Tertiary Education Commission
Te Amorangi Mātauranga Matua

Aide-Memoire: Proposed in-year funding reductions to Te Pūkenga and the university sector

To:	Hon Jan Tinetti, Minister of Education
From:	Gillian Dudgeon, Deputy Chief Executive – Delivery, Tertiary Education Commission
Date:	28 July 2023
Reference:	AM-23-00673

Purpose

1. This paper provides you with a summary of the in-year funding reductions that the Tertiary Education Commission (TEC) intends to implement for Te Pūkenga and the university sector. Given the financial position of these organisations, there are reputational and media risks that you need to be made aware of.

2. We recommend that you proactively release this aide-memoire.

Background on in-year funding adjustments

The TEC closely monitors delivery against funding allocations…

3. Following submission of the Single Data Return (SDR) and Industry Training Register (ITR), the TEC forecasts the year-end enrolment position for each tertiary education organisation (TEO) and establishes where any under or over delivery against funding allocations is expected. Our forecasts use historic enrolment movements (between April and December) and recast these trends to the current April SDR and ITR data to forecast a TEO's delivery at the end of the year.

4. Based on this analysis, the TEC engages with relevant TEOs to better understand the reasons for the decline or growth and whether our analysis aligns with the TEO's forecast. Through this engagement, we gain a better understanding of the accuracy of our forecast. It also helps us establish if the decline or growth is due to one-off factors or is part of a more long-term trend, and what this may mean for the following years funding allocation.

5. Where a TEO is expected to deliver within or close to its funding allocation – taking into account the 99 percent under delivery threshold and the 102 percent flexible funding threshold – we do not take any action. A full funding wash-up is conducted in April/May the following year based on the December SDR, where any funding recoveries or additional payments are made.

…and we make in-year adjustments where significant under or over delivery is forecast

6. Where we have confidence that a TEO will significantly under or over deliver against their funding allocation we begin the process to implement a significant amendment to a TEO's Investment Plan (the Plan) under schedule 18 of the Education and Training Act 2020 (the Act). A significant amendment to a Plan can be proposed either by the TEO or by the TEC with the process varying depending on who proposes it. The different processes are outlined in clauses 20 to 23 of schedule 18 of the Act.

7. Where significant under delivery is forecast for a TEO, we look to reduce their funding allocation within the current year rather than as part of the wash-up process in April/May the following year. We do this for several reasons:

   - It allows us to move funding quickly and effectively from TEOs with low demand into TEOs with high demand in areas that are aligned to our stated priorities. This ensures we are getting the best outcomes for the funding we allocate.

   - The funding we provide is to support delivery to learners. If a TEO does not have the volume of learners to support the funding it has been allocated, it should return that funding to the TEC in a timely manner, rather than use it for other purposes (including earning interest). For smaller TEOs with financial viability concerns, allowing them to retain TEC funding risks that we are unable to recover the debt.

   - Adjusting funding allocations within the current year is an opportunity for the TEC to 'right-size' a TEO's funding both for the current year and as part of the funding allocation process for the following year.

   - It is important that the TEC demonstrates strong guardianship and accountability for public funding and that we recover funding in a reasonable timeframe if it is clear that funding will not be utilised for the purposes it has been provided for.

Under delivery for Te Pūkenga and the university sector

A number of TEOs are forecast to significantly under deliver in 2023…

8. The TEC fully allocated all our key funds in 2023. To be able to invest more with TEOs which are over delivering against their funding allocations in 2023, we need to recover funding from those TEOs that will under deliver against their allocated funding.

9. Since the submission of the April 2023 SDR and ITR, we have analysed TEOs that are forecast to significantly under deliver. Our analysis shows that enrolments are forecast to be significantly lower than expected for many TEOs in 2023. This includes significant under delivery at Te Pūkenga and four universities – Victoria University of Wellington (VUW), Massey University (Massey), University of Otago (Otago), and Auckland University of Technology (AUT).

…and we have calculated proposed funding reductions based on these forecasts…

10. We have used a broad methodology to calculate proposed Plan amendments and funding reductions. For each TEO forecasting significant under delivery in 2023, the downward Plan amendment was calculated as either:

    - the downward adjustment used in the calculation of their 2024 indicative allocation (removing the tuition subsidy rate increase); or

    - 50 percent of the value of the forecast under delivery.

11. Although a broad methodology is used across the entire tertiary sector, we have applied judgement based on the individual circumstances of an organisation, where necessary – for example, sometimes a TEO can provide evidence that their enrolments are increasing significantly post the April SDR and so their year-end position will be more favourable.

…and we intend to reduce allocations by $52 million within 2023 for Te Pūkenga and four universities…

12. The TEC is forecasting total under delivery of $107.7 million for Te Pūkenga, VUW, Otago, Massey, and AUT. We are proposing to reduce funding allocations by $51.8 million for these institutions as set out in 9(2)(b)(ii) [redacted] Final wash-ups, if required, will then be made in April/May 2024 to reflect the actual delivery according to the December 2023 SDR.

9(2)(b)(ii)

TOTAL	**-$107,674,288**	**-$51,806,365**	**48.1%**

…but the proposed changes come with media and reputational risk…

13. The TEC has already communicated to all sub-sectors, including the university sector, our intention to reduce funding allocations as per our usual process. The process to reduce funding allocations has already begun for the private training establishment (PTE) and Wananga sectors. Whilst other sub-sectors have experienced this downward funding adjustment before, the university sector is not usually in this situation.

14. Ministerial approval for these changes is not required. They are standard operational decisions made by the TEC. However, given the continued media attention and political commentary on university financial pressures, and their response to these challenges (particularly reductions in staff and closure of programmes), the funding adjustments may be perceived as the TEC 'taking money away' from universities. This comes with added reputational risk to the TEC and you as Minister. As such, we consider it appropriate to inform you of our intended actions.

…and VUW and Otago have requested that funding is not reduced within the current year…

15. Given the financial challenges, Otago and VUW have asked the TEC not to adjust funding during 2023 (and instead recover in 2024) to support their cash position. This is particularly important for VUW, which has significant under delivery and is forecasting access to cash to be tight at the end of the year. We have been clear to the sector that we will be continuing to follow our usual process of recovering funding within the year. There is a risk with the proposed approach that TEC is seen as exacerbating the financial issues in the university sector, particularly for VUW.

16. The university sector has also asked that the current threshold used to limit recoveries to below 99 percent of allocations be lowered this year (typically the request is for it to be moved back to 97 percent where it sat until 2012). Our response to this request has been that this threshold is set by Cabinet, not the TEC, and we must recover in line with the ministerial funding determination.

…and we have considered whether an alternative option could be implemented for 2023…

17. Recognising the potential increased reputational and media risks in 2023, we have considered two alternative options to the methodology detailed in paragraph 11 of this paper:

   - ***Option A*** – no reduction for universities and Te Pūkenga and use the TEC's balance sheet as a backstop to support funding increases to other TEOs.
   - ***Option B*** – a maximum reduction of 25 percent of forecast under delivery.

…but we consider these options come with other risks…

18. If the decision was taken not to reduce funding allocations at all for TEIs in 2023 (option A), this would give rise to several issues:

   - the funding determinations do not support a differentiated approach to be taken for some TEOs and not others, and the plan amendment process has already begun for

PTEs and Wānanga. The ability to reduce funding allocations is also a key risk management tool for the TEC, especially for PTEs, and we would not want to lose that tool. The PTE and Wānanga sector are likely to oppose preferential treatment being given to universities and Te Pūkenga.

- the approach would be inconsistent with historical processes and would set an unwelcome precedent, with TEOs assuming that under delivery could be used as 'free cashflow' going forward. This would also put more pressure on the TEC to increase allocations as part of annual funding rounds. The TEC has a limited number of levers in its role as funder and monitor for the tertiary sector and such a precedent would remove a key risk management tool.
- while it may assist their cash position in the short-term, it is not conducive to the institutions effectively managing their organisation based on the true level of student enrolments.

19. Under option B, a 9(2)(b)(ii) [redacted] funding reduction for the university sector and Te Pūkenga could be implemented now, but 9(2)(b)(ii) [redacted] of funding for which they had no forecast enrolments would remain. This approach therefore largely comes with the same risks as option A. As such, both options have been discounted by the TEC.

…and we are supporting high-risk universities in other ways

20. For Te Pūkenga, Otago, AUT, and Massey we consider there are limited financial risks from reducing funding levels for 2023 in-year. We have engaged with these institutions and there is a general acceptance and understanding of the process being followed. 9(2)(b)(ii) [redacted]

21. While implementing one of the above options would support the cash position of universities that are currently in difficulty, it is not the role of the TEC as a funder to support TEO financial viability through deferring recovery of unutilised TEC funding and we should not be using it for this purpose. Overall accountability for TEI financial performance must remain with each institution's council.

22. Furthermore, we are already working closely with those universities in financial difficulty, including considering how support might be appropriately provided if required. 9(2)(i) [redacted] We have recently provided you with a separate detailed update on VUW's financial position (AM-23-00674 refers).

Next steps

23. The TEC Board considered this issue at its July 2023 meeting and supports the planned funding reductions.

24. The Act requires us to consult with TEOs as part of implementing a significant amendment to their plan. Once the proposed funding reductions are communicated, each organisation will be provided with a ten day right of response process before any amendments are finalised.

25. We will continue to provide you with regular updates on the financial position of specific universities as required. We intend to provide you a sector wide update at the end of August 2023.

G E Dudgeon

Gillian Dudgeon

Deputy Chief Executive, Delivery
Tertiary Education Commission
28 July 2023

J Tinetti

Hon Jan Tinetti

Minister of Education

03 / 08 / 2023

9(2)(b)(ii)

[redacted]