



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

To:	Hon Chris Hipkins, Minister of Education		
Date:	24 June 2021	Priority:	High
Security Level:	In Confidence	METIS No:	1263890
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Messaging seen by Communications team:	No	Round Robin:	No

Purpose of Report

Attached is a draft Cabinet Paper proposing to use \$50 million of unspent Fees Free payments funding to partially offset a deficit in the Student Achievement Component category within the Tertiary Tuition and Training Multi-Category Appropriation for 2020/21.

Recommended Actions

The Ministry of Education recommends you:

- note** that the Cabinet paper will need to be considered by Cabinet on 28 June for unspent 2020/21 Fees Free funding to be transferred and used for a different purpose
- agree** to lodge the attached Cabinet paper for consideration at Cabinet's meeting on 28 June 2021

Agree / Disagree

- agree** that the Ministry of Education release this briefing once Cabinet decisions have been made, with any redactions relating to potential future decisions made in accordance with the Official Information Act 1981

Agree / Disagree



Shelley Robertson
Acting Group Manager, Tertiary Education

24/06/2021

Hon Chris Hipkins
Minister of Education

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Draft Cabinet Paper

- 1 Attached is a draft Cabinet paper that proposes to transfer \$50 million of unspent Fees Free payments funding before the end of 2020/21, following recent advice on the expected financial year-end position of the Tertiary Tuition and Training Multi-Category appropriation and funding pressures for tertiary education demand [METIS 1258874 and 1263460 refer].
- 2 The Tertiary Education Commission's current estimate of the 2020/21 Fees Free underspend is \$86.2 million in 2020/21. This is significantly higher than our earlier advice of a minimum underspend of \$30 million, due to the inclusion of a more accurate year end accrual calculation based on the April SDR. We also note that the expected Student Achievement Component (SAC) deficit has increased slightly since our earlier advice, from \$80.3 to \$81.2 million.
- 3 The draft Cabinet paper proposes to transfer \$50 million of the estimated Fees Free underspend to manage the SAC deficit. The remainder of the deficit will be managed by drawing on the TEC's balance sheet mechanism. The remaining Fees Free payments underspend, estimated at \$36.2 million, would be returned to the centre.
- 4 The proposed use of \$50 million would result in the TEC's balance sheet being around \$82 million at the end of the 2020/21 financial year. We note that while the most up-to-date numbers are presented in the paper, final numbers are subject to auditing of financial statements for the Vote. There may be some further small changes.
- 5 A balance sheet of \$82 million would be approximately 4% of total industry training and Student Achievement Component funding. Maintaining a higher balance sheet 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. The TEC has confirmed that it is comfortable with this approach.
- 6 Without a sufficient level of funding available on the balance sheet 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. If the balance sheet became significantly below \$50 million, there would be a risk of TEC being unable to meet the 102% commitment in 2022 and/or 2023.
- 7 As per our previous advice, we consider that a smaller transfer of \$30 million (which would result in a \$62 million TEC balance sheet), would also be a sufficient amount to manage known demand pressures in 2021 and provide the TEC with confidence about final 2022 allocations [METIS 1263460 refers].
- 8 Not using more of the balance sheet funding for 2020/21 deficit may call into question the purpose and size of the balance sheet mechanism, when this is looked at by the Ministry and the Treasury. The primary purpose of the balance sheet mechanism is to address short-term funding pressures created by the 102% policy, not to replace appropriating additional funding to meet longer-term demand pressures. The main funding pressure the Ministry identifies is for the industry training baseline funding in 2022 and 2023. This would be managed by appropriating funding for this purpose. Further advice will be provided in July 2021.

Treasury Comment

- 9 The draft Cabinet paper includes a Treasury comment outlining that they do support the transfer of unspent Fees Free funding. This is consistent with the Treasury's past views on the proposed use of unspent Fees Free payments funding.

Next Steps

- 10 Cabinet needs to approve the transfer of unspent 2020/21 Fees Free funding for a different purpose on Monday 28 June 2021 so that the decision is made before the end of the finance year. We understand your office is liaising with the Cabinet Office on the late lodgement of the paper. We will provide your office with speaking points to support your discussion of the paper with your Cabinet colleagues.

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