

The Treasury

Budget 2022 Information Release

August 2022

This document has been proactively released and is available on:

- The **Budget website** from August 2022 to May 2023 only at: <https://budget.govt.nz/information-release/2022>, and on
- the **Treasury website** from later in 2022 at: <https://treasury.govt.nz/publications/information-release/budget-2022-information-release>.

Information Withheld

Some parts of this information release would not be appropriate to release and, if requested, would be withheld under the Official Information Act 1982 (the Act).

Where this is the case, the relevant sections of the Act that would apply have been identified.

Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Key to sections of the Act under which information has been withheld:

- [1] 6(a) - to avoid prejudice to the security or defence of New Zealand or the international relations of the government
- [23] 9(2)(a) - to protect the privacy of natural persons, including deceased people
- [25] 9(2)(b)(ii) - to protect the commercial position of the person who supplied the information or who is the subject of the information
- [27] 9(2)(ba)(ii) - to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely otherwise to damage the public interest
- [33] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
- [34] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
- [35] 9(2)(g)(ii) - to maintain the effective conduct of public affairs through protecting ministers, members of government organisations, officers and employees from improper pressure or harassment;
- [36] 9(2)(h) - to maintain legal professional privilege
- [37] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice
- [38] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
- [39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage
- [40] Out of Scope
- [41] 18(c)(i) - that the making available of the information requested would be contrary to the provisions of a specified enactment
- [42] 18(d) - information is already publicly available or will be publicly available soon

Where information has been withheld, a numbered reference to the applicable section of the Act has been made, as listed above. For example, a [1] appearing where information has been withheld in a release document refers to section 6(a).

Copyright and Licensing

Cabinet material and advice to Ministers from the Treasury and other public service departments are © **Crown copyright** but are licensed for re-use under **Creative Commons Attribution 4.0 International (CC BY 4.0)** [<https://creativecommons.org/licenses/by/4.0/>].

For material created by other parties, copyright is held by them and they must be consulted on the licensing terms that they apply to their material.

Accessibility

The Treasury can provide an alternate HTML version of this material if requested. Please cite this document's title or PDF file name when you email a request to information@treasury.govt.nz.

Reference: T2021/2732 SH-4-0

Date: 29 October 2021

To: Minister of Finance (Hon Grant Robertson)

Deadline: Monday 1 November

Monday 1 November Meeting with the Minister of Education: Apprenticeship Boost Initiative and Education Budget Package

You are meeting with the Minister of Education on Monday 1 November to discuss additional funding for the Apprenticeship Boost Initiative (ABI) and the Education Budget package. This aide-mémoire provides advice and talking points on:

- Additional funding options for the \$175 million ABI shortfall;
- Treatment of the \$85 million structural underspend in Fees Free Payments;
- The Budget 2022 Education Package, including Manifesto Commitments.

Apprenticeship Boost Initiative

Background

The ABI provides wage subsidies to employers of apprentices in their first or second year of training and was funded in 2020 as a COVID-19 Response and Recovery Fund (CRRF) initiative [CAB-20-MIN-0280 refers]. The ABI is expected to run through to 4 August 2022 [CAB-21-MIN-0061 refers] but would require additional funding of \$175 million to do so as demand, particularly for first year apprentices, has exceeded forecasts.

A draft Cabinet paper from the Ministry of Education (MoE) sought \$175 million from Budget 2022 allowances as a precommitment. We understand that your office provided feedback that this shortfall should be met within baseline funding, including Fees Free underspends, rather than being funded as a Budget 2022 precommitment.

There are potential options for funding the ABI shortfall from baselines

MoE has since explored options for reprioritisation and has concluded that expected Vote Tertiary Education underspends in 2021/22 and 2022/23 will need to be prioritised to fund increased demand for tertiary education and Targeted Training and Apprenticeship Fund (TTAF) commitments in 2022, where enrolments continue to be exceptionally high.¹

MoE has identified a structural Fees Free underspend of around \$85 million per annum and has proposed to convert Fees Free Payments from 2023/24 onwards to a demand driven appropriation to mitigate this issue. However, considering the unexpected ABI shortfall, MoE now believes that Ministers could bring forward some of these future underspends from 2023/24 onwards to manage it instead.

¹ The Tertiary Education Commission (TEC) currently forecasts a deficit of \$57m in 2021 due to high enrolments and will be significantly reducing its balance sheet unless it receives reprioritised funds.

As ABI is funded through Vote Social Development, the Ministry of Social Development is also exploring reprioritisation options from that Vote to contribute to this new cost. We understand that there may be up to \$38 million in projected Flexi-wage underspends available for reprioritisation.

Treasury's preference is for the structural Fees Free underspend in 2023/24 onwards to be eliminated through conversion to a demand driven appropriation

Fees Free underspends have been frequently used as a funding source for pressures in tertiary education, including demand pressures and student hardship support. However, from a fiscal management perspective, Treasury has been cautious about this. Other Votes without a structural underspend must reprioritise or seek new Crown funding for additional pressures. Delaying the conversion to a demand driven appropriation would only continue this behaviour.

As Fees Free is an entitlement, reprioritising unrealised Fees Free underspends from 2023/24 onwards introduces the risk of new funding being required if there is a spike in demand during those years. As such, Treasury would not support using these underspends to fund the ABI shortfall.

In the circumstances, Treasury's preferred option is to fund the ABI shortfall from Budget 2022 as a precommitment

Given it appears that reprioritisation alone cannot meet the \$175 million shortfall, we would recommend funding the remainder from Budget 2022 as a precommitment. This would allow Ministers to make informed trade-offs between funding this shortfall and other fiscal pressures. To ensure that the ABI remains an ongoing priority, it should also be counted against the initial \$3 billion operating expenditure envelope provided for education initiatives in Budget 2022.

[33]

Education Budget Package

In his budget submission letter, the Minister of Education identified 74 budget initiatives totalling [38] **total operating funding** and [33] **in total capital funding** for Votes Education and Tertiary Education. The three largest areas of proposed investment are [38] , Tertiary Education [33] and Schooling [33]

You recently requested the Minister of Education submit an Education envelope of [33] over the forecast period, [38]

The envelope total is intended to drive prioritisation only and does not currently represent a fiscally manageable amount.

Manifesto Commitments

In general, you have choices around the management of Manifesto Commitment initiatives (timing, scale, scope). You may therefore wish to discuss the prioritisation of Manifesto Commitments with Minister Hipkins. We have provided the following information to support that discussion.

[33] of the 74 initiatives Minister Hipkins has proposed are Manifesto initiatives. They total [33] operating (22% of [38] sought) and [33] capital (9% of [33])

[34]

Talking Points

Apprenticeship Boost Initiative Funding

- Minister Hipkins is seeking an additional \$175 million to fund a shortfall in the Apprenticeship Boost Initiative, [33]

You may wish to ask him:

- What evidence there is of the efficacy of the programme;
- Whether ABI is one of his top priorities for additional tertiary investment;
- To include a robust programme evaluation alongside possible targeting options as part of the eventual Budget 2022 bid to extend the ABI.

Budget Package

- Minister Hipkins proposed 74 education initiatives totalling [38] operating funding. You invited him to submit a package of [33] [38]

You may wish to discuss with him:

- What his priorities are regarding [33] manifesto initiatives and which can be deferred or scaled;
- The initiatives which have already received significant funding in recent Budgets or the CRRF and the relative urgency of additional funding;
- Which initiatives are implementation ready and feasible given market constraints and wider pressures on the Ministry and education sector;
- The extent to which initiatives would have a direct positive impact on the wellbeing or educational outcomes of ākonga.

Ramon Quitales, Graduate Analyst, Communities Learning and Work, [39]

Gwen Rashbrooke, Manager, Communities Learning and Work, [39]