



## Education Report: Options to accelerate the outcomes of the unified funding system in 2022

<b>To:</b>	Hon Chris Hipkins, Minister of Education		
<b>Date:</b>	19 February 2021	<b>Priority:</b>	High
<b>Security Level:</b>	Budget Sensitive	<b>METIS No:</b>	1250398
<b>Drafter:</b>	Nicole Rennie	<b>DDI:</b>	044637740
<b>Key Contact:</b>	Hayley Robertson	<b>DDI:</b>	044638584
<b>Messaging seen by Communications team:</b>	No	<b>Round Robin:</b>	No

### Purpose of Report

The purpose of this report is to seek your decisions on options for any new funding appropriated to support the unified funding system in 2022.

### Executive Summary

1. You are seeking funding in Budget 2021 to address the viability of vocational education and training and implement the unified funding system. If successful, around \$36 million will be available to be spent in 2022. This paper seeks your decisions on how to prioritise this funding.
2. This funding needs to balance supporting the ongoing viability of the VET system with incentivising the changes needed to fully implement the Reform of Vocational Education. We have assessed the options against four criteria to analyse how the options would accelerate and signal the long-term policy design of the unified funding system, while minimising major redistributions of funding in 2023 and additional compliance for providers and the Tertiary Education Commission.
3. We have identified six possible options to accelerate the outcomes of the unified funding system. We recommend a combination of three options:
  - a. Option 1: Kickstart the volume-based element of the learner success component for Māori and Pacific learners and for young learners with low prior qualifications by expanding existing Equity Funding
  - b. Option 2: Extend the current Equity Funding top up for disabled learners to all VET learners
  - c. Option 3: Increase rates for priority industry training-funded VET.
4. We recommend this combination of options because together they would support the key changes we wish to see in the system, send strong signals about the direction of the unified funding system, and support ongoing viability of the sector.

## Recommendations

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

- a. **note** that, if successful, the Budget bid *Ensuring the viability of vocational education and training* would make funding available in 2022
- b. **note** that the full implementation of the unified funding system is due to occur from 2023, but the priorities and incentives in the new system can be signalled in 2022
- c. **indicate** which options you would like to implement in 2022, if funding is available:

Option	Description	Decision
1	Kickstart the learner success component for Māori and Pacific learners and for young learners with low prior qualifications by expanding existing Equity Funding ( <b>recommended</b> )	<b>Yes / No</b>
2	Extend the current Equity Funding top up for disabled learners to all vocational education ( <b>recommended</b> )	<b>Yes / No</b>
3	Increase rates for priority, industry training-funded vocational education ( <b>recommended</b> )	<b>Yes / No</b>
4	Introduce a small, contestable, time-limited, flexible fund for short-term projects ( <b>not recommended</b> )	<b>Yes / No</b>
5	Kickstart funding to support a network of regional provision across New Zealand ( <b>not recommended</b> )	<b>Yes / No</b>
6	Increase all Student Achievement Component (SAC) levels 3-7 (non-degree) and all industry training rates by 5% ( <b>not recommend</b> )	<b>Yes / No</b>

- d. **note** that to include your preferred options in the upcoming unified funding system Cabinet paper would require decisions by 24 February for inclusion in a version for Ministerial consultation, or by 5 March to be included in the version to be lodged
- e. **agree** to include your preferred options in the Cabinet paper 'High-level design of the unified funding system underpinning the Reform of Vocational Education'

**Agree / Disagree**

- f. **agree** to proactively release this education report once Budget 2021 decisions, and decisions on the high-level design of the unified funding system for vocational education, have been taken by Cabinet

**Agree / Disagree**



**Katrina Sutich**  
Group Manager, Te Ara Kaimanawa –  
Tertiary Policy  
Ministry of Education

19/02/2021



**Tim Fowler**  
Chief Executive  
Tertiary Education Commission

19/02/2021

**Hon Chris Hipkins**  
Minister of Education

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Proactively Released

## Background

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### **You are seeking funding in Budget 2021 to address the viability of vocational education and training**

1. In November 2020, you agreed to seek funding through Budget 2021 to ensure the viability of vocational education and training. You agreed that this funding would also be used to support implementation of the unified funding system for vocational education [METIS 1244781 refers].
2. The current bid is calculated as a 5% increase to total government funding estimated to be spent on vocational education and training (provision within scope of the unified funding system, i.e. Student Achievement Component (SAC)-funded provision at levels 3 to 7 (non-degree) and all industry training) in the 2022 calendar year, and a further 8% increase from 2023. If successful, around \$36 million will be available to be spent in 2022.
3. This paper presents a combination of options to support the ongoing viability of the vocational education and training system, while accelerating some of the outcomes of the unified funding system, using the funding available in 2022.
4. Treasury have indicated that they would prefer that the decisions be included in advice to Cabinet. We agree with this approach.

## Approach to assessing options

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### **We need to balance supporting the ongoing viability of the vocational education system with incentivising the changes needed to fully implement the Reform of Vocational Education**

5. The unified funding system will be implemented from 2023. Funding for 2022 can be used to signal the key changes we want to see the system make to respond to learner, employer and community needs as well as addressing key national and regional skill needs.
6. This needs to be balanced with addressing the long-standing viability issues facing the sector and contributing to the outcomes of the unified funding system in the longer term.

### **We have identified four criteria for assessing options for 2022**

7. We have developed four criteria to assess options against:
  - a. Does the option accelerate one of the following key changes we are seeking for the system in the longer term? These are:
    - growing work-integrated learning in the sector
    - focusing on learners' needs and recognising that some learners need more support in the system
    - building a strong regional network of provision across New Zealand
    - addressing national and regional skill priorities.
  - b. Is the option designed in a way that reflects the intention of long-term policy design of 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 Tertiary Education Commission (TEC) wherever possible?

## Options for 2022

### We have identified six possible options to accelerate the outcomes of the unified funding system

8. We have described the six options below (see Table 1 and the following subsections). Based on the above criteria, we recommend a combination of three options for funding in 2022:
- Option 1: Kickstart the volume-based element of the learner success component for Māori and Pacific learners and for young learners with low prior qualifications by expanding existing Equity Funding
  - Option 2: Extend the current Equity Funding top up for disabled learners to all vocational education
  - Option 3: Increase rates for priority, industry training-funded vocational education.
9. We recommend this combination of options because together they would support the key changes we wish to see in the system, send strong signals about the direction of the unified funding system, and support ongoing viability of the sector.
10. We are considering how to set expectations for providers who receive any new funding via funding conditions or another accountability mechanism.

**Table 1: Analysing options against the assessment criteria**

Options	Assessment criteria				Potential funding range
	Accelerate a key change we are seeking for the system	Reflect the long-term design of the unified funding system	Signal the direction of upcoming shifts	Minimise compliance & administration for TEOs & TEC	
1 Kickstart the learner success component for Māori and Pacific learners and for young learners with low prior qualifications by expanding existing Equity Funding	✓	~	✓	✓	Up to \$20 million depending on rate
2 Extend the current Equity Funding top up for disabled learners to all vocational education	✓	~	✓	✓	Starting at \$2 million depending on rate
3 Increase rates for priority, industry training-funded vocational education	✓	✗	✓	✓	\$10-\$20 million depending on sub-option chosen
4 Introduce a small, contestable, time-limited, flexible fund for short-term projects	✓	~	~	✗	At least \$5 million

Options		Assessment criteria				Potential funding range
		Accelerate a key change we are seeking for the system	Reflect the long-term design of the unified funding system	Signal the direction of upcoming shifts	Minimise compliance & administration for TEOs & TEC	
5	Kickstart funding to support a network of regional provision across New Zealand	✓	~	✗	✓	At least \$5 million
6	Increase all SAC levels 3-7 (non-degree) and all industry training rates by 5%	✗	✗	✗	✓	\$36 million

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

### Option 1 (recommended): Kickstart the learner success component for Māori and Pacific learners and for young learners with low prior qualifications by expanding existing Equity Funding

11. Current Equity Funding for Māori and Pacific learners provides \$135 per equivalent full-time student (EFTS) enrolled at levels 5 and 6, and \$325 per EFTS enrolled at level 7.<sup>1</sup> Equity Funding is not currently available for SAC-funded provision at levels 1-4, for industry training, or for young learners with low prior qualifications.
12. We can signal the types of changes that are likely under the unified funding system by expanding existing Equity Funding as follows:
  - a. increasing the rate for Māori and Pacific learners at levels 5 and 6
  - b. expanding funding to SAC-funded Māori and Pacific learners at levels 3 and 4
  - c. expanding funding to Māori and Pacific learners in industry training at all levels
  - d. expanding funding to young learners with low prior qualifications at all levels in industry training and at levels 3-7 (non-degree) for SAC-funded provision.
13. While enrolments of Māori and Pacific learners and young learners with low prior qualifications would drive the funding calculations, providers would be expected to identify the unique needs of all their learners and make decisions about how to support them.
14. This option signals the strong focus the new system will have on learner success. It reflects the likely broad shape of the component from 2023. The mechanics of this option should be relatively straightforward to implement.
15. If you support this option, we will provide you with further advice, based on modelling, on setting the level of this rate. At this stage, we intend that the rate would be up to the current Equity Funding rate for level 7. We expect to increase this rate further from 2023 as part of the learner success component of the unified funding system.
16. Expanding Equity Funding as set out above would mean that Māori and Pacific learners, and young learners with low prior qualifications, at levels 1 and 2 would remain ineligible for Equity Funding. Additionally, young learners with low prior qualifications at degree level and above would remain ineligible. There is a risk that

<sup>1</sup> These funding rates are for 2021. Rates for 2022 will be \$137 and \$329 if the Budget 2021 bid for a general rates increase of 1.2% is successful.

some tertiary education sector stakeholders may question why the expanded Equity Funding does not apply beyond vocational education.

**Option 2 (recommended): Extend the current Equity Funding top up for disabled learners to all vocational education**

17. Current Equity Funding provides \$29.06<sup>2</sup> per SAC-funded EFTS to all tertiary education institutions (TEIs).<sup>3</sup> Current funding for each TEI is calculated based on *all* EFTS but is intended to support disabled learners.
18. This option would extend the rate to vocational education provision at private training establishments (PTEs) and across industry training. This would be a small top up on every EFTS/STM in vocational education, rather than just disabled learners, in keeping with the current approach to allocating Equity Funding to support disabled learners. This option could also involve a rate increase.
19. This option signals that disabled learners are a focus of the unified funding system, alongside those learner groups signalled in Option 1. It would *not* reflect the likely shape of funding in the unified funding system for disabled learners from 2023, as we intend funding to be more closely linked to the disabled learner populations of TEOs. However, as previously advised [METIS 1248682 refers], we do not yet have the data available to directly link funding to an appropriate proxy for disabled learners. This option would not rely on having this proxy in place, making it possible to implement in 2022.
20. If you support this option, we will provide you with further advice, based on modelling, on finalising the level of this rate. We will also provide you with further advice on how this funding could best be provided to TEOs with small numbers of learners to support them to use this funding well and to minimise their compliance costs.
21. Expanding Equity Funding for disabled learners to levels 3 to 7 (non-degree) at PTEs would mean that EFTS at PTEs at levels 1, 2, and 7 and above would remain ineligible for this funding. If the rate for vocational education is increased, this would make it higher than the rate for SAC levels 1, 2 and 7 and above at all providers. There is a risk that some tertiary education sector stakeholders may question why changes to Equity Funding that supports disabled learners would only apply to vocational education.

**Option 3 (recommended): Increase rates for priority, industry training-funded vocational education**

22. This could apply to:
  - a. all industry training rates
  - b. only apprenticeship rates
  - c. only funding rates for trainees
  - d. provision that is a skills priority.
23. This option addresses the ongoing viability of the sector while targeting funding increases to areas of skills priority that are delivered in workplace settings. We would expect greater support for learners and employers in these areas. It could also support providers to develop the new delivery mode: work integrated for learners brokered into employment.

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<sup>2</sup> This funding rate is for 2021. The rate for 2022 will be \$29.41 if the Budget 2021 bid for a general rates increase of 1.2% is successful.

<sup>3</sup> TEIs are public tertiary education institutions (universities, wānanga and Te Pūkenga).

24. We are working through the pros and cons of each sub-option outlined above, including how sub-option “d” could be implemented. If you support this option, we will provide you with further advice comparing each sub-option. We will also provide further advice, based on modelling, on rates and the types of behaviour we would expect to see driven by the funding. The mechanics of implementing this approach are likely to be relatively straightforward for providers to understand and agencies to implement.

**Option 4 (not recommended): Introduce a small, contestable, time-limited, flexible fund for short-term projects**

25. This would be targeted at building capability and capacity to:
- a. deliver work-integrated learning
  - b. build the brokerage function at providers.
26. This option could help build capability across the sector and support providers to meet the incentives of the unified funding system in 2023 for more work-integrated learning.
27. This option supports the shifts we are seeking and is easily scalable. But it is complex for providers to respond to in the available time. It also has a less direct effect on frontline delivery than the other options.

**Option 5 (not recommended): Kickstart funding to support a network of regional provision across New Zealand**

28. Any funding distributed through this option would be targeted to Te Pūkenga. It would be a relatively small amount of money and would reflect the likely long-term shape of this element of the strategic component.
29. While this option is easily scalable, it provides support only to Te Pūkenga and has limited signalling of the longer-term shifts required. We do not recommend this option because we think prioritising shifts in the learner success and work-integrated areas are of more significant value in 2022.

**Option 6 (not recommended): Increase all SAC levels 3-7 (non-degree) and all industry training rates by 5%**

30. This option would be consistent with the current method of calculating the increase in funding and address the historical lack of funding rate increases.
31. However, it would not adequately reflect the changes we want from the unified funding system. This is because it would funnel more funding into the current funding structures, rather than signalling the behaviour changes we are seeking through the unified funding system. It would also increase some rates above current degree-level rates. This option would not reflect the shape of the system from 2023 as funding may be significantly redistributed as we confirm the final form.

**Next steps**

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32. We will develop your preferred options further, including full costings and confirming rate setting. We will also provide thorough advice on communications and messaging to the sector.
33. Inclusion of your preferred options in the upcoming unified funding system Cabinet paper [METIS 1248682 refers] would require decisions by the end of Ministerial consultation on 5 March. Inclusion in the Cabinet paper before Ministerial consultation would require decisions by 24 February.