

Reference: 20200067

25 March 2020

s9(2)(a)

Dear s9(2)(a)

Thank you for your Official Information Act request, received by the Ministry of Business, Employment and Innovation (MBIE), the Ministry of Justice and the Ministry of Education on 28 January 2020. This request was transferred to the Treasury from the MBIE as the Treasury is best placed to provide this information. You requested the following:

Any information on baseline reviews or reviews of expenditure since Budget 2019.

I'm specifically wanting any information on any requests from Treasury or Ministers to review baseline expenditure or savings in Votes.

The date to respond to this request was extended on 26 February 2020 by 20 working days.

Information to be released

The following information is covered by the request and proposed to be released.

Item	Date	Document Description	Action
1.	3/12/2019	Treasury Report: Identifying Baselines for Review -2020	Released in part
2.	23/07/2019	Aide Memoire: Baseline Review work plan update	Released in part
3.	21/08/2019	Treasury Report: Advice on the Tertiary Tuition and Training MCA	Released in part
4.	27/01/2020	Aide Memoire: Meeting with officials on baseline reviews on 3 February 2020	Released in part

I have decided to release the documents listed above, subject to information being withheld under one or more of the following sections of the Official Information Act, as applicable:

- advice still under consideration, section 9(2)(f)(iv) – to maintain the current constitutional conventions protecting the confidentiality of advice tendered by Ministers and officials,
- direct dial phone numbers of officials, under section 9(2)(k) – to prevent the disclosure of information for improper gain or improper advantage.

We have redacted the direct dial phone numbers of officials under section 9(2)(k) in order to reduce the possibility of staff being exposed to phishing and other scams. This is because information released under the OIA may end up in the public domain, for example, on websites including Treasury's own website.

Information publicly available

The information listed in the table below is also covered by the request and will soon be available on the Treasury website. Accordingly, this document is declined under section 18(d) of the Official Information Act:

- the information requested is or will soon be publicly available.

Item	Date	Document Description	Website Address
1.	19/09/2019	Aide Memoire: T2019/2881 - Briefing to Support a Meeting with the Minister of Education on 25 September 2019	https://treasury.govt.nz/

In making my decision, I have considered the public interest considerations in section 9(1) of the Official Information Act.

Please note that this letter (with your personal details removed) and enclosed documents may be published on the Treasury website.

This reply addresses the information you requested. You have the right to ask the Ombudsman to investigate and review my decision.

Yours sincerely

John Marney
Manager, System Design and Strategy

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**Treasury Report: Identifying Baselines for Review - 2020**

Date:	3 December 2019	Report No:	T2019/3654
		File Number:	BM-2-7-2019

Action sought

	Action sought	Deadline
Hon Grant Robertson (Minister of Finance)	<p>Note the first baseline review of the Ministry of Defence and New Zealand Defence Force is nearing completion and we are seeking to commence reviews of other agencies from 2020.</p> <p>Agree to initiate concurrent baseline reviews of the Ministry of Business, Innovation and Employment and the Ministry of Justice in 2020.</p> <p>Agree to meet with Treasury officials to discuss the objectives, scope and deliverables.</p> <p>Refer this report to the Minister for Economic Development and the Minister of Justice.</p>	10 December 2019

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Shahlaa Al-Tiay	Senior Analyst, System Design and Strategy	s9(2)(k) (wk)	N/A (mob) ✓
Oliver Parsons	Team Leader, System Design and Strategy	s9(2)(k) (wk)	N/A (mob)

Minister's Office actions (if required)**Return** the signed report to Treasury.Note any
feedback on
the quality of
the report**Enclosure:** No.

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Treasury Report: Identifying Baselines for Review - 2020

Executive Summary


The purpose of this report is to obtain your agreement on the next agency baselines to be reviewed, in order to progress the baseline review programme.

Following the successful completion of the Ministry of Social Development baseline review pilot in 2018, you supported the extension of baseline reviews to additional agencies [T2019/779 refers] and agreed to review the Defence Sector baseline in 2019. This review is now coming to an end.

We will commence running two concurrent baseline reviews from 2020. We recommend the Ministry of Business, Innovation and Employment (MBIE) as a complex candidate and the Ministry of Justice (MoJ) as a less complex candidate for 2020. You have also previously indicated preference for these two agencies [T2019/779 refers].

If you agree, we recommend you meet with Treasury officials to agree on the objectives, scope and deliverables (including any interim reports) for these reviews so that we can commence engaging agency officials. We have initiated the review process early as we anticipate that concurrent reviews will be more time-consuming as resources are spread over two projects.

s9(2)(f)(iv)



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Recommended Action

We recommend that you:

- a **note** the first baseline review of the Ministry of Defence (MoD) and New Zealand Defence Force (NZDF) is nearing completion and we are seeking to commence reviews of other agencies from 2020
- b **agree** to initiate concurrent baseline reviews of the following agencies in 2020:
 - Ministry of Business, Innovation and Employment (MBIE), **and**
Agree/disagree
 - Ministry of Justice (MoJ)
Agree/disagree
- c **agree** to meet with Treasury officials to discuss the objectives, scope and deliverables
Agree/disagree
- d **refer** this report to the Minister for Economic Development and the Minister of Justice.
Refer/not referred.

Oliver Parsons
Team Leader, System Design and Strategy

Hon Grant Robertson
Minister of Finance

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Treasury Report: Identifying Baselines for Review - 2020

Purpose of Report

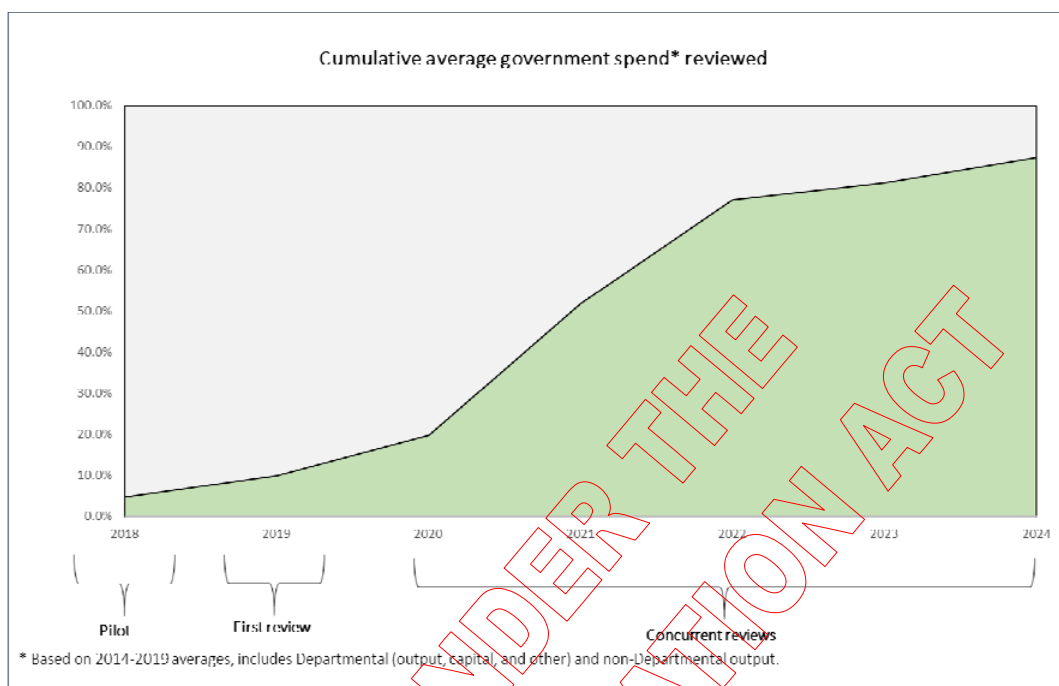
1. The purpose of this report is to obtain your agreement on the next agency baselines to be reviewed.
2. We will commence concurrent baseline reviews from 2020, and recommend the MBIE and MoJ baselines as the best candidates. You have previously indicated a preference for these two agencies (refer T2019/779).
3. We have also prepared an indicative baseline review timeline for the next four years for your reference.

We are commencing concurrent reviews from 2020

Concurrent review approach

4. To date, the baseline review team has reviewed approximately 10% of agency baselines by completing the MSD pilot and the first review of the MoD and NZDF baselines.
5. s9(2)(f)(iv)
s9(2)(f)(iv) . To cover a broader spend profile, we plan to commence concurrent baseline reviews from 2020.
6. We have reprioritised resourcing to enable one complex review and one less complex review simultaneously. Complexity is assessed on materiality of annual spend, organisational structure and other factors relevant to a particular agency (e.g., reforms, number of portfolios etc.).
7. Conducting concurrent reviews will result in doubling the percentage of government expenditure reviewed in 2020 and help us reach our target of at least 80% of total government spend reviewed by the end of 2022, as demonstrated in the graph below.

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The preferred agencies for the 2020 concurrent review cycle

8. We propose the following agencies as candidates for a 2020 baseline review:

- a MBIE, and
- b MoJ.

You have indicated a preference for MBIE

9. You have indicated a preference to review MBIE in 2020 [T2019/779 refers].

10. We consider MBIE is a strong candidate for 2020 for the following reasons:

- a MBIE is a complex entity, with 11 ministers holding lead portfolio responsibility for 15 portfolios and would benefit from a high-level evaluation of efficiency, effectiveness and of its current structure, and any associated risks.
- b MBIE is material and accounts for 7.1% of annual average government spending.
- c The prioritisation process in Budget 2019 indicated that the agency needs assistance with prioritising cost as well as how to categorise short-term and medium-term cost pressures.
- d MBIE has 188 Appropriations, which may exacerbate internal prioritisation and performance management issues.
- e The review will provide a horizontal cross-function view of the organisational structure, which could reveal areas of inefficiency.

11. Following initial scoping discussions, we consider the following should be carved out:

s9(2)(f)(iv)

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You have indicated preference to review MoJ if resources permit

12. We propose MoJ as the second agency for a baseline review in 2020. You have also indicated a preference for this review if resources permit.
13. Treasury's previous view, [T2019/779 refers], was that the review should be deferred on the basis that the Judicature Modernising and the Courts and Tribunals Enhancements reforms may limit the value of the findings. We also previously suggested MoJ should be reviewed alongside the broader sector, as it makes sense to consider the sector as a whole.
14. Since then, MoJ joined a Strategic Planning Pilot (SPP) aimed at integrating strategic planning with decision-making and delivery, to improve intergenerational outcomes. The first year requires pilot participants to identify strategic goals and build a pathway forward with indicators and milestones to support progress. Hence, of the justice agencies, we consider MoJ to be the first priority for the review.
15. A baseline review in 2020 is now considered timely as the findings could feed into the strategic planning and further encourage a shift towards a strategic long-term mindset. The review should also reveal any underlying systemic issues that MoJ needs to address as part of the reform implementation. Overall, the findings could assist MoJ with making better strategic goals and determining the best pathway to achieving these goals.
16. We understand that MoJ is concerned about resourcing both SPP and the baseline review. In order to mitigate this risk, we would need to work closely with MoJ and Treasury's SPP team to create a joint project plan addressing the scope, common objectives of both projects and how to avoid duplication of work.

Indicative pipeline for further reviews

17. We have developed an indicative pipeline for further baseline reviews to ensure that the programme can scale appropriately and meet broader objectives for the modernisation of the public finance system. We will seek your agreement before commencing each review stage, in order to ensure the programme is aligned with Government objectives and can be responsive to change.
18. We will continue to seek agreement early in the process to enable proactive engagement with agencies so that they have time to prepare for the review. This is consistent with feedback collected from participants of the MSD pilot review which highlighted that agencies valued early engagement to allow them to prepare the necessary information and it would also ease any initial tensions created by a review process.
19. With MBIE and MoJ recommended for 2020, we propose the following indicative pipeline of further reviews of other large agencies.

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	Complex	Non-complex	Second Cycle Review	Cumulative cover *
2018	MSD	N/A	N/A	4.6%
2019	MoD/NZDF	N/A	N/A	9.9%
2020	MBIE	MoJ	N/A	19.8%
2021	s9(2)(f)(iv)	s9(2)(f)(iv)	N/A	s9(2)(f)(iv)
2022	s9(2)(f)(iv)	s9(2)(f)(iv)	s9(2)(f)(iv)	
2023	s9(2)(f)(iv)	s9(2)(f)(iv)	s9(2)(f)(iv)	
2024	s9(2)(f)(iv)	s9(2)(f)(iv)		
* Based on 2014-2019 averages, includes Departmental (output, capital and other) and Non-Departmental output.				

20. This timeline is designed to allow one complex review and one less complex review in each period. It also takes into account the second cycle reviews that are required from 2022.
21. We propose the following phasing:

a	s9(2)(f)(iv)
b	
c	
d	

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Next Steps

22. If you agree with commencing the baseline review for MBIE and MoJ in 2020, we recommend you meet with Treasury officials as soon as possible to discuss the objectives, scope and deliverables (including any interim reports) for the reviews.

Proposed timeline for MIBE and MoJ

Item	Timing
s9(2)(f)(iv)	s9(2)(f)(iv)

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Reference: T2019/2132

BM-2-7-2019

Date: 23 July 2019

To: Minister of Finance (Hon Grant Robertson)

Deadline: None
(if any)

Aide Memoire: Baseline Review work plan update

Alongside the Treasury Report outlining the Terms of Reference for the defence sector Baseline Review (T2019/2149), this Aide Memoire:

- outlines the indicative timeline for the defence sector Baseline Review
- updates you on Treasury's consideration of running a concurrent baseline review of MBIE in the near future, and
- illustrates Treasury's plan to increase the number of baseline reviews in the near-term to cover a larger portion of public expenditure.

Defence sector Baseline Review timelines and phases

We have completed the process of assembling the baseline review team and Steering Group, which is scheduled for its inaugural meeting on 31 July 2019. The timetable from here is as follows:

- Preliminary analysis (by mid-August): Complete our information gathering process and begin analysis, including understanding the history of the defence sector's operating model and defining areas of focus. Initial findings will be tested with the Steering Group by late August.
- Interim analytical report to Ministers (mid-September): The review team aims to deliver the interim report to you in mid-September 2019, which will include preliminary analytical insights.
- Options development (by early November): Once the interim report is delivered, we will begin developing recommendations and options, which will be tested and presented to the Steering Group by early November.
- Final analytical report and advice to joint Ministers (before Christmas): This will include final analysis, recommendations and options for consideration within Budget 2020 process. Delivering the final analytical report prior to Christmas allows the development of budget advice independently of drafting the report – a key lesson from the MSD baseline review.

Further details of the review's action items and phases are shown in appendix 1.

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Baseline Review of MBIE

In addition to the existing review of the defence sector, you expressed an interest in undertaking a baseline review of MBIE, ideally to inform decisions for Budget 2020.

The baseline review team within Treasury is currently resourced to run only one review at a time. We have considered whether it would be possible to speed up the review of the defence sector, to allow time for the team to also conduct a review of MBIE ahead of Budget 2020. However, we think this is not feasible. The analytical work involved in reviewing and developing forward funding options is complex, particularly for a large sector, and existing timeframes are already quite challenging. Trying to accelerate this work is likely to lead to unsatisfactory analysis and/or delays and missed deadlines, with the risk that the review findings lack credibility with the sector and portfolio ministers.

Certain aspects of the review also impose lead times that will be difficult for the review team to reduce. This includes agreeing terms of reference, setting up the cross-agency team, obtaining data, and getting approvals from senior management and ministers.

We also considered the possibility of expanding the team, so that it can review the defence sector and MBIE concurrently. However, as we need people with a particular combination of relationship management, Vote experience, quantitative and analytical skills we would need to fill these positions internally and quickly. Such people are in short supply within Treasury. Timeframes and competitive labour markets make it impractical to recruit externally, and we are unlikely to find people with the right experience.

Unless we were to reprioritise staff from other priority areas/projects, it would be impossible to expand the baseline review team fast enough to undertake a review of MBIE in time for Budget 2020.

Treasury aims to expand the baseline review team so that it can undertake concurrent reviews, in time for Budget 2021 (see Figure 1 for an indicative medium-term plan). In the meantime, we aim to begin the process of engagement with MBIE, including preparatory work, later in the year. However, we will not be able to complete substantive analysis ahead of Budget 2020.

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Figure 1: Indicative medium-term plan

FY2019 – Budget 2020	FY2020 – Budget 2021	FY2021 – Budget 2022	FY2022 – Budget 2023	FY2023 – Budget 2024
Develop approach to allowances, sanctions and incentives for Medium-term agreements				
2 nd Baseline review pilot - Defence (NZDF/MOD)	Baseline reviews - MBIE s - Justice s9(2)(f)(iv)	Baseline reviews s9(2)(f)(iv)	Baseline reviews s9(2)(f)(iv)	2nd cycle begins s9(2)(f)(iv)
4-year funding agreement for Defence including incentives/sanctions for managing within it.	Cumulative 26% of expenditure on medium-term track	s9(2)(f)(iv)	s9(2)(f)(iv)	

Igor Dupor, Senior Analyst, System Design and Strategy, s9(2)(k)
Oliver Parsons, Team Leader, System Design and Strategy, s9(2)(k)

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Appendix 1: Baseline Review timeline and description of phases



Phase 1: Information Gathering	Phase 2: Analysis	Phase 3: Options development	Phase 4: Recommendations
<ul style="list-style-type: none"> Describe how the agency creates public value and contributes to living standards Collect information on financial and non-financial performance Assess relevance of any any previous or ongoing reviews Develop views of appropriations, including change over time Review previous Budget bids, cost pressures and how these have been managed Overview of key funding movements, the rationale for these and the impact Descriptions of operating models and work/financial flows Breakdown of fixed vs. variable costs where possible Metrics or unit costs of processes, benchmarking data (including BASS) Current and future personnel breakdowns, # of FTE, contracts, etc. Property footprint Demographic (demand) analysis Asset management plans and benefit realisation plans Capital expenditure, condition of assets and management of depreciation over time Forecasts of future cost pressures Key assumptions, risks. 	<ul style="list-style-type: none"> Macro-level analysis of overall operating model, cost drivers and outcomes Create views of the baseline and balance sheet based on key functions Define appropriate level of analysis e.g. inputs, outputs or outcomes Identify specific risks and opportunities affecting ability to protect and enhance public value over the short, medium and long term Identify areas to explore in greater detail where there is a key risk or opportunity, for discussion and agreement by steering group, i.e. <ul style="list-style-type: none"> Is the current approach sustainable? Is there a bow-wave of expense and capital transfers that will never be met? Is there an investment case for additional funding? Is this an area for reprioritisation? Do we need to understand more about the performance and cost drivers? Are there opportunities for improvement, innovation or simplification? 	<ul style="list-style-type: none"> What are the possible funding tracks or spending profiles? Short, medium and long-term? How might these change? What are the strategic choices and tradeoffs across the baseline and through time? For areas that we think need additional investment, to what degree can this be met by reprioritising existing expenditure? For areas being considered for reprioritisation, what are the impacts? Risks to delivery? What areas are going to need further exploration over a longer period of time? How will we ensure things are delivered within agreed envelopes? What happens if things are not delivered as agreed? 	<ul style="list-style-type: none"> Turn options into recommendations for Joint Ministers What has an immediate impact on Budget 2020? Can we agree a medium-term funding track?

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Treasury Report: Advice on the Tertiary Tuition and Training MCA

Date:	21 August 2019	Report No:	T2019/2054
		File Number:	SH-4-6-4 (Funding Policy)

Action Sought

Action Sought		Deadline
Hon Grant Robertson Minister of Finance	s9(2)(f)(iv)	26 August 2019

Contact for Telephone Discussion (if required)

Name	Position	Telephone		1st Contact
Matt van Wijk	Graduate Analyst, Skills and Work	s9(2)(k) (wk)	N/A (mob)	✓
Chris Nees	Acting Manager, Skills and Work	s9(2)(k) (wk)	s9(2)(k) (mob)	

Actions for the Minister's Office Staff (if required)

Return the signed report to Treasury.
Refer to the Minister of Education.

Note any feedback on the quality of the report

Enclosure: No

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Treasury Report: Advice on the Tertiary Tuition and Training MCA

Executive Summary

s9(2)(f)(iv)

s9(2)(f)(iv)

The Student Achievement Component (SAC) Level 3+ baseline is funded for more EFTS than Forecast Demand.

s9(2)(f)(iv)

The Ministry of Education forecasts SAC Level 3+ (the main fund for purchasing teaching and learning in vocational and higher education) demand to fall over 2019-2021 before returning near to 2018 levels in 2023. However, the baseline increases each year, even after accounting for the 2019 and 2020 across the board price increases to SAC rates.

s9(2)(f)(iv)

The Balance Sheet Mechanism Facility (BSMF) has never been used, requires a maximum of around \$50m, but holds \$106 million

The TEC's BSMF was established in 2015/16 to give effect to the policy which guarantees funding for tertiary providers at up to 102% of their investment plans. The maximum amount required to give effect to this (2% of the eligible MCA funding) is \$49.9 million.

However, the BSMF has never been used and currently holds around \$106 million.

s9(2)(f)(iv)

Fees-Free Payments likely has additional headroom in outyears

The expenditure for Fees-Free Payments in 2018/19 was \$71.606 million lower than originally appropriated in response to soft demand. However when funding for Fees-Free Payments was reprioritised, the reductions in outyears were small; for example, the 2022/23 amount was only reduced by \$29.361 million.

s9(2)(f)(iv)

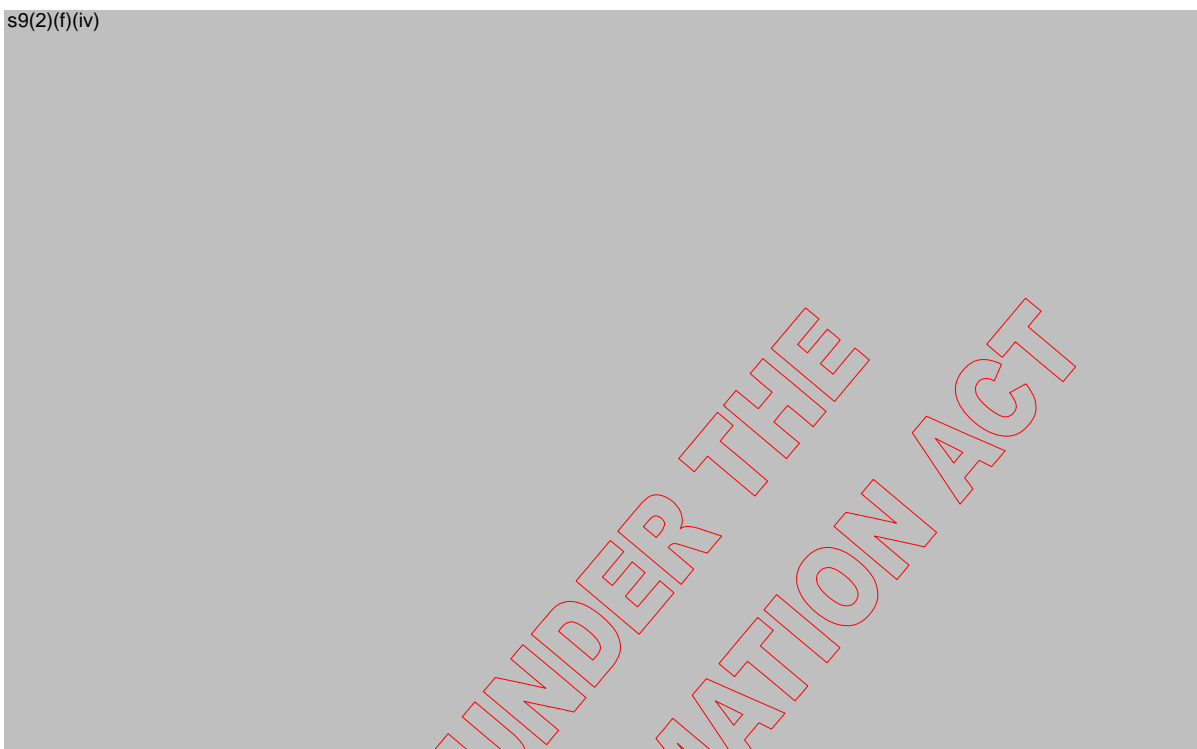
Fees-Free Payments are a rules-based entitlement, much like Student Loans, and these are usually best funded via forecast-driven appropriations. However, no reliable forecast for Fees-Free Payments yet exists.

s9(2)(f)(iv)

s9(2)(f)(iv)

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s9(2)(f)(iv)




Recommended Action

We recommend that you:

- a. **note** that the Ministry of Education forecasts that EFTS demand for SAC Level 3+ are likely to remain below 2018 levels over the forecast period, but the baseline funding increases above the amount required to fund 2018 EFTS delivery.
- b. **note** that the TEC's Balance Sheet Mechanism Facility has never been used, requires a maximum of around \$50 million in any given year, but holds \$106 million.
- c. **note** that the Fees-Free Payments category of the Tertiary Tuition and Training MCA is likely to be overfunded in outyears, as \$71.606 million less was needed for 2018/19 than originally appropriated, but only small reductions were made in outyears.
- d. **note** that the Ministry of Education does not currently forecast fees-free uptake.

Noted.

- e. s9(2)(f)(iv)
- 

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ii.

s9(2)(f)(iv)

iii.

iv.

v.

- f. **indicate** whether you would like to discuss this report with Treasury officials.

Yes/no.

- g. **refer** to the Minister of Education for his information.

Refer/not referred.

Chris Nees
Acting Manager, Skills and Work

Hon Grant Robertson
Minister of Finance

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Treasury Report: Advice on the Tertiary Tuition and Training MCA

Purpose of report

1. On 5 June 2019, you requested advice on the “pattern of underspends” in the Tertiary Tuition and Training Multi-Category Appropriation (the MCA). One purpose of this report is to respond to this request by providing a history of the MCA and an explanation of why underspends arise.

2. s9(2)(f)(iv)

- i. s9(2)(f)(iv)

- ii.

- iii.

- iv.

Changes should be considered in context of funding pressures within the Vote

3. The Minister of Education expects to take a paper to Cabinet by December 2019 seeking funding for various aspects of the Reform of Vocational Education (RoVE). He has signalled to Cabinet that he intends to seek Cabinet’s annual agreement to retain the headroom within the MCA to meet the costs of RoVE [CAB-19-MIN-0344 refers]. The Ministry of Education is also currently undertaking a review of the vocational funding system which will affect the structure and size of the MCA.

4. s9(2)(f)(iv)

5. Our view is that decisions about the size of the MCA and the BSMF, and decisions about resourcing RoVE, should be considered separately. This approach allows Cabinet to consider wider priorities across the Education Portfolio and other Government priorities. s9(2)(f)(iv)

s9(2)(f)(iv)

6. We are providing you with separate advice on the sequencing and prioritisation of the broader Education Work Programme, including the fiscal context of the Education Portfolio, potential early learning to tertiary education investments, and Budget 2020.

¹ Student Achievement Component, for Level 3+ on the NZQA Qualifications Framework. This provides funding to Universities, Wānanga, ITPs and PTEs.

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The MCA and BSMF were established to provide the Minister and the TEC with greater flexibility and to reduce underspends

The MCA was established to enable the Minister and the TEC to move funding between and within categories as demand changes

7. Vote Tertiary Education was re-established in 2010/11. In its early years the Community Education, Student Achievement Component (SAC), and Funding for Designated Groups appropriations were consistently underspent. One reason offered was that recoveries from providers who had under-delivered were not realised in time to reallocate the funding to other providers or initiatives where it was needed.
8. In order to allow the TEC to allocate funding to better follow demand, the MCA was established in 2016/17, combining the appropriations in the previous paragraph as components of the MCA, with Fees-Free Payments added as a fourth category later. The MCA provided the TEC with more flexibility in how it allocates funding within a financial year.
9. Each of the categories of the MCA contain multiple funds. SAC Level 3+ is the main fund for purchasing teaching and learning in vocational and higher education. This fund alone accounts for 81% of the Tertiary Tuition and Training MCA (excl. Fees-Free Payments) for 2019/20.
10. The structure of the MCA and rules governing how funding can be moved between MCA categories is set out in Annex 2.

The BSMF was established to provide the TEC with more flexibility across financial years

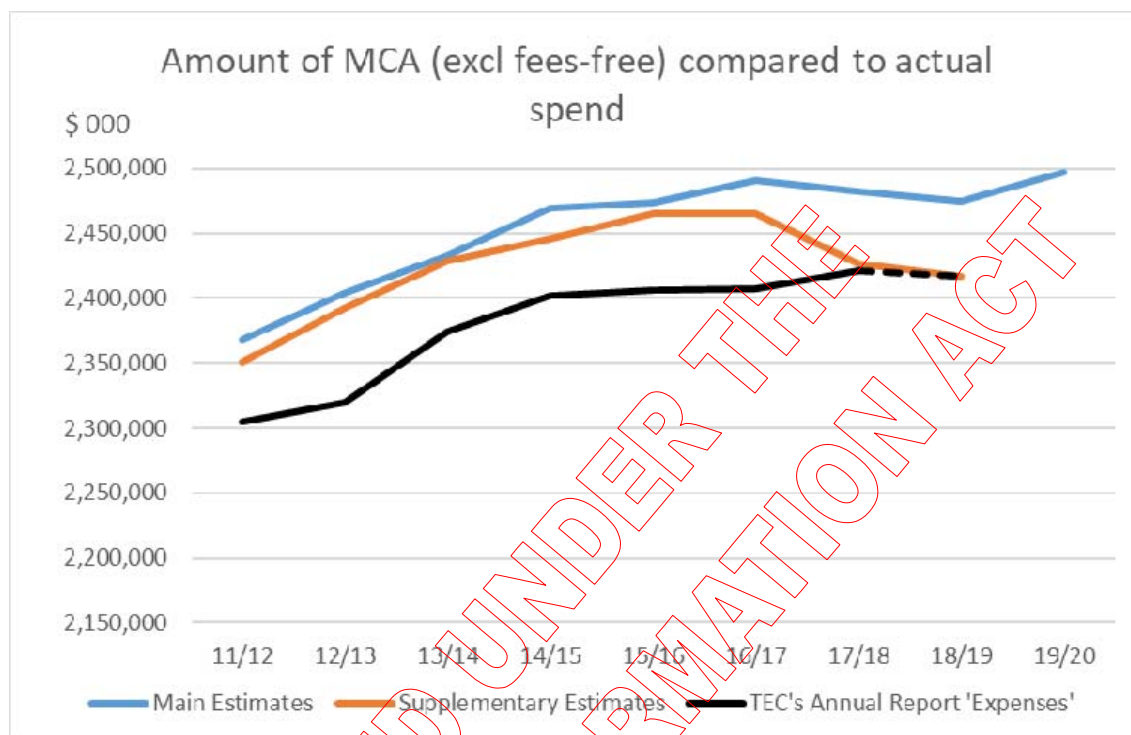
11. The TEC was also allowed to retain unspent funding on its balance sheet (via the BSMF) in order to provide greater flexibility across financial years and to guarantee funding for providers who over-delivered on their investment plans (up to 102% of agreed funding). The BSMF was intended to reduce the occurrence, and consequences, of realising recoveries late in the year. However, as discussed from paragraph 25, the BSMF has never been used.

Appropriation headroom remains at a similar level to before these interventions, suggesting there is too much funding in the MCA

12. This system is well designed for an environment where student demand exceeds funding availability, as the TEC is required to rationalise investment across the system.
13. However, despite changes to increase funding flexibility and attempts to reduce headroom by increasing the SAC rate, the total appropriation headroom (excl. Fees-Free Payments) has remained relatively stable, between \$57 million and \$84 million each year.
14. This suggests that the amount initially appropriated within the MCA each year exceeds the amount required to meet current student demand for existing tertiary education products and services.
15. The following graph shows the level appropriated for the MCA in each year's Estimates documents, and compares this to the final amount required by the TEC. As shown by the changes in Supplementary Estimates for 2017/18 and 2018/19, the TEC is able to accurately estimate the level of underspends when required, in time for funding to be reprioritised through the annual budget process.

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Graph 1: Appropriated Level of MCA (excl. fees-free) compared to TEC's actual expenditure



Notes:

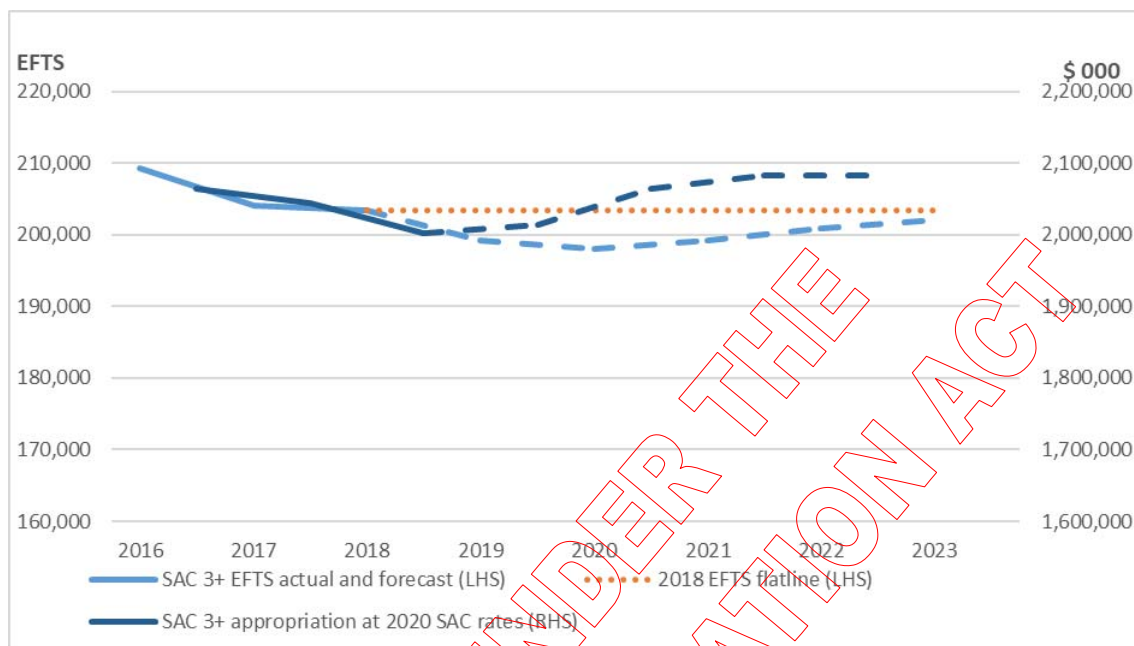
- Prior to establishing the Tertiary Tuition and Training MCA in 2016/17, this graph comprises the appropriations in paragraph 7.
- In addition to the exclusion of Fees-Free Payments, the graph excludes in-year changes to accounting treatment from 2014/15 and 2018/19.

The SAC 3+ baseline is funded for more EFTS than forecast demand

16. Funding appropriated for tertiary education is not directly demand-driven. The Government sets a cap on the level of funding in the Tertiary Tuition and Training MCA, and the TEC passes that constraint on to the tertiary education organisations (TEOs) it funds.
17. The key drivers of the Ministry's Equivalent Full-Time Students (EFTS) forecast are the size of the school leaving cohort, and the unemployment rate. Forecast increases in unemployment result in forecast increases in EFTS. BEFU 2019 Treasury forecasts assume the unemployment rate will increase from 4.0% in 2019/20 to 4.3% in 2022/23.
18. There is no direct connection between the Ministry's EFTS forecast and the SAC 3+ appropriated funding. The amount currently appropriated for SAC 3+ is greater than required to meet the demand forecast in the Ministry's EFTS forecasts, and it is expected to remain this way over the forecast period. The gap is small in percentage terms, but large in dollar terms (because the appropriation is so large).
19. The following graph compares actual and forecast EFTS enrolments against the actual and forecast size of the SAC Level 3+ fund.

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Graph 2: Reconciliation of SAC 3+ EFTS and baseline funding, actual and forecast



Notes:

- The EFTS actual enrolments and forecasts are on a calendar year basis, while the appropriation history and future funding is on a financial year basis.
- Years prior to 2020/21 have been adjusted to reflect across the board SAC rate increases in effect from 2020.

s9(2)(f)(iv)

20. s9(2)(f)(iv)

21.

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24.

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TEC's Balance Sheet Mechanism Facility has not been used, and now holds \$106 million

The BSMF was set up to provide the TEC and TEOs with greater flexibility of funding.

25. TEO funding is agreed for each calendar year based on forecasts, as the TEC agrees to TEOs' investment plans before TEOs finalise their enrolments. If TEOs deliver less than 99% of their agreed allocation, the TEC can recoup this funding as a 'recovery'. However, recoveries often arrive too late in the year for the TEC to reallocate the funding to TEOs with excess student demand.
26. The TEC receives enrolment information from TEOs three times a year – via the April, August, and December Single Data Returns (SDRs). After analysing the April SDR, the TEC cannot be confident of a TEO's year-end position, so cannot recoup returns. However by the time the August SDR has been analysed, it is often too late for TEOs to increase enrolments.
27. Cabinet agreed that the TEC can fund TEOs up to 102% of their agreed investment plans without formally amending the plans, so funding can better follow student demand [EGI-16-MIN-0078 Refers].
28. In September 2015 the BSMF was established so the TEC could fund TEOs' over-delivery in anticipation of returns from under-delivering providers later in the year. This was in expectation that actual expenditure would be within budget by the end of the year [SOC-15-MIN-0015].

The BSMF is a funding source of last resort and has never been used

29. When the TEC faces increased funding obligations to providers, it first considers underspends within other areas of the MCA, then recoveries received from providers within the current financial year, and only then considers the BSMF. As the MCA has had sufficient headroom, the TEC has never needed to call on the BSMF.
30. The BSMF now holds \$106 million. \$96 million of this is due to retained underspends from 2014/15 - 2016/17. The remainder is due to recoveries from TEOs' under-delivery in previous financial years (see Annex 1 for the sources of funding and the cumulative balance of the BSMF).

s9(2)(f)(iv)

31. s9(2)(f)(iv)

32.

² As with all Crown entities that have not been granted an exemption, you have the power under s165 of the Crown Entities Act 2004 to require the whole or partial return of TEC's accumulated net surplus, provided you first consult with the Minister of Education, and he consults with TEC. However, if the Minister of Education supports your proposal then you will not need to invoke this power.

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33. s9(2)(f)(iv)

s9(2)(f)(iv)

34. The amount required for Fees-Free Payments in 2018/19 was \$71.606 million lower than originally appropriated, following Budget 2019 reprioritisation and further underspends. However, 2022/23 and out-year funding was only reduced by \$29.361 million during Budget 2019, as shown in the table below.

Table 2: Changes to the baseline profile for Fees-Free Payments

\$m	2018/19	2019/20	2020/21	2021/22	2022/23
2018/19 HYEPU (pre-budget)	\$354.700	\$388.100	\$407.000	\$417.700	\$417.700
2019/20 Estimates (current)	\$300.235	\$346.132	\$364.146	\$384.216	\$388.339
Unaudited Actual Expenditure	\$283.094				
Reduction in Appropriation	\$71.606	\$41.968	\$42.854	\$33.484	\$29.361

Note: Unaudited actual expenditure is for the first full financial year of Fees-Free Payments. For simplicity, 2017/18 has been excluded as it covered only part year delivery.

s9(2)(f)(iv)

35. s9(2)(f)(iv)

36.

s9(2)(f)(iv)

37. s9(2)(f)(iv)

38.

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s9(2)(f)(iv)

39.

s9(2)(f)(iv)

40. s9(2)(f)(iv)

41.

s9(2)(f)(iv)

42. s9(2)(f)(iv)

43.

44.

Consultation

45. We have consulted with the Ministry of Education and the TEC in developing this report. We understand that the Ministry of Education is providing its own advice to the Minister of Education regarding underspends and headroom within the MCA, s9(2)(f)(iv)

s9(2)(f)(iv)

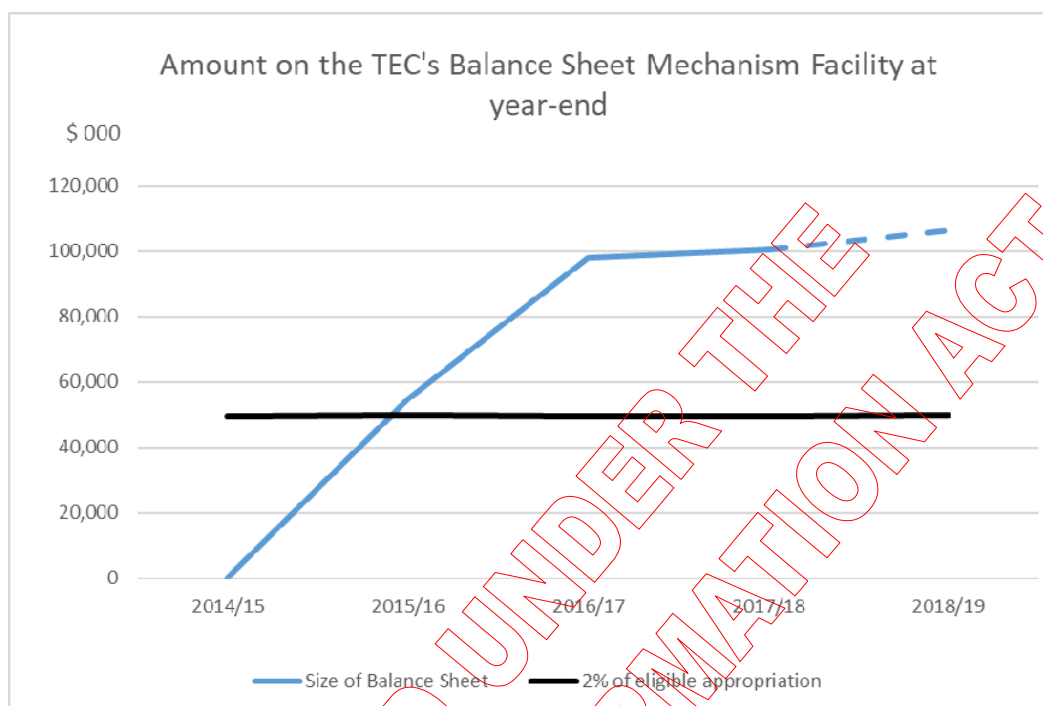
Next Steps

46. We are available to discuss this report with you, if you so desire.
47. We are also happy to provide you with talking points to support a conversation with the Minister of Education, if you so desire.

48. s9(2)(f)(iv)

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Annex 1: Graph of TEC's Balance Sheet Mechanism Facility and the Sources of Funding



49. This graph compares the dollar amount held on TEC's Balance Sheet against 2% of the Tertiary Tuition and Training MCA baseline excluding Fees-Free Payments. This is the balance sheet mechanism facility and does not apply to Fees-Free Payments.
50. Funds retained on the BSMF are from two sources; underspends retained on agreement between the TEC and MoE, and recoveries from providers where the funding was appropriated in a previous financial year. The TEC returns recoveries from Fees-Free Payments and other funds in appropriations outside the MCA to the centre.

Sources of Funding on TEC's Balance Sheet Mechanism Facility

Source of Funding:	Amount Added, \$	Cumulative Total, \$
2014/15 transferred funding and 2015/16 underspends	54,812,232.48	54,812,232.48
2016/17 accounting surplus following establishment of the MCA	3,836,047.69	58,648,280.17
2016/17 recoveries from TEOs' previous years under-delivery	1,668,202.49	60,316,482.66
2016/17 underspends	37,567,976.34	97,884,459.00
2017/18 recoveries from TEOs' previous years under-delivery	2,472,623.36	100,357,082.36
2018/19 recoveries from TEOs' previous years under-delivery (unaudited)	6,140,148.70	106,497,231.06
Current total on TEC's Balance Sheet Mechanism Facility:		106,497,231.06

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Annex 2: Current structure and rules governing the Tertiary Tuition and Training MCA

Appropriation	Category	Funds (simplified)	\$m 2019/20
Tertiary Tuition and Training MCA	Community Education	Adult and Community Education	\$23.9m
		Literacy and Numeracy funds	\$34.7m
		ESOL/migrant levy Funds	\$15.9m
	Tertiary Education: Student Achievement Component	SAC level 1-2	\$93.2m
		SAC level 3+	\$2014.8m
		ICT Grad Schools	\$4.5m
		Grants under s321 of the Education Act	\$2.8m
	Training for Designated Groups	Industry Training Fund	\$185.9m
		Gateway	\$18.8m
		Youth Guarantee	\$102.6m
	Fees-Free Payments	Payments to TEOs for Fees-free	\$346.1m

Operation of the Tertiary Tuition and Training MCA [EGI-16-MIN-0104 refers]:

51. For transfers between categories of less than \$10 million in any one year, and without significant policy change, the Appropriation Minister can approve the transfer alone.
52. For transfers between categories of \$10 million or more in any one year, and without significant policy change, the Appropriation Minister and Minister of Finance can jointly approve the transfer.
53. Whenever a change involves a significant policy decision, Cabinet approval is required.
54. Individual changes by the Appropriation Minister or by Joint Ministers can amount to a significant policy decision when considered in aggregate. For this reason, Cabinet directed the responsible Minister to report to Cabinet during the Budget process on any transfers within the MCA and the expected outcome of the transfers.

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Reference: T2020/107

BM-2-7-2020

Date: 27 January 2020

To: Minister of Finance (Hon Grant Robertson)

Deadline: 2 February 2020

Aide Memoire: Meeting with officials on baseline reviews on 3 February 2020

Purpose

This is an annotated agenda for your meeting with officials on Monday 3 February 2020 to discuss:

- a. the commencement of baseline reviews of the Ministry of Justice (MoJ) and the Ministry of Business, Innovation and Employment (MBIE), and
- b. the final report on the defence baseline review (T2020/151, to be issued on 30 January 2020).

Commencing the MoJ baseline review

Scope and objectives of the review

- a. *Topics that could be included in the review:*

- s9(2)(f)(iv)
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]

- b. *Topics that could be excluded from the review:*

- s9(2)(f)(iv)
- [REDACTED]

Commencing the MBIE baseline review

Scope and objectives of the review

- a. *Topics that could be included in the review:*

- s9(2)(f)(iv)
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]

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- s9(2)(f)(iv)
- b. Topics that could be excluded from the review:

- s9(2)(f)(iv)

Discussion on which of the 12 MBIE Ministers to involve in the review and in what capacity.

- Hon Phil Twyford, Hon Kelvin Davis, Hon Dr Megan Woods, Hon Chris Hipkins, Hon Stuart Nash, Hon Iain Lees-Gallaway, Hon Jenny Seles, Hon Chris Faafoi, Hon Shane Jones, Hon Peeni Henare, Hon Willie Jackson, Hon Poto Williams.

Proposed timeline and deliverables

Below is the proposed timeline and key deliverables we would like to discuss.

Item	Indicative timing
Meeting with Ministers Hon Twyford and Hon Little	
s9(2)(f)(iv)	s9(2)(f)(iv)

MoD and NZDF

You are meeting with Minister Mark on Monday 10 February, and this is an opportunity for officials to answer your questions ahead of that meeting.

Defence Baseline Review

- Substantive advice will be provided in the defence baseline review final report [T2020/151 refers] to both you and Hon Ron Mark.

Overall Defence Budget Package

- An Aide Memoire will be provided on Thursday 30 January [T2020/116 refers] with feedback on the three military capability Cabinet Papers, cost pressures and new spending options.

Shahlaa Al-Tiay, Senior Analyst, System Design and Strategy, s9(2)(k)
Oliver Parsons, Team Leader, System Design and Strategy, s9(2)(k)