MINISTRY OF EDUCATION
TE TĀHUHU O TE MĀTAURANGA

TE TAI ŌHANGA
THE TREASURY

Joint Education & Treasury Report:
Managing increased demand for tertiary education and training

To:	Hon Grant Robertson, Minister of Finance Hon Chris Hipkins, Minister of Education		
Date:	26 March 2021	**Priority:**	High
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Purpose

As requested during your Budget 2021 bilateral meeting, this paper provides information on tertiary education and training enrolments so far in 2021, and options to manage any pressure on baselines resulting from a significant increase in demand.

Executive Summary

Indicative data shows 2021 apprenticeship enrolments will exceed volumes currently able to be funded. As tertiary education and training funding is capped, managing increased demand requires government to consider the level of demand it wishes to fund.

This paper seeks your agreement to transfers within Vote Tertiary Education to help the Tertiary Education Commission (TEC) manage growth in apprenticeship enrolments in addition to drawing on funding held on its balance sheet. The proposed transfers would provide $25 million to fund further growth in apprenticeships in 2021.

The paper also seeks a decision from you on whether to reprioritise unspent 2020/21 funding of $42 million for Workforce Development Councils (WDCs) into 2021/22 and 2022/23 to avoid a significant decline in the Industry Training Fund (ITF) for the 2022 calendar year compared to its 2020 and 2021 levels. This could be done through Budget 2021.

Indicative data also shows significant growth in provider-based enrolments across universities, Te Pūkenga's network and private training establishments. At the end of February, the TEC had $97 million of Student Achievement Component (SAC) funding yet to be allocated for 2021. This, alongside further use of TEC's balance sheet, will be used to manage demand for provider-based tertiary education in the first instance.

A clearer view of 2021 enrolments will be available in mid-to-late May following analysis of tertiary providers' April data returns. Significant growth in both ITF- and SAC-funded delivery differs to expectations we had of the impact of COVID-19 on demand for tertiary education and training (based on what happened following the Global Financial Crisis).

The Ministry of Education will report to the Minister of Education in June 2021 on enrolment levels and funding implications. This will also include advice on addressing an apparent structural underspend within Fees Free funding, and any pressure on the Targeted Training and Apprenticeship Fund resulting from enrolment growth.

Recommended Actions

The Ministry of Education, Tertiary Education Commission and The Treasury recommend you:

Funding additional apprenticeships in 2021

a. **note** that enrolment data to the end of February 2021 indicate demand for apprenticeships in 2021 will exceed the level currently able to be funded

b. **note** that, to fund additional apprenticeships in 2021, officials propose:

   i) using flexibility within Vote Tertiary Education to transfer $13 million of Youth Guarantee funding to the Industry Training Fund; and

   ii) the Tertiary Education Commission using up to $12 million from its balance sheet

Potential use of unspent 2020/21 Workforce Development Councils funding

c. **note** that the Industry Training Fund will be $35 million lower in 2022 and 2023 than its current level [CAB-20-MIN-0219.27 Initiative No. 12666 refers]

d. **note** that, due to several factors including an amended timeframe for their establishment, $42 million of funding appropriated from the COVID-19 Response and Recovery Fund (CRRF) for Workforce Development Councils will be unspent in 2020/21

e. **note** that Cabinet has previously agreed that unspent CRRF funding be returned to the centre [CAB-20-MIN-0219.27 refers]

f. **agree** that a late initiative be included in the education portfolio package and Cabinet paper for Budget 2021 seeking to transfer the unspent $42 million referred to in recommendation (d) to the Industry Training Fund to manage demand for apprenticeships in 2022

Agree / Disagree	**Agree / Disagree**
Minister of Finance	**Minister of Education**

Managing demand for provider-based tertiary education and training

g. **note** that the tertiary tuition and training multi-category appropriation and TEC's balance sheet provide ways to fund relatively small increases in demand, with the balance sheet also an option to manage a further increase in demand in the short term

h. **note** that**:**

   i) indicative March 2021 data suggest significant increases from last year in enrolments across universities, Te Pūkenga's network and private training establishments

   ii) as at the end of February 2021, the TEC had $97 million of funding yet to be allocated for provider-based enrolments

   iii) the TEC intends to use $46 million from its balance sheet to manage the final implications of guaranteed 2020 funding on funding available for 2021

   iv) the TEC will use its balance sheet to fund providers to 102% of their allocations once enrolments to that value are confirmed

i. **note** that the Ministry of Education will report to the Minister of Education in June 2021 on actual and forecast enrolments for 2021 and beyond, including scope to use Fees Free funding and other options to manage a significant increase in demand

Financial implications

j. **approve** the following changes to appropriations to fund additional apprenticeships in 2021, with no impact on the operating balance:

Vote Tertiary Education	2020/21	2021/22	2022/23	2023/24	2024/25 & Outyears
Multi-Category Expenses and Capital Expenditure: Tertiary Tuition and Training MCA *Non-Departmental Output Expenses:* Training for Designated Groups					
• Industry Training Fund	8.000	5.000	-	-	-
• Youth Guarantee	(8.000)	(5.000)	-	-	-
Total Operating	**-**	**-**	**-**	**-**	**-**

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

Agree / Disagree
Minister of Finance

Agree / Disagree
Minister of Education

Proactive release

l. **agree** that this report is proactively released by the Ministry of Education following your joint decision on the funding change, with some content relating to potential future decisions with financial redacted in accordance with the Official Information Act 1981

Release / Not release
Minister of Education

Nick Carroll
Manager
Skills and Work
The Treasury

26/03/2021

John MacCormick
Acting Group Manager
Tertiary Education
Ministry of Education

26/03/2021

Hon Grant Robertson
Minister of Finance

28 / 3 / 2021

Hon Chris Hipkins
Minister of Education

29 / 3 / 2021

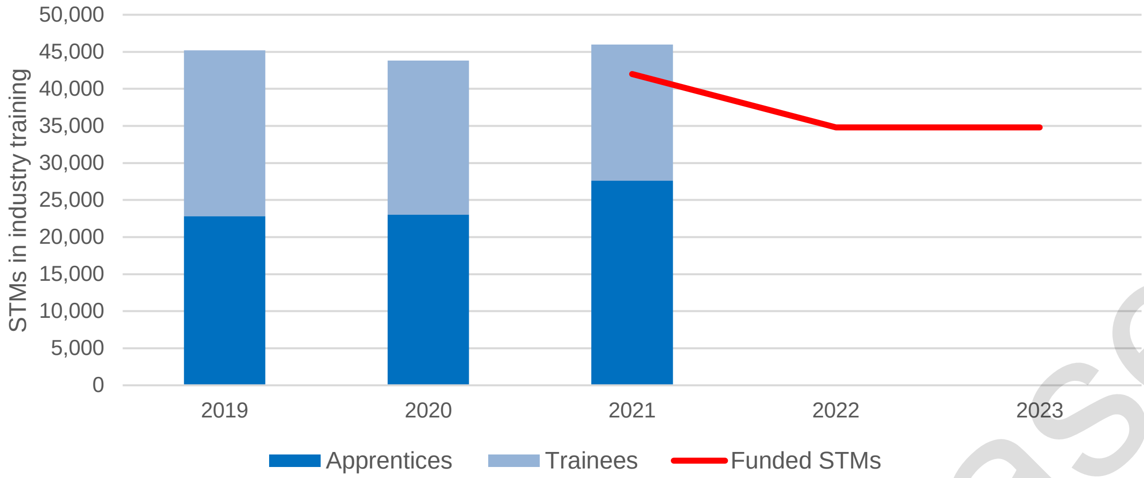
Indicative enrolment data show potential pressure on funding

1. In your Budget 2021 bilateral meeting on 17 March 2021, you discussed whether baseline funding in Vote Tertiary Education would be sufficient to manage increases in demand.
2. Officials advised that indicative data for 2021 suggest a significant increase in demand for both workplace-based and provider-based enrolments compared to the same time in 2020. Officials noted that the $334 million from the COVID-19 Response and Recovery Fund (CRRF) for additional enrolments over 2021–2023 – along with the Tertiary Education Commission's balance sheet – can manage increased demand in the short-term. You requested additional information on current and potential demand, and on how a significant increase in demand would be managed.
3. A clearer view of 2021 enrolments will be available in mid-May, following analysis of tertiary providers' April Single Data Return (SDR), which reports about 80 percent of provider-based enrolments for the calendar year. Industry training data are reported monthly through the Industry Training Register (ITR). By the end of April, about one third of the annual industry training volume will usually be reported.
4. Unlike operational grants funding for schools, tertiary education and training operates a capped funding system. The volume able to be funded is informed by – but not specifically tied to – forecasts of volume. This volume of tertiary education and training able to be funded by the TEC is considered and set through annual Budget processes.
5. This capped funding creates a useful incentive for the TEC to prioritise funding toward higher quality and priority provision, with similar incentives for tuition and training providers. However, if government wishes to fund an increased volume of tuition and training, it also means additional funding needs to be sought when demand rises.
6. As outlined below, at the start of March 2021, indicative data suggests rising demand pressure for apprenticeships and provider-based delivery compared to that previously estimated and reflected in baselines.

Demand for apprenticeships is significantly higher than before COVID-19

7. As at the end of February 2021:
    - apprenticeships are **28 percent higher** than at the end of February 2020 (985 Standard Training Measures (STMs)), with large rises in construction and related trades
    - traineeships are **15 percent lower** (645 STMs) than at the end of February 2020.
8. Apprentices are funded at a considerably higher rate than trainees ($5,379 and $3,310 per STM respectively). The net effect of the volume changes is a **10 percent increase in expenditure**, at the end of February, compared to volumes in the previous year.
9. This suggests industry training enrolments for all of 2021 will significantly exceed 2020. If the trajectory of enrolments of the first two months of 2021 is applied to the whole of 2021, around $20 million in additional funding would be needed. Apprenticeships may potentially grow by more, given current labour market conditions and Government's strong commitment to retain and grow apprentices through wage subsidies and Fees Free support over 2021 and 2022.
10. Initial modelling in April 2020 of the impact of COVID-19 on the labour market indicated a significant decline in industry training volumes. Due to this, the CRRF initiative to provide additional funding included a transfer of $35 million per calendar year from the Industry Training Fund (ITF) to the Student Achievement Component (SAC) to fund provider-based enrolments from 2021 to 2023. The transfer is shown in Table One and the impact on decreased funded industry training volumes with a fiscal cliff is in Figure One below.

Figure One: Industry training provision and funded volumes



Note: This shows the estimated mix and volume of apprenticeship and trainee Standard Training Measures (STMs) able to be funded by the Industry Training Fund, with a fall in the volume able to funded due to the impact on the decisions outlined in Table One.

11. In November 2020, you agreed to reverse the $35 million reduction to 2021 funding to ensure the ITF could fund similar industry training enrolments in 2021 as in 2020 [METIS 1243861 refers]. At this stage, the subsequent reductions of $35 million for the 2022 and 2023 calendar years have not been reversed, creating a 'fiscal cliff' for industry training funding after 2021.
12. We propose a combination of fiscally neutral transfers and use of the TEC's balance sheet to manage pressure in 2021. However, further options will likely need to be considered when a clearer view of enrolments is available in mid-May. These are discussed below.

Demand for provider-based tertiary education has also increased

13. As shown in Table One, funding for provider-based SAC-funded enrolments was increased by almost $446 million though the CRRF Foundation Package at Budget 2020 for 44,000 additional provider-based enrolments across the 2021 to 2023 calendar years.
14. This reflected forecasts that predicted provider-based equivalent full-time students (EFTS) might be **12 percent** higher in 2021 than in 2019. Of the additional $446 million, $105 million was transferred from the ITF into SAC. As outlined above, in November 2020, $35 million for 2021 was transferred back to ITF, including $23 million from SAC, with the balance of $12 million from Youth Guarantee.

Table One: Additional/reprioritised funding to manage COVID-19 impacts on demand

Vote Tertiary Education	2020/21	2021/22	2022/23	2023/24	2024/25 & Outyears
Tertiary Tuition and Training MCA					
Community Education	0.750	1.200	0.900	0.450	-
Student Achievement Component	96.200	174.300	121.700	43.600	-
Industry Training Fund	(17.500)	(35.000)	(35.000)	(17.500)	-
Total Operating	**79.450**	**140.500**	**87.600**	**26.550**	**-**

Note: Table One shows the profile of funding under the 'Meeting Increased Learner Need for Tertiary Education' initiative agreed as part of the COVID-19 Response and Recovery Fund Foundation Package on 11 May 2020 [CAB-20-MIN-0219.27 – Initiative No. 12666 refers]. The subsequent transfer of $35 million back to the ITF for 2021 is not shown.

15. As successive economic indicators since mid-2020 showed the economic impact of COVID-19 in New Zealand has not been as severe as indicated by initial forecasts, it appeared less likely that tertiary student enrolments would increase as high as initially expected. However, as at the start of March 2021, indicative enrolment data suggest significant increases in demand for provider-based tertiary education, including:

    - University enrolments showing a potential **9.8 percent** increase in domestic equivalent full-time students (EFTS) compared to March 2020 (11,200 EFTS if over full year)
    - Te Pūkenga enrolments showing a potential **16 percent** increase in domestic EFTS compared to March 2020 (8,500 EFTS)
    - Private Training Establishment (PTE) enrolments showing a potential **17 percent** increase in domestic EFTS compared to March 2020 (4,700 EFTS)
    - Wānanga enrolments showing a potential **3.7 percent** decrease in domestic EFTS compared to March 2020 (700 EFTS).

16. This data suggests a potential increase in provider-based EFTS of around **10 percent** compared to 2020, which are primarily funded by the Student Achievement Component (SAC) in the Tertiary Tuition and Training Multi-Category Appropriation (MCA).
17. Providers' April data returns will give a clearer view of SAC-funded enrolments and drivers of growth. A range of factors are likely driving growth in tertiary enrolments, including government interventions to support and promote tertiary education and training, economic uncertainty making study more attractive for school leavers and some learners already studying (with higher retention or transitions into post-graduate study, and border closures leading some people (including returnees) to take up study rather than travelling overseas, or remaining overseas.
18. Overall, the apparent significant increases in demand for workplace-based and provider-based tertiary education and training in 2021 differs to the expected impact of COVID-19 on demand, and therefore to the profile and amounts of baseline funding. In the following sections, we outline how this can be managed.

There are ways to manage demand pressure in the short term …

19. Options for managing enrolment-driven funding pressure in the short-term include:

    Within Vote Tertiary Education:

    - prioritising unallocated funding in the Tertiary Tuition and Training MCA or elsewhere in Vote Tertiary Education:
        - at the end of February, the TEC had not yet allocated $97 million of SAC funding available for 2021
        - the TEC's balance sheet could be used to manage a significant increase in enrolments
        - earlier this year, we identified a range of $55–$80 million for the expected underspend of Fees Free Payments funding in 2020/21 [METIS 1250570 refers]
        - due to a range of factors, including an amended timeframe to establish WDCs, an underspend of $42 million on the $46 million appropriated from the CRRF to fund the establishment and initial operations of WDCs is now expected in 2020/21

    Funding outside of Vote Tertiary Education

        - additional funding could be sought from the CRRF, Between-Budget Contingency or reprioritisation of funding outside of Vote Tertiary Education.

20. In addition to these options, the TEC can and will decline some requests for additional 2021 funding for enrolments in subject areas that are a relatively low priority. This approach is business-as-usual for the TEC, but there is a risk that it would be viewed as counter to Government objectives. This option is discussed further in paragraphs 33-34.

21. At this stage, we recommend that prioritisation of funding within the MCA, use of the TEC's balance sheet and the TEC declining requests for additional funding for low-priority delivery be used to manage pressure in 2020/21.

We propose increasing the Industry Training Fund and using TEC's balance sheet

22. The TEC has already fully allocated the Industry Training Fund for 2021. This constrains the TEC's ability to fund additional apprenticeships. At the end of February, the TEC had not yet allocated $97 million of SAC funding available for 2021. However, due to the potential pressure on SAC funding, we do not consider transferring SAC funding to the ITF to be a viable option. The unallocated funding, alongside drawing on its balance sheet if providers reach 102 percent of their funding allocations, will be used to manage growth in SAC-funded enrolments in the first instance.

23. We therefore propose that $13 million of Youth Guarantee (YG) funding (now likely to be unspent in 2021) be transferred to fund further growth in apprenticeships.[1] Transfers of this magnitude across two financial years within the same MCA category do not require Joint Minister approval [EGI-16-MIN-0104 refers]. However, as this is part of an overall response to meeting demand pressures, we are seeking both Ministers approval of the proposed transfers on this occasion.

24. The balance sheet facility currently holds $110.8 million, although the TEC needs to use $46 million of this before the end of June 2021 to manage the cost of providers' final 2020 funding delivery, which was higher than expected for some tertiary providers, and could not be offset by any funding recoveries, given the funding allocations guaranteed as a response to COVID-19. This will reduce TEC's balance sheet to $64.8 million.

25. Alongside transferring YG funding to the ITF to fund additional apprenticeship enrolments, the TEC intends to use $12 million from its balance sheet so that it can fund a $25 million increase in apprenticeships in 2021. This would fund approximately 4,650 apprentices over the 2020 level and further reduce its balance sheet to $52.8 million.

We seek a decision on using unspent WDC funding to avoid a decrease in industry training funding in 2022

26. A more immediate option to enable the TEC to fund ITF and/or SAC enrolment growth in 2021 and 2022 is to draw on unspent funding for WDCs. Due to changes in the timeframe to establish WDCs, there is likely to be an underspend of $42 million on the $46 million appropriated from the CRRF to fund their establishment and initial operations in 2020/21.

27. Cabinet has specifically agreed that unspent CRRF funding be returned to the centre [CAB-20-MIN-0219 refers]. We therefore seek a decision on whether you wish to seek Cabinet's agreement through the Budget 2021 Cabinet paper to transfer this $42 million to the ITF. If so, we propose that the funding be applied to increase the ITF for 2022 to reduce the fiscal cliff from 2021 to 2022. A significant fiscal cliff would remain for 2023, even if demand were to remain at its 2020 level.

… but a large increase will require a longer-term approach

28. As outlined above, there is potential for enrolments across both workplace-based and provider-based tertiary education and training to grow further in 2021 and to exceed the levels able to be funded by existing baselines in 2021 and beyond. If so, Ministers will

[1] As this is from 2021 funding, the transfer would limit the scope for changes to YG policy settings for 2022, as part of a planned broader review of foundation education policy settings.

need to consider the pipeline effects for 2022 and beyond, including whether and how to fund growth beyond the level able to be funded by existing baselines.

Using a structural underspend in Fees Free is one option

29. The Ministry of Education recently advised the Minister of Education of an estimated 2020/21 Fees Free underspend of $55-$80 million, and a likely on-going (structural) underspend on funding appropriated for the first-year Fees Free policy [METIS 1250570 refers]. Indicative 2021 enrolment data and high uptake of the Targeted Trades and Apprenticeship Fund (TTAF) suggests the final Fees Free payment underspend will be at or below the bottom of this range.

30. The TTAF is likely to have higher funding needs than estimated in Budget 2020, due to higher uptake of apprenticeships and provider-based study at level 3-7 than expected.[2] An option for meeting any additional TTAF costs is Fees Free funding, as both are within the Fees Free payments category of the MCA.

31. The Ministry of Education will report to the Minister of Education in June following analysis of providers' April data returns and updated forecasts of tertiary education demand and estimated Fees Free expenditure from both first-year Fees Free and the TTAF.

32. This will include an update on the expected final Fees Free underspend for 2020/21, the scale of the structural underspend in 2023 and outyears, within Fees Free payments from first-year Fees Free,[3] and an approach to reducing the funding appropriated for the first-year Fees Free policy. At that point, Ministers may wish to consider seeking Cabinet approval to use some Fees Free funding to fund demand pressure instead of returning the funding to the centre.

Alongside reducing funding for low-priority delivery

33. Ministers and the TEC could also consider greater prioritisation of funding away from relatively low-priority tertiary education and training – though managing a large increase in demand with this approach would require significantly raising the bar for what would be considered low-priority. It would require the TEC to reduce funding of delivery for which there is no clear evidence that it responds to current or future skills shortages or connection to specific Government priorities.

34. The trade-offs and consequences of reduced funding for low-priority delivery would need to be carefully considered, and would likely be perceived as limiting learners' choices and restricting entry to courses, constraining providers' operational autonomy and revenue (with implications for job security, etc) and conflicting with broader Government objectives to promote engaging in education and training. A clearer view of what such an approach might look like can be provided as part of further advice in June, if requested.

Next steps

35. Beyond the decisions sought from you in this paper, we will update you as a clearer picture of 2021 enrolments becomes available. The Ministry of Education will report to the Minister of Education in June (following analysis of April data returns) with a more detailed view on enrolments and scope to manage demand pressure through reprioritisation.

[2] For example, this paper's proposed increase in apprentices (4,650 apprentices from $25 million in 2021), could result in these being new construction apprentices. Depending on their programme and fees, it could cost around $15 million in TTAF payments for these new apprentices.
[3] The Ministry will use tertiary demand forecasts and data on enrolment and study pattens from the first 3 years of the Fees Free policy to estimate expenditure in future years against the appropriated levels of funding. This will take into account data on initial TTAF uptake and its interaction with Fees Free funding.