budget processes for the COVID-19 Response and Recovery Fund (CRRF) for the TEC's implementation costs. However, the recommendations that approved funding for the TTAF also authorised the Minister of Finance and Minister of Education to jointly approve technical changes to appropriations that reflect final settings for the implementation of the TTAF [METIS 1228142 refers].
10. The potential for operating costs for the TEC was outlined in advice on the TTAF to the Minister of Education [METIS 1228971 and 1230261 refer]. This indicated that if additional funding was needed, it would be met within Vote Tertiary Education baselines.
11. We propose to meet the TEC's implementation costs for the TTAF by transferring funding within Vote Tertiary Education. We propose funding that was appropriated for the TTAF in Fees Free Payments, within the Tertiary Tuition and Training Multi-Category appropriation (MCA), is transferred to the Administration of and Support for the Tertiary Education and Careers Systems appropriation. This funding will still be supporting the purpose and outcomes for which it was appropriated within Vote Tertiary Education.
12. As the TTAF is a time-limited policy, the work associated with it is ad-hoc and will not become business-as-usual processes that TEC could build into its long-term planning and ongoing costs. Therefore, seeking additional time-limited funding for this specific initiative will enable the TEC to successfully implement the TTAF for the period of the programme, until December 2022. This would also ensure that the costs for implementing the TTAF does not impact the TEC's ability to deliver on existing expectations.

Financial Implications

13. The proposed transfer is a fiscally neutral adjustment within Vote Tertiary Education and supports the purpose the funding was appropriated for. The Fees Free Payments category within the Tertiary Tuition and Training MCA would reduce by \$2.365 million over three financial years.
14. The transfer would increase the funding the TEC manages as part of the Administration of and Support for the Tertiary Education and Careers Systems appropriation. Funding in this appropriation was budgeted at around \$75 million over 2020/21 in Budget 2020. The proposed transfer would increase this appropriation across three financial years. The time-limited increase in the TEC's operational funding from this transfer would be around 1% in 2020/21 and lower in 2021/22 and 2022/23.
15. The amount proposed to be transferred for operational costs is a very small part of the total additional funding provided for the initiative. The \$2.365 million is 0.7% of the additional funding (\$320 million) that was appropriated for the TTAF in the CRRF.

Risks

16. Without the additional operational funding, the TEC advise that they would have to make operational changes to trade-off other service areas, such as TEO investment processes or implementing the Reform of Vocational Education.
17. Given the uncertainty around tertiary education enrolments due to the impact of COVID-19 on employment and net migration of New Zealanders, demand for tertiary education and training (including for the TTAF) may be higher than the level able to be funded by Vote Tertiary Education over the period of the proposed transfer. The proposed transfer

will only slightly reduce funding within the Tertiary Tuition and Training MCA that could be used to meet any additional demand from higher enrolments.

18. If significant additional demand does occur (to levels higher than is able to be funded following recent injections into the MCA from the CRRF), this is likely to be more significant than the \$0.5 million to \$1.0 million per annum that is proposed to be transferred. Also, this proposal is for a transfer from the Fees Free Payments category, whereas the risk for additional funding to meet demand is more likely to be for tuition and training subsidies.

The Treasury does not recommend approving the transfer

19. The Treasury agrees there will be additional costs for the TEC in implementing the TTAF, but is of the view these could be met within the TEC's operational baseline funding, including through re-prioritisation.
20. The Treasury also considers that funding from Budget 2020 will have made some of the TEC's existing operational baseline funding available for other purposes, including the TTAF. Budget 2020 appropriated funding for some activities that the TEC had been funding out of their operational funding. This included some operational costs of careers activities funded by the Careers System Online: Tiro Whetu, and the funding of Adult and Community Education sector leadership and co-ordination.
21. The Treasury also considers that, if there are funding pressures on the operational costs of the TEC, these should be addressed through a process that takes into account the context of the TEC's wider role, funding and operational objectives, rather than through an ad-hoc transfer. Given these factors, the Treasury does not support the proposed transfer within Vote Tertiary Education.
22. The Ministry and TEC consider that the proposed transfer is consistent with Joint Ministers' previous decisions on the implementation of the TTAF [METIS 1228142], and that the successful implementation of the TTAF would be at risk without additional funding for its implementation.

Proactive Release

23. It is intended that this Education Report is proactively released after both Ministers have made decisions on the proposed funding changes. Any information which may need to be withheld will be done so in line with the provisions of the Official Information Act 1982.