MINISTRY OF EDUCATION
TE TĀHUHU O TE MĀTAURANGA

Tertiary Education Commission
Te Amorangi Mātauranga Matua

Education Report: Further advice on eligibility and extramural provision in the unified funding system

To:	Hon Chris Hipkins, Minister of Education		
Date:	28 October 2021	**Priority:**	High
Security Level:	In Confidence	**METIS No:**	1275119
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Messaging seen by Communications team:	No	**Round Robin:**	Yes

Purpose of report and summary

This report provides further advice on programme design costs and eligibility in the unified funding system (UFS). Your decisions on these elements will be reflected in the upcoming Cabinet paper.

Summary

One of the changes driving the design of RoVE is consolidation of programme design, so that each qualification is delivered through a single, high quality, WDC-endorsed programme within Te Pūkenga. We expect WDCs will also drive consolidation of programmes across other providers.

Separate programme design funding could be used to support and incentivise this change. This would extend the approach proposed for the strategic component (currently proposed to be 4% of funding - $27 million for Te Pūkenga and $11 million for PTEs).

This idea could be applied across all modes of delivery, or focussed on extramural provision. We suggest two funding mechanisms to achieve it:

- A fund for Te Pūkenga to support a network of provision approach to programme design, to be allocated in negotiation with TEC.
- A contestable fund for Private Training Establishments (PTEs), to be allocated by TEC based on business cases.

If all programme design costs were to be addressed, around 3 to 4% of UFS funding could be allocated to this ($28 to $38 million), meaning 7 to 8% of UFS funding would not be volume-driven. This creates more space for Te Pūkenga to invest strategically in vocational education and training (VET).

If programme design costs were to be allocated to extramural provision alone, the level of investment could be correspondingly lower.

This paper also provides options for an exemption regime to continue support for some 'international' apprentices and trainees.

Recommendations

The Ministry of Education and the Tertiary Education Commission recommend that you:

a. **discuss** the approach to programme design within the UFS, including:

   i. whether it should apply to all UFS-funded provision, or focus on extramural provision ✓

   ii. your views on a network of provision approach to Te Pūkenga, and contestable funding for PTEs ✓

   iii. the level of funding to be invested.

b. **agree** that the Qualification Development Fund will be repurposed to support programme development in the UFS

Agree / **Disagree**

c. **indicate** your preferred option for an exemption regime for eligibility to the UFS:

Option 1	Support for learners doing longer and/or higher level courses of study	**Yes / No**
Option 2	Support for industries	**Yes / No**

d. **agree** to a grandparenting arrangement for non-domestic learners with a training agreement at the time of the implementation of the eligibility changes to retain eligibility for tuition subsidies

Agree / **Disagree**

Regarding recommendation (c) I would prefer an application based process.

e. **agree** to proactively release this education report within 30 days of Cabinet decisions being made, with any redactions in line with the provisions of the Official Information Act 1982.

Agree / Disagree

Andy Jackson
Deputy Secretary
Te Puna Kaupapahere
Ministry of Education

28/10/2021

Tim Fowler
Chief Executive
Tertiary Education Commission

28/10/2021

Hon Chris Hipkins
Minister of Education

1 / 11/ 2021

Background

1. We provided you with advice on eligibility and extramural provision in the UFS as part of our further advice in response to your decisions on the funding category component [METIS 1268057 refers].

2. This paper provides further advice on the UFS and:

   a. programme design costs generally

   b. programme costs for extramural delivery

   c. which exemption regime should be implemented alongside the new eligibility requirements for tuition subsidies.

3. We will reflect your decision that the project funding element of the strategic component only be available to PTEs in the Cabinet paper.

Programme design costs in VET

4. One of the changes driving the design of RoVE is consolidation of programme design, so that each qualification is delivered through a single, high quality, WDC-endorsed programme within Te Pūkenga. We expect WDCs will also drive consolidation of programmes across other providers.

5. Separate programme design funding could be used to support and incentivise this change. This would extend the approach proposed for the strategic component (currently proposed to be 4% of funding - $27 million for Te Pūkenga and $11 million for PTEs).

6. For Te Pūkenga, programme design funding would aim to support consolidation of their programmes across their network. Funding would require WDC agreement to the programmes to be developed. Initially, TEC would negotiate the specific investments with Te Pūkenga, because of the strategic importance of this work. Over time, as Te Pūkenga's programme design capability matures, this funding would be wrapped into the strategic component.

7. For PTEs, a contestable fund would be established. The criteria for the fund would be supported by WDC priorities, and, as for Te Pūkenga, WDC agreement would be required before TEC would consider funding applications.

8. The amount of funding available would require judgement. The section that follows on extramural provision gives some sense of the range of current costs, but we are fundamentally trying to develop a new system with new costs – fewer programmes, better designed.

9. For example, you could set aside another 3-4% of UFS funding, creating a fund of $28 to $37 million for Te Pūkenga. It could be split in proportion to full-time learners, or based on a judgement about the level of programme development required in future.

10. This would lift the level of investment that is not volume-based to 7-8%. Together with the other RoVE changes that create scale and stability in VET (establishing Te Pūkenga, and bringing support for apprentices and trainees into providers), this creates some 'headroom' for providers to take a strategic approach to their development.

11. This funding would require corresponding reductions in funding rates, and we would provide you with further advice about the implications for wānanga, universities, and PTEs (since the funding would be allocated unevenly across PTEs).

12. Under any approach, we should incorporate the Qualifications Development Fund within any new arrangements for programme design funding. This fund is not fit for purpose within the new arrangements, due to its small scale.

13. If you are interested in this idea, we seek a discussion with you to explore it further.

Extramural: Programme development costs

14. We recently advised you on programme design funding for extramural provision [METIS 1274135 refers]. This advice follows up with more detail on options for progressing this proposal.

15. There are two choices to be made: how much funding to invest in programme design, and the mechanism to be used for the investment.

Level of funding to be invested in programme design for extramural provision

16. As discussed previously, information about the costs of programme design for extramural provision is limited. The New Zealand Benchmarking Tool does not differentiate costs by mode of delivery, and information gathered for the UFS attributes different activities to programme design.

17. For example, Open Polytechnic estimates that a fully online degree programme requires more than $3 million of capital investment to launch, and that this has significant annual maintenance costs thereafter. This figure includes software and system costs, as well as the costs directly related to developing the content of a programme.

18. In contrast, the Qualification Development Fund ($1 million per annum) subsidises around 40% to 70% of the costs or programme design, paying $5,000-$10,000, per programme. This implies programme design costs in the range of $12,500 to $25,000, although the limitations of the fund will have shaped the types of applications received.

19. Around 25 to 35 new extramural programmes are developed each year (of a total 500 to 600 new programmes in total).

20. This creates a wide range of potential funding levels for extramural programme design. If it still needs to be addressed separately (rather than as part of the ideas discussed in the previous section):

    a. The upper limit could be the gap between the provider-based rate and the proposed extramural rates, which is around $25 million (based on your preferred scenario from the modelling paper [METIS 1267373 refers]).

    b. The lower limit could be around $5 million, which would provide an average rate of $150,000 per programme for 35 programmes.

21. Whatever funding is allocated could come from lowering all funding category rates a little, or by lowering the extramural rate. Lowering all rates slightly softens the negative impacts on providers relative to the current scenario.

22. As advised earlier, the balance of evidence suggests that, delivered at scale, the cost of online learning is lower than face-to-face, and it is important to align these costs with work-based learning (much of which uses online delivery methods). So total funding across extramural funding rates and the programme design fund would ideally be lower than current funding. But there is a judgement to make about how much lower.

23. We have identified mechanisms below that are better suited to different levels of investment. They mirror the options discussed in the previous section. Both mechanisms could support the sector to innovate, in collaboration with WDCs, in the delivery of online learning.

Mechanism for funding programme design costs for new extramural programmes

Option 1: Programme design costs as part of a network of provision approach

24. This option supports providers to consider extramural programme design as part of their network of provision. It would set aside a fixed amount of funding for programme design costs.

25. This funding would be managed as part of TEC's Investment process. This would support Te Pūkenga, and other bigger providers, to plan strategically for online programme design in light of WDC and RSLG priorities. As discussed above, it should be by negotiation initially, becoming integrated within the strategic component as programme development capability matures.

26. This option is better suited to investment at the higher end of the range discussed above. The total funding available could be distributed to providers either through a negotiation with TEC, or in proportion to their number of extramural learners.

27. This option supports a more strategic approach to extramural programme design, particularly for Te Pūkenga who will need to consider how to integrate this capability across their network.

28. If you take this approach, we would work with Te Hono Wānanga to consider the most effective corollary for wānanga. It is unlikely to be suitable for PTEs and universities – they should be considered under option 2.

Option 2: A contestable fund

29. This option is to establish a dedicated contestable fund for new extramural programmes. The approval process would have two steps:

    a. WDC approval to proceed would be required first, based on whether there is an industry interest in a new programme in the area.

    b. TEC would then consider a business case to fund the programme. This would allow them to test whether the amount sought is appropriate.

30. The information gathered from the business cases would provide more evidence about the costs of programme development, to allow us to standardise funding rates over time.

31. This option would be necessary for PTEs, and could also be suitable for other providers. If it is to be the only mechanism, a lower level of funding would be appropriate initially (given the scale of the Qualification Development Fund which it would replace).

32. This option would allow us to support programme development costs, whilst learning more about their cost structures and demand. It also ensures that industry (via WDCs) have a clear role in the decision-making process. However, the application-based process creates less certainty about the amount of funding available for programme development, which may reduce some providers' willingness to engage in programme development without Government support.

33. The risk with this option is that it may lead to a higher proportion of the 500 to 600 new programmes that are developed each year being started as extramural programmes. This could put pressure on this fund, and indirectly subsidise other modes of delivery.

Conclusion

34. We seek a discussion with you about:

   a. your preferred mechanism for programme design – a strategic fund to support a network of provision approach, or a contestable fund that would provide more insight into these costs.

   b. the level of investment in programme development costs, within the range of $5 million to $25 million

   c. whether to establish the fund by reducing all funding category rates, or by reducing extramural rates (or a combination of both).

Eligibility: options for exemptions for international trainees

35. You have agreed to align eligibility for work-integrated training with current SAC eligibility [METIS 1267373]. As a result, employees who are not citizens or residents would no longer be eligible for publicly subsidised apprenticeships and traineeships (although they could still access industry training funded by their employer). This section discusses options for establishing exemptions, to provide subsidies to learners in areas of national interest.

36. The eligibility changes would remove tuition subsidies for approximately 22,500 trainees and apprentices who do not have residency status. These industry trainees study for shorter durations – with 60% studying qualifications of less than 90 credits (compared to 50% overall). Two thirds of these trainees are in construction, agriculture, healthcare and social assistance, and manufacturing.

There are several options for exemptions in areas of national interest

37. This section seeks your views on two options for the design of an exemption regime:

- An exemption regime based on the level of qualification (for example, apprenticeships) or study load (by credits).
- A broader exemption regime based on industries where there is a scarcity of skilled workers and insufficient training pipelines.

38. Earlier advice discussed two options that are not progressed here. We have not addressed the option for a visa-based exemption regime or the narrow exemption focussed on qualifications needed to unlock skills only available overseas because neither option addresses national interest very effectively.

39. The following transitional Industry Training Organisations (BCITO, Primary ITO, Competenz, Skills Org, Skills Active, Careerforce, and Service IQ), and Business New Zealand and the New Zealand Council of Trade Unions provided their views on exemptions as part of providing feedback on the proposals to align eligibility under the UFS with current SAC eligibility. They were strongly supportive of exemptions, because of concerns about potential skill shortages.

Option 1 – supporting higher value study

40. This option would support learners who are undertaking longer and/or higher-level courses of study. It would maintain public investment in the qualifications that require more commitment of time and effort for employers – on the assumption that this greater investment implies better outcomes for New Zealand and a higher chance that the employee will stay in New Zealand long-term.

41. If you are interested in this option, we can provide further advice about how industries would be affected by different parameters. For example, if 'international' trainees studying at level 4 and above were eligible, it would cover around 55% of 'international' trainees, including around 90% of those in construction, and around 50% of those in agriculture and healthcare. In contrast, if 'international' trainees were subsidised where they enrol in courses of 90 credits or more, it would cover around 40% of 'international' trainees, including 90% of those in construction, but 35% of those in agriculture and 13% of those in healthcare.

42. This option would be the simplest for industry and providers to understand, and have the lowest compliance costs. However, it does not address national interest as directly as option 2.

Option 2 - exemptions linked to industries of national interest

43. This option would provide public funding for all 'international' apprentices and trainees in specified industries. This would give broad coverage to industries where there is a national interest in ensuring a strong supply of skilled workers.

44. Agriculture, construction, and healthcare are three industries that could be considered for a national interest exemption – they also have the largest numbers of 'international' learners – 55% of the total. The next largest area is manufacturing (a further 12%).

45. This option is likely to result in a high proportion of current 'international' trainees retaining eligibility for public funds. It would also require some detailed work with providers and industry to match the programmes that TEC funds to industries.

46. The industries could be identified either through an applications process to TEC, or by Ministerial direction through a funding determination. We can provide further advice on this choice if you are interested in this option.

47. This option prioritises responding to stakeholders' concerns about skill supply, but it is likely to lead to less change, and be complex to establish.

Grandparenting arrangements should be provided for those learners already enrolled in training

48. We also recommend grandparenting arrangements for non-domestic learners who have already started their training when the UFS takes effect [METIS 1268057]. We recommend continuing to pay tuition subsidies until this group finish their programme

of study. Tuition subsidies would be paid at UFS rates (i.e. we would not grandparent the industry training rates, just the eligibility).

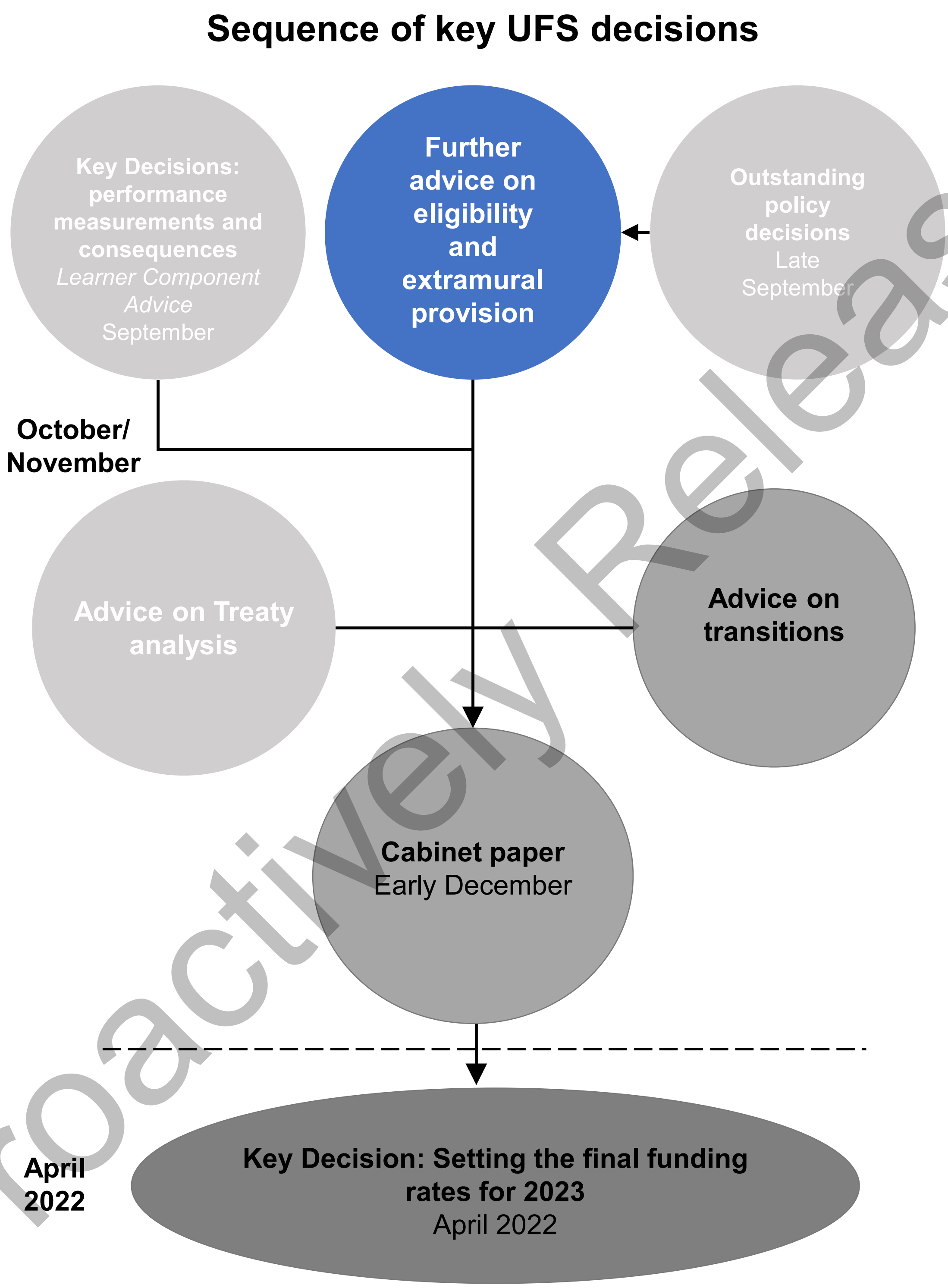
49. We will test the details of this arrangement as part of finalising the design in March 2022, and provide you with further advice if any issues arise.

Next steps

50. We seek your feedback on this paper by 8 November to reflect in the draft Cabinet paper for Ministerial consultation, which we expect to provide on 11 November.

Annexes

Annex 1: Sequence of key UFS decisions


Sequence of key UFS decisions
Key Decisions: performance measurements and consequences
Learner Component Advice
September
Further advice on eligibility and extramural provision
Outstanding policy decisions
Late September
October/ November
Advice on Treaty analysis
Advice on transitions
Cabinet paper
Early December
April 2022
Key Decision: Setting the final funding rates for 2023
April 2022