

## Education Report: Draft Cabinet Paper to manage Apprenticeship Boost and tertiary funding pressures

<b>To:</b>	Hon Chris Hipkins, Minister of Education		
<b>Date:</b>	12 November 2021	<b>Priority:</b>	High
<b>Security Level:</b>	Budget Sensitive	<b>METIS No:</b>	1275349
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<b>Messaging seen by Communications team:</b>	No	<b>Round Robin:</b>	No

### Purpose of report

This report provides a draft Cabinet paper seeking decisions to:

- manage short-term funding pressures for the Apprenticeship Boost Initiative (ABI) and Mana in Mahi programmes through a combination of a Budget 2022 precommitment and reprioritisation of baseline funding in Vote Social Development; and
- authorise you and Minister of Finance to approve transfers of unspent 2021/22 Fees Free Payments funding to fund additional tertiary education and training enrolments in the first half of 2022.

This report provides additional detail on the pressures covered in the draft Cabinet paper.

We seek your feedback on the draft Cabinet paper by Wednesday 17 November so that we can provide you with a version for Ministerial consultation early on Friday 19 November. This is to allow for 10 days Ministerial consultation ahead of it being finalised and lodged for Cabinet's Social Wellbeing Committee meeting on Wednesday 8 December.

### Recommendations

The Ministry of Education recommends that you:

1. **note** that, as the proposals contained in the attached draft Cabinet paper relate to programmes and appropriations administered by the Ministry of Social Development, it needs to be a joint paper from you and the Minister for Social Development and Employment
2. **note** that the Ministry of Social Development is providing the attached draft Cabinet paper to the Minister for Social Development and Employment
3. **note** that:
  - a. we have worked with Treasury and Ministry of Social Development officials to test and revise estimates of the ABI funding pressure;
  - b. the estimated ABI funding pressure is now up to \$127.5 million (down from \$175 million) due to a range of factors including the impact of COVID-19 alert levels;

- c. we propose that the ABI funding pressure is managed via a Budget 2022 precommitment of \$110.172 million and a \$16.2 million contribution of baseline funding from Vote Social Development;
  - d. Vote Tertiary Education is unable to contribute to the funding pressure due to enrolment pressure in 2021/22 and the Targeted Training and Apprenticeship Fund requiring expected 2022/23 Fees Free underspends;
  - e. 9(2)(f)(iv) [REDACTED]
  - f. this Cabinet paper would also meet an earlier Cabinet decision for you to report to the Government and Administration Expenditure Committee by the end of 2021 on tertiary education demand and funding pressures; and
  - g. the Tertiary Education Commission has advised that the combination of funding additional enrolments and providers reaching 102 percent of their allocation will reduce its balance sheet funding mechanism to \$23 million by the end of 2021
4. **indicate** if you have any feedback on the draft Cabinet paper by Wednesday 17 November
  5. **note** that we intend to provide a revised draft Cabinet paper to your office on 19 November for Ministerial consultation so that the final paper can be lodged with Cabinet Office on Thursday 1 December for consideration by Cabinet's Social Wellbeing Committee on Wednesday 8 December
  6. **agree** to proactively release this Education Report as part of the proactive release Budget 2022 documents in mid-2022, with any redactions made in accordance with the Official Information Act 1982.

**Agree / Disagree**



**Katrina Sutich**  
Group Manager – Tertiary  
Te Puna Kaupapahere  
Ministry of Education

12/11/2021

**Hon Chris Hipkins**  
Minister of Education

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## Background

1. The attached draft Cabinet paper seeks decisions to manage short-term funding pressures within the Apprenticeship Boost Initiative (ABI) and Mana in Mahi programmes. Decisions are necessary now to avoid the Ministry of Social Development breaching appropriations.
2. Earlier in 2021, you were invited to report to Cabinet's Government and Administration Expenditure Committee before the end of 2021 on tertiary education and training demand and funding pressures [CAB-21-MIN-0243 refers]. The attached draft Cabinet responds to this requirement.

## Content of the draft Cabinet paper

### *Apprenticeship Boost Initiative and Mana in Mahi funding pressures*

3. You were recently advised of a forecast funding shortfall of up to \$175 million to meet the Government's commitment for ABI to operate through to its scheduled end date of 4 August 2022 [METIS 1273964 and 1273471 refer].
4. The funding shortfall reflects the positive impact of ABI and other COVID-19 response and recovery policies on employers' willingness to retain existing apprentices and take on new apprentices despite significant uncertainty of future labour market conditions.
5. You subsequently discussed this with the Minister of Finance, who we understand advised that any additional funding would need to come as a precommitment against your Budget 2022 education portfolio envelope. The Minister of Finance also set an expectation that the Treasury be involved in testing and revising the forecast shortfall.

### Revised forecast ABI funding shortfall

6. We have worked with Ministry of Social Development (MSD) and Treasury officials to revise the forecast ABI funding shortfall. The availability of ABI data up to the end of October 2021 – which reflect the impact of recent higher COVID-19 alert levels in the upper North Island – have resulted in a revised forecast funding shortfall of up to \$127.5m.
7. We identified lower (\$80.5m) and medium (\$96.5m) scenarios for the potential funding shortfall. However, based on the unexpectedly high demand for ABI up to September 2021, we consider it is necessary to seek approval the high scenario of an additional \$127.5m for ABI to operate through to August 2022. The Treasury supports this approach.
8. If the funding for the lower or medium scenarios were agreed, there is a risk the ABI appropriation would be exhausted in the second quarter of 2022 – at which time appropriating additional funding would be more challenging due to the Budget moratorium in April and May.
9. In line with the pressure on ABI funding, MSD has advised that the Mana in Mahi programme also faces a significant funding shortfall to meet expected demand.

### Managing the ABI and Mana in Mahi funding pressures

10. Vote Tertiary Education is unable to contribute to forecast ABI funding shortfall due to 2021/22 enrolment pressure and higher-than-expected uptake of the Targeted Training and Apprenticeship Fund (TTAF). This is covered further below.
11. MSD has advised that it estimates an underspend of around \$40m on the Flexi-Wage programme for 2021/22 and has proposed that \$16.2m of this be transferred to ABI and \$21.8m be transferred to Mana in Mahi.\* MSD has also advised, due to higher-than-expected ABI and Mana in Mahi workloads, it requires an additional \$0.508m in

departmental operating funding, which could be from the residual balance of \$1.128m in the original COVID-19 Support for Apprentices contingency – the remainder of which would be drawn into the ABI appropriation.

12. This means that the remaining \$110.172m of the forecast ABI shortfall needs to be funded as a Budget 2022 precommitment. Our understanding is that this would be charged to your Budget 2022 education portfolio envelope, so has significant implications for other education portfolio priorities.
13. The Treasury has indicated that, should ABI uptake data in early 2022 indicate that the scale of the precommitment could be reduced, the reduction could be 'returned' to the education portfolio envelope for Budget 2022.

### *Tertiary education and training funding pressures*

14. You have received advice and information updates on current and forecast tertiary education and training enrolments in recent months (eg, METIS 1274222).
15. Although final 2021 enrolment volumes will not be known until early 2022, the August Single Data Return (SDR) indicated that provider-based enrolments are around 10 percent higher in 2021 than in 2020. Data from the Industry Training Register (ITR) indicates that industry training enrolments are more than 20 percent higher in 2021 than in 2020. These high enrolments – particularly in apprenticeships – have resulted in pressure on baseline funding, and on the Tertiary Education Commission's (TEC) balance sheet funding mechanism.
16. In line with past advice, we recommend that you seek Cabinet's approval for you and the Minister of Finance to jointly approve transfers of unspent 2021/22 Fees Free Payments funding to fund 2022 enrolments. This will provide the TEC with confidence to fund some additional enrolments in the first quarter of 2022 – once a stronger indication of actual enrolments is available.
17. The TEC has advised that the combination of higher enrolments in 2021 and its obligation to fund providers to 102 percent of their allocation will reduce its balance sheet mechanism from \$80m to \$23m by the end of 2021 (although it would not be drawn down upon until the end of the financial year). Further, the TEC has advised that a balance of \$23m may be insufficient to fund providers to 102 percent of their allocation in 2022, and accounting adjustments at year-end for a high level of student enrolments may exhaust the balance sheet facility.
18. Due to this risk, some unspent 2021/22 Fees Free funding will likely need to be used to meet existing funding commitments and thereby maintain the TEC's balance sheet at a sufficient level to meet its potential 102 percent funding liability in 2022.

### *Targeted Training and Apprenticeship Fund and Fees Free underspends*

19. TTAF sits in the same 'Fees Free Payments' appropriation category as funding for the first year Fees Free policy. It was intended from the outset that some first year Fees Free funding would be used to fund TTAF uptake (ie, less than the expected full cost of TTAF was appropriated). This means that the 2021/22 Fees Free underspend will be lower than in years prior to TTAF.
20. The TEC has advised that – as at the end of November – its forecast Fees Free Payments underspend for 2021/22 is around \$41m, with the final amount dependent on 2022 enrolments. At this stage, we recommend that \$41m be considered as a maximum amount that could be transferred to manage the enrolment and balance sheet pressure outlined above.
21. Government has committed to TTAF operating through to the end of 2022, though no funding was appropriated from the COVID-19 Response and Recovery Fund to fund TTAF from July to December 2022. As TTAF is charged to the Fees Free Payments

appropriation category, it will require – and will automatically use – almost all of the currently expected 2022/23 first year Fees Free underspend.

22. From 2023/24, we expect the ongoing first year Fees Free underspend will be around \$85m per annum. 9(2)(f)(iv)

#### *Minor technical amendment to refugee eligibility for student support*

24. You recently received advice on necessary changes to student loans and allowances to enable access for people granted refugee or protected person status while living in New Zealand to the same level of financial supports as other refugee groups and support settlement outcomes [METIS 1272077 refers]. This is in-line with the existing policy intent for access to student support for refugees without the additional time delays that apply to general migrants.
25. Making these changes requires Cabinet agreement, followed by the Minister for Social Development and Employment seeking approval from Cabinet's Legislation Committee to amend the Student Allowances Regulations 1998.
26. To implement changes in 2022, we propose including this proposal in the attached draft Cabinet paper. MSD has advised they will give a clearer 2022 implementation date and timeframes for regulation amendment processes prior to the attached Cabinet paper being finalised.

#### **Timeline and next steps**

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27. An overview of the proposed timeframe and next steps for the attached draft Cabinet paper is outlined below.
28. Your office may need to liaise with Cabinet Office to confirm that reporting to Cabinet's Social Wellbeing Committee (SWC) on tertiary demand and funding pressures will meet the requirement for you to report to Cabinet's Government and Administration Expenditure Committee on that issue before the end of 2021.

<b>Date</b>	<b>Milestone</b>
17 November	Provide any feedback you have on the attached draft Cabinet paper
18 November	MoE provides revised version to your office and Minister Sepuloni's office for Ministerial consultation
19 November – 29 November	Ministerial consultation
1 December	Ministry provides final version for lodging
2 December	Cabinet paper lodgement (10am deadline)
8 December	Consideration by Cabinet Social Wellbeing Committee
13 December	Consideration/confirmation by Cabinet

## Annexes

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**Annex One:** Draft Cabinet paper – Managing Apprenticeship Boost Initiative, Mana in Mahi, and Tertiary Education Funding Pressures

Proactively Released