MINISTRY OF EDUCATION
TE TĀHUHU O TE MĀTAURANGA

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

To:	Hon Chris Hipkins, Minister of Education		
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Purpose of Report

This paper provides an estimate of final 2020/21 expenditure for tertiary education provision and Fees Free payments.

Summary

Enrolments in provider-based education and for apprenticeships have increased in 2021. This, in addition to the impact of the non-recovery of 2020 allocated funding, has put pressure on the Tertiary Education Tuition and Training multi-category appropriation (MCA) for 2020/21.

The Tertiary Education Commission (TEC) advises that there will be a deficit in 2020/21 within MCA (excluding Fees Free payments) of $78.8 million. The deficit is primarily from a $47.9 million deficit from the Student Achievement Component (SAC) in the 2020 calendar year (as outlined in our report to you and the Minister of Finance in April 2021 [METIS 1254678 refers]). There is also a further $32.4 SAC deficit resulting from high enrolments in 2021 that have courses starting prior to the end of June 2021, and their expenditure needs to be attributed to 2020/21. However, this is slightly offset from a small surplus within community education. Fees Free payments will have an underspend in 2020/21 of at least $30 million.

We do not recommend seeking Cabinet agreement to reprioritise the Fees Free underspend to other Vote Tertiary Education pressures, such as the deficit in SAC. Instead the Ministry and Tertiary Education Commission intend to draw down the full cost of the 2020/21 deficit from the balance sheet. The balance sheet is intended to manage short term issues, such as timing issues between calendar year allocations and financial year expenditure. This would reduce the balance sheet from $111 million to $32 million.

Based on information to date, the 2021-calendar year provision can be met within the existing appropriations and the balance sheet. However, there may be some pressure from apprentices and enrolments in the second half of the year, which could decrease the balance sheet further.

Having a balance sheet at $32 million (or lower, if 2021 demand results in further draw downs), may constrain the TEC's allocation approach for 2022, given they need to maintain available funding to meet the funding commitment for 102% of allocated funding. We will provide further advice in early July 2021 on the ongoing structural Fees Free underspend, and advice on

demand pressures within Vote Tertiary Education, particularly in 2022 and 2023. The Fees Free payment underspends in 2022 and 2023 would be one funding option for these future demand pressures, as well as Budget 2022 for 2023 and outyears funding.

Recommended Actions

The Ministry of Education recommends you:

a. **note** that at the end of January 2021 the Fees Free payments underspend for 2020/21 was estimated to be between $55 million and $80 million, and that a final estimated underspend figure would be provided to you after further enrolment and payment data for 2021 was available [METIS 1250570 refers]

b. **note** that non-recovery in 2020 and enrolment increases in 2021 have led to a deficit in Student Achievement Component in 2020/21 and a lower Fees Free payment 2020/21 underspend than previously advised

c. **note** that the Ministry of Education and the Tertiary Education Commission intend to meet the deficit within the Student Achievement Component by drawing down the balance sheet that totalled $111 million at the start of 2021 to leave $32 million

d. **note** that we recommend that the residual Fees Free payment underspend for 2020/21 is returned to the centre, and is not sought to be reprioritised to other Vote Tertiary Education pressures

e. **indicate** if you would like to seek agreement from Cabinet to reprioritise 2020/21 Fees Free payments underspend into other Vote Tertiary Education pressures

Yes/No

f. **note** further advice will be provided on demand pressures within Vote Tertiary Education, from 2022 and 2023 in particular, and on the Fees Free payments structural underspend

g. **agree** that the Ministry of Education release this briefing once decisions on subsequent advice on Fees Free payments can also be released, and enrolment trends for 2021 have been published.

Agree / Disagree

Shelley Robertson
Acting Group Manager, Tertiary Education

15/06/2021

Chris Hipkins
Minister of Education

17/ 6 /2021

A transfer of the underspend to the TEC balance sheet seems the most practical and sensible option given the deficit likely in 2021 and beyond.

Background

Uncertainty from COVID-19 on tertiary funding

1 In response to the impact of COVID-19, in Budget 2020 additional funding was provided into the Tertiary Tuition and Training Multi-category appropriation (MCA) to fund increased learner demand and the Targeted Training and Apprenticeship Fund (TTAF).

2 In Budget 2020, the impact of COVID-19 was forecast to increase unemployment significantly. Given this, demand for provider-based tertiary education was expected to increase, and industry training was expected to decrease, as it did from the global financial crisis (GFC).

3 The scale of the negative impact of COVID-19 on unemployment in late 2020 or 2021 did not materialise, and current unemployment forecasts are fairly stable.

4 The other main driver of tertiary education, the population in key age groups, has also been affected by the global pandemic and border restrictions, There is significant positive net-migration of New Zealand citizens, from them being more likely to stay living in New Zealand or to return to live here long term.

5 The impact of relatively stable economic conditions, population changes from positive net-migration of New Zealand citizens, and government policies that support industry to maintain training, has seen both provider-based and industry training increase overall in the 2021 year to date.

6 During the period impacted by COVID-19 we have increased funding and transferred funding within Vote Tertiary Education to respond to expected learner demand over 2021 to 2023. The most recent changes were in the paper to you and the Minister of Finance in April 2021, that reprioritised Vote Tertiary Education funding into Industry Training Fund (ITF) for demand in 2021 and 2022 [METIS 1254678 refers].

7 Changes made to respond to expected demand for provider-based Student Achievement Component (SAC) and Youth Guarantee (YG), and for the Industry Training Fund (ITF) are outlined in Table 1 below. The transfers in Table 1 relate to transfers to support volume, and do not include other funding changes for policy, such as the cost-adjustment to tuition subsidy rates in Budget 2021.

Table 1: Funding changes for tertiary education for volume, for 2020–2023

Funding shifts ($m) within the Tertiary Tuition and Training Multi-Category appropriation (MCA)	Provider-based SAC and YG			Industry Training Fund (ITF)		
	2021	2022	2023	2021	2022	2023
Additional funding to meet learner demand in Budget 2020	192	156	87	-35	-35	-35
Transfer within MCA (SAC and YG to ITF)	-35			35		
Transfer within MCA (YG to ITF)	-13			13		
Transfer to reprioritise Workforce Development Council funding to ITF					42	
Net-change for funding for volume	144	156	87	13	7	-35

8 In 2020 allocated funding was guaranteed with no delivery-based recovery to support tertiary education organisations through the uncertainty of COVID-19. Tertiary

Education Organisations (TEOs) then had certainty in keeping their 2020 allocations, regardless of enrolment volumes. This required the allocated funding to be realised as an expense in 2019/20 financial year as it was guaranteed with no recovery. The cost of funding not recovered when final 2020-year volumes delivered were lower than allocated was $176.331 million.

9 Some TEOs delivered provision above their 2020 calendar year allocation. The TEC funded $48 million of additional enrolments above allocated funding for SAC level 3 or above in July to December 2020 to meet the 102% funding commitment, and also to fund some additional allocations.

Tertiary education demand and vote management pressures in 2021

Enrolments are up significantly in 2021

10 Tertiary Education enrolments are up in 2021 with most demand pressure at level 3 and above and from apprenticeships. The Ministry reported to you on indicative March 2021 data with a 11% increase in equivalent full-time students (EFTS) in 2021, compared to the same time in the previous year [METIS 1256058 refers]. These increases also largely hold for the data to April 2021.

11 Some high-level enrolment data to April 2021 is outlined in this report as it impacts 2020/21 funding. Further information and detail on April 2021 enrolments will be provided to you as part of the TEC's regular reporting on enrolments after each tertiary education single data return (SDR). The Ministry also intends to report to you on changes in enrolment pattens to date in 2021, including by demographics and study areas.

12 In data reported to April 2021 key volume trends include:

- 11% increase on April 2020 enrolments at level 3 and above
- 18% increase on April 2020 for sub-degree level 3-7 enrolments
- Around a 30% increase in apprenticeship training compared to April 2020
- Small decline in trainees compared to April 2020.

13 The SAC level 3 EFTS forecast based on information as at Budget 2021 forecasts volume for 2021 calendar year at around 220,000 EFTS. However, the forecast model during the current period of uncertainty and changing trends has a wide 95% confidence margin, and we do not expect it to be as robust as it was in the period preceding the COVID-19 global pandemic.

14 Based on data reported to April 2021, the Ministry estimates that tertiary enrolments at level 3 and above for 2021 calendar year will be between 224,000 and 228,000 EFTS, between 11% and 13% higher than in 2020 calendar year. This estimate uses the share of calendar year provision usually reported by April, compared to final total calendar year EFTS.[1]

15 From data to the end of April 2021, we estimate industry training volumes to be 13% higher than 2020 for the full 2021 calendar year, with approximately 50,000 Standard

[1] It is fairly consistent that around 81% of total EFTS for a calendar year at level 3 and above are reported by April. This would equate to around 230,000 EFTS in 2021. Although in high volume environments enrolments seem to be more likely to be confirmed earlier in the year with a slightly higher portion of the total year EFTS reported in April.

Training Measures (STMs). It is estimated that apprentices would comprise 60% of industry training volume in 2021.

There is a 2020/21 financial year deficit for Student Achievement Component and Industry Training Fund that can be met from the balance sheet

16 SAC has a deficit for the 2020/21 financial year, due to the increased volume of EFTS and the accounting approach for the expense of the 2021 calendar year EFTS, and the impact of non-recovery decisions in 2020 on funding available for July to December 2020. The deficit totals $78.8 million, which is around 4% of SAC level 3 baseline.

17 As outlined above in paragraph 9, additional delivery over July to December 2020 for some providers, resulted in additional $48 million of SAC expenditure in 2020/21 from the 2020 calendar year, as the baseline had been fully allocated and additional funding, mostly as part of the 102% funding commitment, could not be offset from usual recoveries. As outlined in the report to you and the Minister of Finance in April 2021, the 2020 calendar year overspend and its impact on 2020/21 deficit would be met by drawing down funding from the balance sheet [METIS 1254678 refers.

18 SAC funding over January to June 2021 has a deficit of $32 million for the 2020/21 financial year, due to the expense liability for student courses being incurred at a higher portion in the first half of the 2021 calendar year.

19 The TEC follows accounting accrual methodology, as recommended by Audit NZ. This approach recognises course enrolments that start prior to end of June 2021 as an expense within the 2020/21 financial year, that are reported in the April SDR and an estimated amount that will enrol and start courses before 30 June. This accounting approach results in a higher percentage of the allocated EFTS funding in 2021 calendar year being funded from 2020/21 financial year than in 2021/22 financial year.

20 A higher portion of EFTS over a calendar year are in courses that start in the first half of the year. In 2019, around 60% of SAC level 3 and above EFTS had course start dates in the first half of the year. Usually the differential calendar patterns (higher January to June, and lower July to December), from two different calendar years within the same financial year can offset each other. However, in 2020/21 there is 2020 non-recovery that already has a deficit, and 2021 enrolments are significantly higher than in 2020. This further reduces the ability to offset 2021 funding, leading to a financial year deficit from 2021 enrolments in the first half of 2021.[2]

Table 2: Estimated final 2020/21 expenditure, Tertiary Tuition and Training MCA

MCA funding category	2020/21 surplus or deficit ($m)
Student Achievement Component	-80.3
July to December 2020	-47.9
January to June 2021	-32.4
Training for Designated Groups	-2.0
Community Education	3.5
Fees Free payments	At least 30
Deficit excluding Fees Free payments	-78.8

[2] When appropriating the additional funding for leaner demand from the COVID-19 Response and Recovery Fund for the 2021 calendar year, if funding had been weighted more towards 2020/21, in-line with EFTS distribution, then there would have been a lower deficit as profile of the funding increase would have better matched course start dates for EFTS.

21 Table 2 above shows the deficit by MCA category. There is a small deficit in training for designated groups due to the Industry Training Fund. Some of the deficit from industry training is met from underspends within Youth Guarantee in the same MCA category. The small surplus in community education, due to underspends in workplace literacy, will slightly offset the MCA deficit. The two deficits, and a small surplus in one category, result in a deficit for tertiary education provision of $78.8 million, excluding Fees Free payments. If this deficit was met from the balance sheet, the balance sheet would decline to $32 million from the $111 million at start of 2021. Note that final expenditure numbers and the subsequent draw down from the balance sheet may be slightly amended for final 2020/21 expenditure.

22 As further outlined in paragraph 36, we do not recommend seeking agreement to utilise the Fees Free payments underspend within the MCA to offset the SAC deficit. The deficit can be met from the balance sheet while still supporting estimated 2021 volumes. The balance sheet funding should be used for this purpose, as it is intended to manage short term timing issues to provide either additional funding to cover a short time period, or to provide funding certainty for allocations to be more flexible.

23 If you would like to seek agreement to utilise the Fees Free payment underspend to partially offset the MCA deficit, you would need to seek Cabinet agreement, in-line with previous decisions about reprioritising Fees Free payments. The Treasury advises that it would not support a proposal to reprioritise Fees Free payment funding for the 2020/21 deficit.

While there will be funding pressure in 2021 calendar year, it can be met from existing funding, but a lower balance sheet will put pressure on 2022

24 With the draw down of $31 million from the balance sheet into the MCA for the SAC 2020/21 deficit, this would increase the additional SAC funding to $175 million for the 2021 calendar year.

25 The TEC advises that currently it has allocated funding that could fund 216,000 EFTS in 2021 and that that there is sufficient funding within the SAC level 3 and above baseline to fund approximately 5,000 additional EFTS. As EFTS funding rates vary by area of study, the final EFTS funded from the allocated funding will depend on the study area of student enrolments. If the estimate of 224,000 to 228,000 delivered EFTS in 2021 eventuates, the TEC advises that this demand could be addressed through available funding within the provision-based MCA, the remaining $32 million on the balance sheet and by choosing not to fund some low priority provision.

26 Despite funding certainty for some over-delivery, from 102% funding commitment, as with all years, there will still be some unfunded delivery in 2021 that the TEC will choose not to fund. The provider will continue to enrol students and receive fee income, but no tuition subsidy funding. The higher demand in 2021 could increase unfunded provision. Providers could also have constraints on meeting enrolments due to capacity constraints such as available teaching resources or class size limits, not from government funding.

27 Apprentices within industry training also provide a significant demand pressure over 2021. While the volumes could increase further the financial cost of this risk is more limited than SAC, given the lower funding rates and average training load per apprentice within a calendar year.

Managing funding pressure in 2022 and beyond

28 If the estimated 11% to 13% higher SAC level 3 and above provision in 2021 than 2020 is realised, it could further reduce the balance sheet as well as funding available from 2021/22. The TEC needs to have funding available at the start of 2022 to match its allocations, taking into account the financial commitment to fund 102% of SAC level 3 and above allocations. If the balance sheet reduces further in 2021, it will impact allocations in 2022. In the absence of a sufficient balance sheet, we would ordinarily expect the TEC to adopt a more conservative approach to its 2022 allocations to enable it to meet the 102% funding commitment.

29 However, there are some mitigations within the existing funding for 2022. Currently, the 2022 baseline funding for SAC level 3 and above is higher than in 2021, as no funding was transferred back from SAC to industry training for 2022. Also, any residual funding within the MCA could provide an offset in 2021 to the balance sheet to meet any commitments in 2021 for the 102% of allocations, or to support 2022 allocations.

30 In 2022, there is expected to be funding pressure from apprentices, as the baseline for industry training currently reduces into 2022. It significantly reduces further into 2023 as well (see Table 1). It is likely that additional funding for additional enrolments will be needed for industry training in 2022, when the TTAF and the Apprenticeship Boost Initiative are still financially supporting the training and wages of apprentices, and for 2023, when the labour market is forecast to be strong.

31 We will provide further advice in early July 2021 on 2022 and 2023 tertiary education funding pressures, including industry training. There are still expected to be demand pressures in 2022, and while in 2023 demand could ease, the current baselines for SAC and industry training drop significantly in 2023. The drop in 2023 baselines reflected the economic forecasts when the funding was appropriated in 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.

32 Options for meeting any additional funding pressures over 2022 and 2023 could include either transfers within the MCA, reprioritising Fees Free payments funding or seeking additional funding, including through Budget 2022, for 2023 or outyears.

Fees Free payment underspend in 2020/21

33 The Fees Free payments category of the Tertiary Tuition and Training MCA comprises fee payments for first-year Fees Free Tertiary Education and Training, and the TTAF until 31 December 2022. The TEC advises that the Fees Free payment underspend for 2020/21 is likely to be a minimum of $30 million, with the final amount confirmed subject to further data on payments and final auditing. This is below the Fees Free payment underspend range of $55 million to $80 million estimated at the end of January 2021 [METIS 1250570 refers].

34 Increased 2021 tertiary enrolments, including for those aged 18-19 years, a key group for first-year Fees Free Tertiary Education and Training, will lead to an increase in learners benefiting from Fees Free. However, a portion of the enrolments from eligible Fees Free learners in 2021 will be benefiting from fees-free study through the TTAF instead. The portion benefiting from the TTAF will be all apprentices and a portion of the Fees Free eligible learners enrolling in sub-degree programmes. While the TTAF will reduce the number of learners benefiting from Fees Free over 2021 and 2022, the majority of first-year Fees Free EFTS and Fees Free payments are for degree-level enrolments, which is not impacted by the TTAF.

35 A portion of funding for TTAF was to be offset from Fees Free payments for first-year Fees Free, on the basis that some of the learners now covered by TTAF would have otherwise been covered through Fees Free payments for first-year Fees Free.

36 As noted above, we propose not to seek to reprioritise the Fees Free payment underspend for 2020/21. This would mean the funding will return to the centre as part of Vote Tertiary Education underspends for 2020/21. However, reprioritising future Fees Free underspends would be one option for responding to any funding pressures from volume in 2022 and 2023. This would require Cabinet agreement.

37 The Ministry expects ongoing Fees Free underspends from first-year Fees Free, at current estimated enrolment and fee payment estimates.

38 As outlined in advice to you and the Minister of Finance in April 2021, the Ministry will re-estimate the cost of Fees Free to identify the structural underspend, especially from 2023, post-TTAF, and where tertiary enrolments may start trending down. We aim to provide that advice in early July 2021. The report will also cover any TTAF funding pressures within Fees Free payments and tertiary education provision funding pressures from 2022.

Financial Implications

39 The use of the balance sheet for the full 2020/21 deficit will reduce the balance sheet to $32 million. The appropriations and this remaining balance sheet funding will still be sufficient for meeting any remaining 2021 volumes, based on information to April 2021. However, the use of funding for 2021 could constrain 2022 allocations.

40 The Fees Free payment underspend, which is still to be finalised by the TEC, but is at least $30 million, would be returned to the centre with other residual Vote Tertiary Education underspends. Outside of the Tertiary Tuition and Training MCA, there are no material underspends being returned to the centre.

Next Steps

41 If you agree not to seek to reprioritise the Fees Free underspend from 2020/21, the Ministry and the TEC will utilise the balance sheet funding to offset the full 2020/21 deficit within the Tertiary Tuition and Training MCA, excluding Fees Free payments.

42 If you would like to seek to reprioritise Fees Free payment underspends from 2020/21 you should discuss this option with the Minister of Finance to get an indication of their view on this proposal, before considering a process to seek Cabinet agreement. The timeframes for this would be very short as it would need to be agreed to by Cabinet as soon as possible prior to 30 June 2021.

43 We will provide further advice to you and the Minister of Finance in early July 2021 on structural Fees Free payment underspend, updated information on volume pressures in tertiary education over 2022 and 2023, and if needed, funding options to address these funding pressures.