

Cabinet Paper material

Proactive release

Minister & portfolio Hon Chris Hipkins, Education
Name of package Transfer of Fees Free Payments Funding to Offset Tertiary Funding Pressures
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These documents have been proactively released:

Cabinet Paper: Transfer of Fees Free Payments Funding to Offset Tertiary Funding Pressures

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Author: Minister of Education

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Associated documents also released:

1263890 Education Report: Draft Cabinet Paper: Transfer of Fees Free Payments Funding to Offset Tertiary Funding Pressures

24 June 2021

Ministry of Education

1264156 Briefing Note: Cabinet Paper Transfer of Fees Free Payments funding to offset tertiary funding pressures, 28 June 2021

28 June 2021

Ministry of Education

1263460 Briefing Note: Reprioritisation of unspent 2020/21 Fees Free funding to manage demand pressures

18 June 2021

Ministry of Education

1258874 Education Report: Vote Tertiary Education pressures and Fees Free 2020/21 underspend

15 June 2021

Ministry of Education

Material redacted

Some deletions have been made from the documents in line with withholding grounds under the Official Information Act 1982. Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

The applicable withholding grounds under the Act are as follows:

Section 9(2)(f)(iv) to protect the confidentiality of advice tendered by Ministers of the Crown and officials

Some deletions have been made from the documents as the information withheld does not fall within scope of the Minister's portfolio responsibilities, and is not relevant to the proactive release of this material.

You can read the Official Information Act 1982 here:

<http://legislation.govt.nz/act/public/1982/0156/latest/DLM64785.html>

In Confidence

Office of the Minister of Education

Chair, Cabinet

TRANSFER OF FEES FREE PAYMENTS FUNDING TO OFFSET TERTIARY FUNDING PRESSURES

Proposal

1. This paper seeks agreement to transfer \$50 million from the expected Fees Free payments underspend in 2020/21 to partly offset a projected deficit for Student Achievement Component funding, resulting from strong growth in tertiary education enrolments. The balance of the deficit will be managed through funding from the Tertiary Education Commission's balance sheet mechanism.

Relation to government priorities

2. This proposal supports the implementation of the Tertiary Education Strategy.

Background

Fees Free payments funding has underspends

3. Since the introduction of first-year Fees Free Tertiary Education and Training policy (Fees Free) on 1 January 2018 through to the end of 2020, 137,000 learners have received a financial benefit from Fees Free payments. Since 1 July 2020, the Targeted Training and Apprenticeship Fund (TTAF) has also funded fees-free industry training and study until 31 December 2022. In 2020, the total proportion of provider-based study funded fees-free by government was 30%.¹ Since the TTAF, which covers all apprenticeships and other targeted training, was introduced from 1 July 2020, 80% of industry training provision is fees-free.
4. The Fees Free payments category of the Tertiary Tuition and Training Multi-Category Appropriation (MCA) funds both the first-year Fees Free and TTAF. The Fees Free payments category has a structural underspend as the volume of eligible Fees Free enrolments remains lower than the level that can be funded. Officials will provide the Minister of Finance and myself with revised estimates to inform future decisions on baselines. Currently, officials expect a 2020/21 Fees Free payments underspend of \$86.2 million. The funding provided for the TTAF through the COVID-19 Response and Recovery Fund is fully utilised for the TTAF.²

Changes in funding for tertiary education provision

¹ This includes though first-year Fees Free and TTAF fee supports, and fees-free tertiary programmes: Youth Guarantee, provision in qualifications at level 1 and 2, Māori and Pasifika Trades Training and the Refugee English Fund within formal tertiary education. Other literacy and numeracy programmes within community education are also fees-free. In 2021, the proportion of fees-free provider-based tertiary education will be higher, due to a full year of TTAF.

² The \$360 million of funding for TTAF was additional funding. Some existing Fees Free payments funding was expected to be used for TTAF as around 20% of TTAF enrolments would have otherwise been eligible for, and funded through, the first-year Fees Free policy.

5. The three main areas of tertiary education are community education, industry training and provider-based study. These are funded through different categories within the MCA. The largest category is the Student Achievement Component (SAC), which funds provider-based tuition subsidies and makes up over 80% of the approximate \$2.7 billion appropriated for tertiary education subsidies in 2021/22.
6. In Budget 2020, an additional \$334 million was appropriated to support expected increases in tertiary enrolment volumes over 2021–2023. However, there was significant uncertainty around forecast tertiary education demand over this period due to the impact of the COVID-19 global pandemic, changing net-migration trends and the impact of the Government's response to COVID-19 on the economy and labour market. Given the high unemployment forecasts at Budget 2020, some of the additional forecast provider-based demand was funded from expected declines in industry training.
7. However, relatively stable economic conditions, population changes from positive net-migration of New Zealand citizens, and the Government's policies that support industry to maintain training, have seen both provider-based and industry training increase overall in the 2021 year to date.
8. To manage the expected change to an increase in industry training, instead of a decline, funding for the industry training baseline over 2021 and 2022 has been increased through funding transfers within Vote Tertiary Education. This included a transfer of \$42 million from funding to support establishment of Workforce Development Councils in 2020/21, that was not needed at that time, into industry training over 2021/22 and 2022/23 in Budget 2021 [CAB-21-MIN-0116.29 – Initiative 13519].

Growth in tertiary education enrolments

9. In data available to April 2021, enrolments in tertiary education, especially at level 3 and above and in apprenticeships, have increased significantly. For data reported to April 2021 key tertiary education enrolment trends, compared to April 2020, include:
 - an 11% increase in enrolments in total qualifications at level 3 and above, from
 - an 8% increase in enrolments at degree-level and above qualifications
 - an 18% increase in enrolments at level 3-7, non-degree qualifications
 - around a 30% increase in apprenticeship training
 - a small decline in trainees in the workplace.
10. Based on current year-to-date information, it is estimated that 2021 provision in level 3 and above qualifications could be 11% to 13% higher than 2020, and total volumes within industry training could increase by a similar percentage.

Funding tertiary education demand in 2020/21 has resulted in a deficit

11. Current financial data, subject to final June data and financial audits, shows a deficit in 2020/21 of \$80.8 million within the Tertiary Tuition and Training MCA, excluding Fees Free payments. The deficit is primarily from tuition subsidies for provider-based study through SAC, which has a deficit totalling \$81.2 million, (around 4% of SAC baseline). One category within the MCA has a surplus, which is why the overall deficit is lower than the deficit in SAC.
12. Of the total SAC 2020/21 deficit, \$47.9 million relates to the period from the July to December 2020. This relates to the Government guaranteeing 2020 allocated funding to support tertiary education organisations because of the uncertainty from COVID-19. This meant that additional tertiary provision in July to December 2020, that was above 2020

allocated funding, could not be offset from any funding recovered for under-delivery from other tertiary providers.³

13. The \$33.3 million SAC deficit from January to June 2021 is from high enrolments in courses starting prior to the end of June 2021, the expenditure for which needs to be attributed to 2020/21.
14. In the two other tertiary education provision categories of the MCA, the Community Education category has a small surplus and Training for Designated Groups category, which is primarily industry training, has a small deficit. These largely offset each other.

Proposed transfer of Fees Free payments underspend

I propose to manage the deficit with existing tertiary education funding, including Fees Free

15. I propose to transfer \$50 million of the 2020/21 Fees Free payments underspend to offset some of the deficit from funding tertiary education provision. The remainder, projected to be \$30.8 million, would be met from the balance sheet mechanism funding held by the Tertiary Education Commission (TEC). The balance sheet mechanism funding is intended to manage short term timing issues to provide either additional funding to cover a short period of additional enrolments, or to provide funding certainty that the TEC can meet government's commitment to fund 102% of allocated funding⁴, if tertiary education organisations have additional enrolments.
16. The transfer of \$50 million from the Fees Free payments underspend will result in a lower draw-down of funding from the balance sheet mechanism, which manages risks from higher tertiary education demand. It would also reduce the amount of Fees Free payments underspend returned to the centre from 2020/21, currently projected at \$86.2 million, to \$36.2 million.
17. The transfer from Fees Free payments will reduce the amount drawn down from the balance sheet mechanism to \$30.8 million, instead of the full deficit of \$80.8 million. This results in the balance sheet mechanism being reduced from \$111 million at the start of 2021 to \$80.2 million at the end of 2020/21 financial year, instead of to \$30.2 million.
18. A balance sheet mechanism of \$80.2 million would be approximately 4% of total industry training and SAC funding. Maintaining a higher balance sheet mechanism will offset the funding risks from additional enrolments in 2021, including from apprenticeships where there is funding pressure, and support the TEC to fully allocate 2022 funding to the sector. Without a sufficient level of funding available on the balance sheet mechanism in a high-volume environment, the TEC would take a more conservative approach to 2022 allocations to manage risk from the funding commitment for 102% of provision from allocated funding.

The proposed transfer requires Cabinet agreement

19. In general, the underlying policy intent of the Tertiary Tuition and Training MCA, and the operation of transfers is that funding can shift within and across MCA categories to respond to small shifts in learner demand outside of the Budget cycle [EGI-16-MIN-0104]. This allows funding to shift between different types of provision, such as

³ While Budget 2020 provided additional funding for demand over 2021 to 2023, no additional funding was provided for the Government's non-recovery commitment in 2020. This has been met from existing 2019/20 and 2020/21 MCA funding.

⁴ The 102% funding commitment mainly applies to SAC level 3 and apprenticeships. The TEC can agree a slightly higher funding commitment proportion for some tertiary providers.

community education, industry training and provider-based, in response to learner demand.

20. While Fees Free payments is a category within the MCA, funding has only been transferred to other categories with Cabinet approval.⁵ Fees Free payments have a different purpose (to pay fees on behalf of students or trainees), and was not expected to be part of the provision-based shifts for learner demand. Given this, the transfer of Fees Free payments funding is considered a policy change in the use of funding. I am therefore seeking Cabinet agreement to transfer Fees Free payments funding within the MCA.

Tertiary education funding pressure in 2022 and 2023

21. Currently, officials expect that additional funding will be needed to meet all industry training enrolment demand over both 2022 and 2023. In 2022, the TTAF and Apprenticeship Boost Initiative will still be supporting apprenticeship enrolments. The current industry training baseline drops slightly in 2022, and more significantly in 2023.⁶
22. For 2022, SAC funding will be able to fund similar volumes to 2021. However, for 2023, the baseline funding for SAC reduces, reflecting the economic forecasts when the additional funding to manage increased demand was appropriated at Budget 2020. However, the drop-off in enrolments from 2022 may be more gradual and influenced by a range of factors, including population trends relating to migration patterns. Therefore, it is possible that additional funding will need to be sought, or reprioritised, if the government wish to fund a higher volume of enrolments than baseline funding is currently able to fund.
23. Officials will provide the Minister of Finance and myself an update in July 2021 on tertiary education demand pressures over 2022 and 2023. I propose to report back to Cabinet later in 2021 on the scale of these demand pressures, and options for managing them.

Financial Implications

24. The proposal would transfer \$50 million of unspent 2020/21 Fees Free payments to partly offset a 2020/21 SAC deficit in the Tertiary Tuition and Training MCA. This would reduce the amount of unspent 2020/21 Fees Free payments funding that would be returned to the centre.
25. The proposed use of Fees Free payments and the balance sheet mechanism funding would have the estimated impacts as outlined in Table 1 on the 2020/21 year-end position of the Tertiary Tuition and Training MCA and the balance sheet mechanism. The final year-end amounts will be confirmed following auditing of financial statements for Vote Tertiary Education and be published in the Annual Reports of the Ministry of Education and Tertiary Education Commission.

Table 1: Estimated impact of proposed use of Fees Free and TEC Balance Sheet Mechanism funding to manage 2020/21 SAC deficit (\$m)

⁵ There was a transfer from Fees Free payments to SAC approved by the Minister of Finance and Minister of Education in 2020, due to the exceptional circumstances from the impact of COVID-19.

⁶ Some industry training funding was reprioritised to SAC in Budget 2020, based on forecast increasing unemployment in the Budget Economic and Fiscal Update. These unemployment forecasts did not materialise, and apprenticeships volumes have increased. In Budget 2021, unspent Workforce Development Council funding was reprioritised to industry training to lessen the baseline decline in 2022.

Vote Tertiary Education Minister of Education	Current estimate of 2020/21 position	Proposed Fees Free adjustment	Amended estimate of 2020/21 position	Proposed Balance Sheet adjustment	Estimated amount to be returned to centre
Multi-Category Expenses and Capital Expenditure:					
Tertiary Tuition and Training (MCA)					
<i>Non-Departmental Output Expense:</i>					
Community Education	3.6	-	3.6		-
Training for Designated Groups	(3.2)	-	(3.2)		-
Student Achievement Component	(81.2)	50.0	(31.2)	30.8	-
Sub-Total	(80.8)	50.0	(30.8)	30.8	-
<i>Non-departmental Other Expense:</i>					
Fees-free Payments	86.2	(50.0)	0		36.2
<i>Impact on TEC Balance Sheet</i>					
Opening balance sheet provision				111.0	
Closing balance sheet provision				80.2	

Treasury Comment

26. The Treasury does not recommend transferring funding out of the 2020/21 financial year Fees Free payments underspend to manage the 2020/21 SAC deficit. The Treasury recommends that the TEC uses its existing balance sheet mechanism to manage short term pressures such as the ones identified in this paper, where it is adequate to cover the shortfall. This would allow the Fees Free payments underspend to be returned to the centre for reprioritisation. Whilst drawing down the balance sheet mechanism will put pressure on 2022 funding, the Treasury recommends decisions for managing potential pressures be deferred to 2021/22 to allow more time to carefully consider potential funding options alongside further advice from the Ministry of Education on demand pressures over 2022 and 2023, which will be provided to the Minister of Education in July 2021.

Legislative Implications

27. There are no direct legislative implications stemming from the policy decisions in this Cabinet paper.

Population Implications

28. There are no direct implications stemming from the funding decisions in this Cabinet paper on gender, ethnic groups or those with disabilities. However, supporting funding for tertiary education generally supports a higher proportion of women due to their higher enrolments in provider-based tertiary education.

Human Rights

29. There are no direct human rights implications stemming from the policy decisions in this Cabinet paper.

Consultation

30. The Treasury and the Tertiary Education Commission were consulted on the proposals within this paper.

Communications

31. I do not intend to communicate the funding transfer. It will be reflected in the Annual Reports of the Ministry of Education and Tertiary Education Commission, future financial reporting and proactively released papers.

Proactive Release

32. I propose to release this paper proactively. The release will be subject to redactions as appropriate under the Official Information Act 1982.

Recommendations

The Minister of Education recommends that the Committee:

1. **note** that there is a projected deficit in Vote Tertiary Education for funded tertiary education provision from Tertiary Education: Student Achievement Component (SAC) within the Tertiary Tuition and Training Multi-Category Appropriation (MCA) of \$81.2 million for 2020/21
2. **note** that non-departmental other expense Fees-free Payments within the same MCA is estimated to be underspent by \$86.2 million for the 2020/21 financial year
3. **agree** to transfer \$50 million of the 2020/21 underspend from Fees-free Payments to partly offset the projected SAC deficit resulting from funded tertiary education provision
4. **note** that:
 1. transfers of Fees-free Payments funding within Vote Tertiary Education are considered to be a significant policy change requiring Cabinet approval
 2. the overall appropriation level of the MCA will be unchanged for 2020/21
 3. the remaining SAC deficit will be met from the Tertiary Education Commission's balance sheet funding mechanism
 4. the remaining unspent Fees-free Payments funding from 2020/21 will be returned to the centre

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5. **approve** the following fiscally neutral adjustment to provide for recommendation 3, with no impact on the operating balance:

Vote Tertiary Education Minister of Education	2020/21	2021/22	2022/23	2023/24	2024/25 and out-years
Multi-Category Expenses and Capital Expenditure:					
Tertiary Tuition and Training (MCA)					
<i>Non-Departmental Output Expense:</i>					
Student Achievement Component	50.000	-	-	-	-
<i>Non-departmental Other Expense:</i>					
Fees-free Payments	(50.000)	-	-	-	-

6. **invite** the Minister of Education to report back to Cabinet later in 2021 with an updated view on current and potential future funding pressures within Vote Tertiary Education.

Authorised for lodgement

Hon Chris Hipkins

Minister of Education

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Cabinet

Minute of Decision

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

Transfer of Fees Free Payment Funding to Offset Tertiary Funding Pressures

Portfolio Education

On 28 June 2021, Cabinet:

- 1 **noted** that there is a projected deficit in Vote Tertiary Education for funded tertiary education provision from Tertiary Education: Student Achievement Component (SAC) within the Tertiary Tuition and Training Multi-Category Appropriation (MCA) of \$81.2 million for 2020/21;
- 2 **noted** that the non-departmental other expense Fees-free Payments within the same MCA is estimated to be underspent by \$86.2 million for the 2020/21 financial year;
- 3 **agreed** to transfer \$50 million of the 2020/21 underspend from Fees-free Payments to partly offset the projected SAC deficit resulting from funded tertiary education provision;
- 4 **noted** that:
 - 4.1 transfers of Fees-free Payments funding within Vote Tertiary Education are considered to be a significant policy change requiring Cabinet approval;
 - 4.2 the overall appropriation level of the MCA will be unchanged for 2020/21;
 - 4.3 the remaining SAC deficit will be met from the Tertiary Education Commission's balance sheet funding mechanism;
 - 4.4 the remaining unspent Fees-free Payments funding from 2020/21 will be returned to the centre;

- 5 **approved** the following fiscally neutral adjustment to provide for the decision in paragraph 3, with no impact on the operating balance:

Vote Tertiary Education Minister of Education	2020/21	2021/22	2022/23	2023/24	2024/25 and out-years
Multi-Category Expenses and Capital Expenditure:					
Tertiary Tuition and Training (MCA)					
<i>Non-Departmental Output Expense:</i>					
Student Achievement Component	50.000	-	-	-	-
<i>Non-departmental Other Expense:</i>					
Fees-free Payments	(50.000)	-	-	-	-

- 6 **invited** the Minister of Education to report back to the Cabinet Government Administration and Expenditure Review Committee later in 2021 with an updated view on current and potential future funding pressures within Vote Tertiary Education.

Michael Webster
Secretary of the Cabinet