MINISTRY OF EDUCATION
TE TĀHUHU O TE MĀTAURANGA

Tertiary Education Commission
Te Amorangi Mātauranga Matua

Education Report: Additional advice on increasing industry training rates as part of Budget 2021

To:	Hon Chris Hipkins, Minister of Education		
Date:	25 March 2021	**Priority:**	High
Security Level:	Budget Sensitive	**METIS No:**	1254386
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Messaging seen by Communications team:	No	**Round Robin:**	No

Purpose and Summary

We indicated we would provide you with further advice on options to apply an increase in rates for industry training-funded vocational education and training (VET) in 2022.

We recommend increasing all rates by 5%. This signals to providers the intent of the unified funding system (UFS) and the importance of work-integrated training. It has a low likelihood that rates would need to be cut in 2023 as the UFS is implemented.

Recommendations

The Ministry of Education and Tertiary Education Commission recommend you:

a. **agree** to propose a 5% increase to industry training funding rates for both apprentices and trainees in 2022 through the Budget bid *Ensuring the viability of VET* (option A)

Agree / Disagree

b. **agree** to proactively release this report once Budget 2021 decisions, and decisions on the unified funding system, have been taken by Cabinet

Agree / Disagree

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25/03/2021

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Hon Chris Hipkins
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Funding secured through B2021 gives us the opportunity to build towards the UFS. This paper doesn't clearly demonstrate how this change aligns with the future roadmap.
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Background

1. Earlier in March we provided advice on options to use any new funding appropriated to support the VET sector in 2022 [METIS 1252844 refers]. You agreed to four options:

   a. extending the current degree level Equity Funding rate to all Māori and Pacific learners in VET

   b. extending the current degree level Equity Funding rate to young learners with low prior achievement in VET

   c. extending the current Equity Funding top up for disabled learners to all VET

   d. increasing rates for industry-training funded VET.

2. We undertook to provide more advice on four ways industry training rates could be increased, and the behaviour changes we could expect from these options:

   a. increase all industry training rates

   b. increase only apprenticeship rates

   c. increase only funding rates for trainees

   d. target increased funding to provision that is a skills priority.

3. Any increase would be in addition to an intended 1.2% rise in industry training funding rates from 2022 through the proposed tertiary education cost-adjustment Budget bid.

4. Providers and transitional industry training organisations (ITOs) also receive government funding in place of fee payments from apprentices and trainees covered by the Targeted Training and Apprenticeship Fund (TTAF). Given the current lack of fee regulation within industry training, these payments may increase, especially as provision moves from transitional ITOs into providers [METIS 1246811 refers]. It is likely that this will result in unintended higher government funding for industry training covered by TTAF.

5. Some mitigations are already in place to manage this additional cost, and the Tertiary Education Commission (TEC) has also agreed fee rates with the transitional ITOs, and are managing reasonable fee increases. We may consider further options for managing this risk in 2022.

Additional funding to support behaviour shifts

6. We advised you that increasing funding to industry training addresses the ongoing viability of the sector while targeting increases to areas delivered in workplace settings. This signals to providers that we want them to begin to focus more on work-integrated learning. As transitional ITOs shift their current arranging training function to providers through 2021 and 2022, an increase in funding for this provision will support providers to start integrating and expanding their offerings.

7. For example, new funding would allow providers and transitional ITOs to start work on:

   - greater pedagogical support for programmes including in the development and provision of resources to learners;
   - increasing learning support within the training system;
   - increasing support for employers to enter the training system and to maintain and develop their role in skill acquisition and learner support;
   - developing stronger pathways for students into the workplace, for example, providers may start to develop a work brokerage function.

Assessment of the options for increasing the industry training funding rate

We used four criteria to assess the options to increase industry training rates in 2022

8. We have used the same criteria to assess these options as we used to identify the wider package of options for the Budget bid:

   a. Does the option support one of the key changes we are seeking for the system (i.e. increasing opportunities for work-integrated learning)?

   b. Does the option reflect the intention of long-term policy design of the new vocational education and training system, including the unified funding system?

   c. Does the option signal the direction of upcoming funding shifts (i.e. from 2023), and is the option unlikely to result in major redistribution of funding or cuts to funding in 2023? This supports the ongoing viability of the system.

   d. Does the option minimise compliance and administration for tertiary education organisations (TEOs) and the TEC wherever possible?

We also assessed how the options fit the overall amount of funding available in 2022

9. The current bid, if successful, would provide around $36 million in calendar 2022.

10. From our costing of extending Equity Funding based on current forecasts, around $14 million will be available for increases to industry training funding rates.

11. All options have been costed expecting higher volumes of learners than in 2020. Due to COVID-19 and the policies implemented in response, we expect high volumes of learners in industry training. We have forthcoming advice to you and the Minister of Finance on 2021 funding needs for industry training and likely needs for 2022. We will provide further advice in June 2021, when more enrolment information is available.

12. A 5% increase, outlined in options A, B and C below, balances the amount of funding available (taking into account volatile volumes) while ensuring the option will not result in a major redistribution of funding in 2023 (criteria (c) above). If industry training rates are raised too high in 2022 relative to current provider-based rates, rates may need to decrease in 2023 to create funding incentives. The extent of this would depend on how much provision is distributed across the different modes of delivery.

13. You could increase rates more under options A, B, and C below (e.g., a 6% increase for option A would cost $12.9 million). But due to the uncertain demand forecasts for 2022, and the need to ensure continuity with rates in 2023, we consider 5% preferable.

Table 1: Options analysis against the assessment criteria

Options	Assessment criteria			
	Supports growth of work-integrated learning	**Reflects long-term policy intent**	**Signals direction of upcoming funding shifts**	**Minimises compliance & admin for TEOs & TEC**
A. 5% increase to all industry training rates **(recommended)**	✓	✓	✓	✓
B. 5% increase to apprenticeship rates	✓	~	~	✓
C. 5% increase to trainee rates	✓	~	~	✓
D. Rate increase for Industry Training that is a skills priority	✓	~	~	✘

Key: ✓= meets criteria ~ = may meet criteria ✘ = does not meet criteria

Table 2: Costings for options

Options	2020/21	2021/22	2022/23[1]
Option A: 5% increase for all of industry training rates	$0	$5.4m	$10.7m
Option B: 5% increase for apprenticeship rates only	$0	$3.4m	$6.9m
Option C: 5% increase for trainee rates only	$0	$1.9m	$3.8m
Option D: rate increase for Industry Training that is a skills priority	Scalable up to $14m		

We recommend option A: a 5% increase to all industry training rates

14. The amount of funding available provides an opportunity to increase support across a wider area of work-integrated learning (compared to the limited provision which would be supported by options B and C). Increasing rates across all of industry training provides the best signal to providers and transitional ITOs to start working on the behaviour changes mentioned above.

15. We do not recommend either option B: a 5% rate increase for apprenticeships only, or option C: a 5% rate increase for trainees only. Enough funding is available to increase both categories, and doing so provides more flexibility for providers and transitional ITOs to start work on the changes we are seeking for work-integrated learning.

16. We do not recommend option D: a rate increase for industry training that is a skills priority. Since the Government has already strongly incentivised this focus through TTAF, this additional funding is likely to have limited impact. TTAF covers around 77% of all industry training (including apprenticeships).

17. Option D is also more complex and less transparent for providers, transitional ITOs and learners, which is inappropriate for a funding approach that will only be in place for one year before the introduction of the UFS.

Next steps

18. We will include your chosen option in ongoing Budget 2021 work. Exact funding rates will be agreed by you before they are announced to the sector.

19. If you chose option D, we would provide you with further advice on which priority areas to target, and by how much we would recommend increasing funding rates.

20. If this rate increase is confirmed before additional funding for volume in 2022 or 2023 is sought, we will use the increased rate as the basis for costing any volume transfers.

[1] The introduction of the unified funding system from 1 January 2023 would result in funding be redistributed. Further advice on this will be provided later in 2021.