



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

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

This report provides information on the reprioritisation of the 2020/21 Fees Free payments underspend from to meet demand pressures within Vote Tertiary Education from increasing enrolments. This briefing note can be used to inform other Ministers of the funding pressures within Vote Tertiary Education and any decisions to seek agreement to reprioritise the Fees Free payments underspend.

Proactive Release

- a. **agree** that the Ministry of Education release this briefing once final decisions on 2020/21 Fees Free payments have been made, and enrolment trends for 2021 have been published.



James Campbell
Senior Manager, Tertiary Education

18/06/2021



Hon Chris Hipkins
Minister of Education

23/6/2021

☒ **Agree** ☐ **Disagree**

Tertiary education expenditure in 2020/21

1. Further to our advice of 15 June 2021, you have indicated that you would like to reprioritise funding out of the Fees Free underspend to manage demand pressures in 2021 and beyond [METIS 1258874 refers].
2. This briefing note provides information on the underspend, likely demand pressures and the process for reprioritising the underspend, to inform your engagement with Ministers to seek a transfer before the end of the 2020/21 financial year.

Fees Free payments will underspend in 2020/21

3. The Fees Free payments category of the Tertiary Tuition and Training Multi-category appropriation (MCA) comprises fee payments for first-year Fees Free Tertiary Education and Training, and the Targeted Training and Apprenticeship Fund (TTAF) until 31 December 2022.
4. As previously signalled, the Fees Free payment underspend for 2020/21 is estimated to be at least \$30 million. The latest advice from the Tertiary Education Commission (TEC) indicates that the final amount is likely to be closer to \$50 million (and could in fact be higher than this amount). If so, the estimated Fees Free payment underspend would be broadly consistent with the range of \$55 million to \$80 million estimated at the end of January 2021 [METIS 1250570 refers].
5. The financial year-end Fees Free underspend has been complex to calculate as collection of fee payments data for TTAF from Transitional Industry training organisations has been difficult to confirm, and its variability has caused calculation issues. The TEC is still working to validate and confirm some fees payment data for 2021. The TEC advises that it expects to have a confirmed calculation early next week.
6. The Ministry expects ongoing underspends from the first-year Fees Free policy, at current estimated enrolment levels and fee payments. 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 when tertiary enrolments may start to trend down [METIS 1254678 refers]. The Ministry will provide this advice in July 2021. The advice will also cover any TTAF funding pressures within Fees Free payments until the end of 2022 and tertiary education provision funding pressures related to estimated enrolment trends from 2022.

Tertiary provision funding will be in deficit for 2020/21 due to 2020 non-recovery and increased enrolments

7. The TEC advises that there will be a deficit in 2020/21 within MCA (excluding Fees Free payments) of \$78.8 million. Table 1 below shows the deficit by MCA category. 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). There is also a further \$32.4 million 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.
8. There is a small deficit in training for designated groups due to increased apprenticeship enrolments within the Industry Training Fund. Some of the deficit from industry training is met from underspends within Youth Guarantee. The small surplus in community education, due to underspends in workplace literacy, will slightly offset the overall MCA deficit.

Table 1: 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

9. If the full amount of the 2020/21 deficit is 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.

Demand pressure within tertiary education over 2021–2023

Based on current enrolment estimates, we don't expect to need additional funding beyond the balance sheet and existing MCA funding in 2021

10. For data reported to April 2021 key tertiary education enrolment 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.
11. Currently, the Ministry estimates that 2021 provision at SAC level 3 and above could be 11% to 13% higher than 2020, and total volumes within industry training could increase by a similar percentage. While there is sufficient funding available for 2021 delivery from MCA funding in 2020/21 and 2021/22, and from the balance sheet, if these volumes are delivered and funded it could further reduce the balance sheet below \$32 million, or reduce funding available from 2021/22, intended for the 2022 calendar year.

A reduced balance sheet may affect 2022 funding allocations as TEC manages the 102% funding commitment

12. The TEC needs to be confident of funding available within the total MCA and the balance sheet at the start of 2022 to match the expected delivery volumes from its allocated funding. This also needs to take into account the financial commitment to fund 102% of allocated funding for SAC level 3 and above and apprenticeship volumes.
13. 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 be confident that it can meet the funding commitment to tertiary education organisations, that 102% of their allocated funding will be paid, if they have higher volumes¹.

¹ The 102% funding commitment mainly applies to SAC level 3 and apprenticeships.

There could be further volume-based funding pressure in 2022 and 2023

14. Currently, we expect additional funding will be needed for industry training enrolments over both 2022 and 2023, especially in 2022 with the TTAF and Apprenticeship Boost Initiative still supporting apprenticeship enrolments. The current industry training baseline drops in 2022 slightly, and more significantly in 2023².
15. For SAC funding at level 3 and above, 2022 will be able to fund similar volumes to 2021. However, for 2023, the baseline reduces reflecting 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. There could be funding pressure from provider-based enrolments in 2023, but we will need to assess that.
16. Further advice on estimated 2022 and 2023 enrolment volumes and funding pressure will be provided in July 2021.

Fees Free payments could offset some of the SAC deficit, and support a more sufficient balance sheet going into 2022

17. A transfer of \$30 million from the Fees Free payment category (the expected minimum underspend in 2020/21) to SAC would reduce the 2020/21 MCA deficit to \$48.8 million, and result in less funding being drawn from the balance sheet. The balance sheet would instead be at \$62 million at the end of the 2020/21 financial year. This would mean the TEC's balance sheet would be approximately 3% of total industry training and SAC level 3 and above funding. This should better enable it to support any additional volume in 2021, while also offsetting the volume risks for 2022 when the TEC allocates 2022 funding.
18. Any Fees Free payment underspend 2020/21 above the reprioritised amount would be returned to the centre.

Process options for seeking to reprioritise Fees Free payments

19. You have indicated that you want to seek reprioritisation of the Fees Free payment underspend in 2020/21 to offset the MCA deficit and to support the balance sheet. For this approach, we would recommend seeking Cabinet agreement of an in-principle transfer within the MCA from Fees Free payments to SAC for 2020/21, of up to \$30 million, subject to final expenditure being confirmed. This would also seek authorisation for the Minister of Finance and the Minister of Education to finalise the amount of Fees Free payment transfer as part of the 2021 October Baseline Update.

Fees Free payments is not intended to be part of the flexibility to meet volume pressures within the MCA

20. In general, the intention of the Tertiary Tuition and Training MCA and the operation of transfers is that funding can shift between, and within, MCA categories to respond to small shifts in learner demand outside of the Budget cycle [EGI-16-MIN-0104]. This

² 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.

allows for funding to shift between different types of provision, such as community education, industry training and provider-based in response to demand. However, transfers that involve significant policy changes would still require Cabinet approval.

21. As Fees Free payments is a category within the Tertiary Tuition and Training MCA, the Minister of Finance and the Minister of Education technically have authorisation to approve transfers in excess of \$10 million across categories of the MCA. However, that authorisation, in 2016, pre-dates the Fees-Free policy. As such, there is no clear authorisation for transferring Fees Free payment funding to manage enrolment pressures elsewhere in the MCA. Fees Free payments are also for a different purpose, fee payments for learners rather than tuition or training subsidy-based other MCA categories. For these two reasons, transfers from Fees Free payments within Vote Tertiary Education have therefore generally been considered to be a significant policy change, requiring Cabinet approval.
22. An exception to seeking Cabinet approval was the transfer of \$62 million of 2019/20 Fees Free payments, as part of the \$83 million transfer from 2019/20, into 2020/21 SAC funding, which was approved by you and the Minister of Finance through the 2020 October Baseline Update [METIS 1241868 refers].
23. The transfer related to the impact from the Government's decision to guarantee providers' 2020 calendar year funding allocations, and not recover funding for under-delivery. The funding guarantee for 2020, which was across the 2019/20 and 2020/21 financial years, had not intended to reduce the funding available for 2021 allocations from the 2020/21 financial year, but resulted in impacting 2020/21 funding available for 2021. The Treasury agreed to the transfer from Fees Free payments into SAC due to the exceptional circumstances related to the impacts of COVID-19 on the understanding that this does not create a precedent for the management of Fees Free payment underspends.
24. The potential transfer of \$30 million from Fees Free payments to SAC in 2020/21 is still related to the impact of 2020 non-recovery: \$48 million of the \$78.8 million deficit in 2020/21 is from additional delivery in July to December 2020, that was above allocated funding, and could not be offset from recoveries. The cost of the non-recovery was \$176.3 million for whole of 2020 calendar year for funding tertiary education organisations kept without actual delivery.³
25. You, and the Minister of Finance could consider if the transfer within 2020/21 is again to lessen the impact from non-recovery in 2020, and could still be approved by Joint Ministers due to exceptional circumstances, as the previous transfer was, without necessarily creating a precedent for transfers from Fees Free payments for other reasons.
26. The Treasury does not support the use of Fees Free payments in 2020/21 to offset the SAC deficit. If a transfer from Fees Free payments was to be proposed, the Treasury would likely recommend the decision be sought from Cabinet, in-line with their previous views on seeking to reprioritise Fees Free payments.

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.

Next Steps

27. Timeframes are very short if you wish to reprioritise 2020/21 funding from the Fees Free payment category to the SAC category within the Tertiary Tuition and Training MCA, as it would need to be agreed to before the end of June.
28. If you would like to seek Cabinet approval for the 2020/21 funding transfer from Fees Free payments, we can provide either a short Cabinet paper, or recommendations to table for an oral item, for consideration at Cabinet on 28 June 2021.
29. If you and the Minister of Finance decide to authorise a transfer without going to Cabinet, due to exceptional circumstances, then we can prepare a report to Joint Ministers seeking formal authorisation before the end of June 2021.