

## **Budget Sensitive**

Office of the Minister of Education

Chair, Cabinet Social Wellbeing Committee

## **Design of the unified funding system underpinning the Reform of Vocational Education**

### **Proposal**

- 1 This paper seeks Cabinet agreement to the design of a unified funding system for vocational education and training (VET).

### **Relation to government priorities**

- 2 The unified funding system is an essential element of the Reform of Vocational Education (RoVE), which the Government committed to completing in Labour's 2020 Election Manifesto.

### **Executive Summary**

- 3 In July 2019, Cabinet agreed to RoVE – a fundamental overhaul of the structure of New Zealand's VET system. The unified funding system is the final major component of the reform to be implemented.
- 4 The funding system proposed in this paper incentivises providers of VET to:
  - 4.1 support learners to transition to work-based training,
  - 4.2 enhance support for employers,
  - 4.3 increase and improve success and support for all learners,
  - 4.4 respond to national and regional skills priorities, and
  - 4.5 ensure a strong and sustainable regional network of provision.
- 5 The three proposed components of the unified funding system – a delivery component, a learner component, and a strategic component – work together to create these incentives.
- 6 The delivery component, the largest component of the system, will fund providers based on learner volume. Funding rates will be calculated based on the subject and the way learning is delivered, that is, *the mode of delivery*. Differentiating funding by mode of delivery will be a new feature of the system and allows us to rebalance investment between provider- and work-based training. Modes of delivery will also incentivise providers to grow work-integrated learning pathways, incorporating both provider-based and work-based study.

- 7 The learner component will incentivise providers to support the unique needs of all their learners. It will be calculated based on enrolments of learners in groups who are most at risk of not completing VET qualifications and face disadvantages in the VET system. A portion of learner component funding will also reward providers that demonstrate improvement in their learners' success. s9(2)(f)(iv)

This component substantially increases funding targeted towards supporting learners and is key to realising our RoVE objective of meeting the needs of learners who have traditionally been underserved by the education system.

- 8 The strategic component will provide necessary funding unlinked to learner enrolments to progress strategic priorities. 50 percent of the component will respond to regional and national skills priorities identified by Workforce Development Councils (WDCs) and Regional Skills Leadership Groups (RSLGs). It will also support Te Pūkenga to meet its charter obligations, including building a sustainable national network of provision. The other 50 percent of the component will support programme development and maintenance, including for extramural programmes, aligned with the RoVE objectives. This component will support the system to innovate and adapt to meet the ever-changing needs of the New Zealand labour market.
- 9 These proposals represent significant change from the status quo. With strong transition and implementation, and careful mitigation of risks, the new funding system will support the reformed VET system to deliver the skills that learners, employers and communities need to thrive.

## Background

- 10 In July 2019, Cabinet agreed to RoVE – a fundamental overhaul of the structure of New Zealand's VET system. This reform included the creation of Te Pūkenga – New Zealand Institute of Skills and Technology (established on 1 April 2020), six industry governed WDCs (established 11 June 2021), and 15 RSLGs (formed in June 2020). These structural changes work to build a strong, unified, sustainable VET system.
- 11 As part of RoVE, Cabinet agreed to develop a unified funding system for VET, which would apply to all provider-based and work-integrated education at certificate and diploma qualification levels 3 to 7 (excluding degree study) and all industry training [CAB-19-MIN-0354].
- 12 As part of Budget 2021, Cabinet agreed to \$279.5 million to support the implementation of the unified funding system over the next four years [CAB-21-MIN-0116.29 Initiative No: 13359]. This provides for an additional \$97 million per year for VET provision on an ongoing basis from 2023.
- 13 The unified funding system is one part of Government's investment in tertiary education. Cabinet has already taken decisions on funding for WDCs, RSLGs, and the establishment of Te Pūkenga. I am working on options for fee regulation and employer contributions as part of wider work on financing VET.

## The VET funding system needs change

- 14 VET is currently split into two largely separate funding systems, governed by different funding policies:
  - 14.1 funding for work-based learning (currently in transitional industry training organisations (ITOs) but transitioning to providers, around \$185 million per annum); and
  - 14.2 funding for provider-based learning (around \$520 million per annum).
- 15 This existing funding model is not fit for purpose because it creates barriers between provider-based and work-based training. This means that work-based learners do not always get appropriate support and training does not align with the needs of industry. The system underserves all learners and does not support strategic priorities.
- 16 The new unified funding system has been designed specifically for the reformed VET system and will incentivise providers to:
  - 16.1 support learners to transition to work-based training,
  - 16.2 enhance support for employers,
  - 16.3 increase and improve success and support for all learners,
  - 16.4 respond to national and regional skills priorities, and
  - 16.5 ensure a strong and sustainable regional network of provision.
- 17 I propose, in line with what I signalled in July 2019, that the unified funding system be comprised of three components (an overview of the structure of the new system can be found in Appendix 1):
  - 17.1 **a delivery component** to set funding categories for different subject areas and relative funding weights for different modes of delivery (for example, provider-based, work-based)
  - 17.2 **a learner component** to recognise the higher cost of training that responds to learners' needs, and to incentivise improved system performance for learners
  - 17.3 **a strategic funding component** to respond to regional and national skills priorities, including supporting Te Pūkenga to build and sustain a national network of provision, and support programme development and maintenance.

## The delivery component is the foundation of the unified funding system

Delivery component: key points	
<b>Amount of funding</b>	Approximately 84 percent of funding in the unified funding system
<b>Allocation method</b>	Volume-based, with rates differentiated by the subject and mode of delivery
<b>Shifts and incentives</b>	<p>Rebalances investment between provider- and work-based learning to better support learners in work</p> <p>Incentivises providers to support learners to transition to work-based learning and build more work-integrated learning pathways</p> <p>Work-based rates are closer to provider-based rates with increases of between 40 and 90 percent on current average work-based funding rates</p> <p>Rates for most provider-based provision are around 80-85 percent of current funding rates for the same provision</p>

- 18 The delivery component (approximately 84% of funding) will enable and encourage providers to grow work-integrated learning pathways which meet learner, employer, and community needs. The delivery component will be volume-based (based on the number of equivalent full-time learner enrolments), reflecting the actual costs incurred in the delivery of learning.
- 19 The delivery component will allocate funding based on the subject, how delivery occurs (the mode of delivery), and the amount of learning (common across all modes).
- 20 Currently, the VET system does not consistently differentiate funding by subject. Introducing differentiated funding by subject for work-based training will better recognise different cost structures of different types of training (for example, on average retail training costs less than forestry training). The proposed grouping will simplify and consolidate rates compared to the existing system:
- 20.1 Humanities, Business and Social Service subjects
  - 20.2 Te reo and tikanga Māori
  - 20.3 Trades, Creative, IT-based, and General Healthcare and Community Support subjects
  - 20.4 Engineering, Specialist Health, Primary Industry and Science-based subjects
  - 20.5 Specialist Low-Volume, High-Cost subjects.
- 21 The scope of the unified funding system includes te reo and tikanga Māori provision at levels 3 to 7 (excluding degrees). Officials are currently undertaking a review of funding for te reo Māori across tertiary education. Until the review is complete, I propose maintaining the funding rate for te reo Māori and tikanga Māori provision at no less than the current rate, regardless of the mode of delivery. This approach recognises the Crown's Te Tiriti o

Waitangi/Treaty of Waitangi obligations to actively protect te reo and tikanga Māori as taonga and the importance of developing any substantive changes to the funding system for these subjects in partnership with Māori.

- 22 I propose that the funding system account for *mode of delivery*. Funding differentiated by mode of delivery will incentivise providers to grow work-integrated learning pathways, incorporating both provider-based and work-based study, better meeting the needs of learners and employers. I propose that there will be five modes of delivery:

Mode	Description	Funding approach
Provider-based	Learners study mainly in a campus setting with supported self-directed learning. Providers are responsible for learners' health and wellbeing support.	To rebalance provider-based and work-based rates, rates for most provider-based provision will be around 80-85 percent of current funding rates for the same provision. Rates for provider-based provision will remain higher than work-based rates, to acknowledge the higher underlying costs structures (such as capital costs).
Provider-based: extramural	Learners study mainly away from a campus setting but not in the workplace. Learners undertake supported self-directed learning and the provider is responsible for the learners' health and wellbeing support. Officials will work to refine this mode to focus on online only delivery from 2024.	Rates for provider-based extramural delivery will be lower than standard provider-based rates. This reflects the smaller cost per learner (especially across large scale extramural programmes). The costs of programme development and maintenance will be supported by the strategic component.
Work-based	Learners study mainly in the workplace with supported self-directed learning. Learners are supported in their training by both the provider and employer. Providers are responsible for learners' health and wellbeing support but this may be provided in conjunction with the employer.	Work-based rates will be much closer to provider-based rates than is currently the case (around 80-95 percent of provider-based rates, which is a 40-90 percent increase from the current average work-based funding rate). This will enable a greater amount of support from the provider for work-based learners and their employers.
Work-based pathway to work	Learners have completed some study in the provider-based mode. Providers assist learners to find jobs with training agreements and support them to establish their learning in the workplace. All other work-based responsibilities are the same as the work-based mode. This rate will be limited to the transition period between study and work.	To incentivise this new activity for providers, I propose that this mode of delivery receive a higher funding rate relative to the other modes of delivery for an initial period of time. This will meet the need identified by learners for providers to have an active role in supporting them to continue their learning in the workplace.

Mode	Description	Funding approach
Assessment and verification:	Learners receive training in the workplace. The employer has created or purchased a programme of study leading to a qualification and delivers this. Providers work with employers to match the programme to the New Zealand Qualifications Framework. Providers are responsible for the quality of assessment of the programme.	In the current system, funding for assessment and verification activity is the same as for the activity described in the other modes, despite it taking considerably less resources. The cost for providers also does not substantially shift depending on the subject being assessed. Therefore, I propose that the funding rate for the assessment and verification mode of delivery be a flat rate that is substantially less than the other modes of delivery.

- 23 Funding rates will apply to a common amount of learning, allowing learners to easily move between whichever mode of delivery is best for them, resulting in more work-integrated programmes of study.

### The learner component helps to meet the needs of learners

Learner component: key points	
<b>Amount of funding</b>	Approximately 8 percent of funding in the unified funding system
<b>Allocation method</b>	Primarily allocated based on number of learners with low prior achievement and disabled learners, with additional funding based on Māori and Pacific learner enrolments. Some funding to reward providers for improvements in learner success.
<b>Shifts and incentives</b>	<p>Large increase in funding to support learners (currently less than 1 percent of VET funding)</p> <p>Uses key learner groups as a proxy for determining the level of learner need at, and therefore funding required for, a provider</p> <p>Providers will be rewarded for improving their learners' success</p> <p>s9(2)(f)(iv)</p>

- 24 The learner component (approximately 8% of funding) will help the unified funding system achieve its principle of rewarding and encouraging the delivery of high-quality education and training that meets the needs of learners, communities and employers. This is aligned with the Treaty principle of *ōritetanga*.
- 25 I propose that most of the learner component funding be based on the number of learners enrolled with low prior educational achievement (learners without a prior qualification at level 3 or above on the New Zealand Qualification Framework) and disabled learners.
- 26 Funding would not only be used to support learners in these groups: these groups will serve as a proxy for learners who need additional support to be successful in VET. Providers will be expected to identify the unique needs of

all their learners (including through engagement with learners and their communities), make decisions about how to support them, and allocate funding accordingly.

- 27 I expect that funding rates for learners with low prior attainment and disabled learners will be approximately \$1,100-\$1,300 per full time equivalent learner. I also propose that a portion of the learner component be calculated based on enrolments of Māori and Pacific learners, with rates that reflect 2021 Equity Funding (\$137 per full-time equivalent learner at levels 3-6, \$329 at level 7 non-degree), replacing Equity Funding for VET. Māori and Pacific learners who also have low prior achievement and/or are disabled will receive both funding rates, recognising that these learners have compounding levels of disadvantage.
- 28 I propose that a portion of learner component funding is used to reward providers upon completion of performance expectations. The performance expectations will be relevant and tailored to providers and the needs of their learner populations and include a mix of quantitative and qualitative measures. I will require the TEC to engage with Māori partners and consider the Treaty when developing performance expectations, measures, and monitoring arrangements.
- 29 This approach will not be enough for disabled learners who require higher investment from providers to support their needs. For example, New Zealand Sign Language interpreters, 1-on-1 personnel (e.g., laboratory support), and modifications to specific learning environments can have high costs for many disabled learners, providers and employers. The financial cost of these more individualised supports can be a barrier to disabled learners accessing the VET system.

s9(2)(f)(iv)

**The strategic component supports national and regional skills priorities and programme development and maintenance**

Strategic component: key points	
<b>Amount of funding</b>	Approximately 8 percent of funding in the unified funding system
<b>Allocation method</b>	Approximately 50 percent to respond to regional and national skills priorities and 50 percent programme development and maintenance
<b>Shifts and incentives</b>	Supports national and regional skills priorities identified by WDCs and RSLGs Supporting Te Pūkenga to meet its charter obligations Support programme development and maintenance aligned with the RoVE objectives

- 32 I propose that the strategic component (approximately 8% of funding) be made up of two elements.
- 33 The first element would focus on responding to regional and national skills priorities. Te Pūkenga will be expected to use this funding to meet its charter obligation to create a sustainable national network of vocational education, as well as respond to national and regional skills priorities. Private training establishments (PTEs) would receive funding for innovative projects that respond to national and regional skills priorities. This element will encourage and enable TEOs to trial new approaches to provision or other activities without relying on enrolments to fund the trial, or solely bear the financial risk if it is unsuccessful.
- 34 Officials are working with the wānanga through a separate workstream on funding to recognise their unique role and contribution. This may include support for activities in VET.
- 35 The process for determining regional skills priorities will involve WDCs and RSLGs. This will ensure consistency across the system and allow decisions on priorities to be informed by the views of different regions on their skills needs. The TEC will also be required to consider Māori interests when setting priorities.
- 36 The second element would provide funding to support the costs of programme development and maintenance, including for extramural programmes. Programmes that are innovative, flexible, and responsive to new elements in the system would be prioritised, aligning with the RoVE objectives and the vision of WDCs. This element would be divided between Te Pūkenga, PTEs and wānanga.

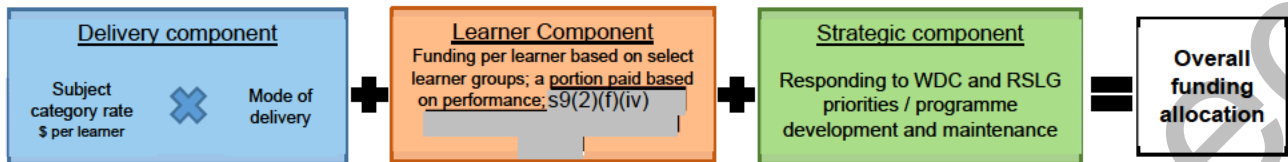
**The three components work together to better meet the needs of learners, employers and communities**

- 37 I consider these funding settings will deliver the full set of incentives that are needed to achieve the outcomes of RoVE, but without shifting rates beyond the sector's capability to adapt and make good use of funding in the medium



term. Diagram 1 shows how the component parts of the unified funding system will together make up providers' funding allocations:

*Diagram 1: the allocation method for funding in the unified funding system*



- 38 In particular, these settings should support providers and employers to collaborate on work-based learning, with easily accessible pathways for learners to move between the modes. This, together with the learner component, will be important for breaking down barriers for learners, and for building pathways from school to work, supported by appropriate training.
- 39 These proposals have been informed by modelling using the most up to date data available. I intend to refine this approach in April 2022 after final 2021 data becomes available. I propose Cabinet delegates responsibility for setting final funding rates for 2023 to myself and the Minister of Finance. These rates would be set at fiscally neutral levels, within operating allowances.
- 40 I propose that the UFS take effect from 1 January 2023. Immediate action will hasten the behavioural changes we want providers to make, and I consider most sub-sectors are well-placed to react accordingly. Officials' preliminary assessment of the impacts on subsectors are as follows:
- 40.1 Te Pūkenga are well positioned as they gain a large portion of work-based training from transitional ITOs. There will be considerable shifts within their network.
- 40.2 Universities will experience small funding decreases, but I believe they can manage this shift within their overall funding allocations.
- 40.3 Wānanga revenue will increase slightly.
- 40.4 A large number of PTEs will see decreases in their volume-based funding allocations, though some of this will be offset by the two PTE elements of the strategic component.
- 41 Considering these effects, I propose UFS funding rates take effect from 1 January 2023. Because a large amount of PTEs will see significant decreases in their overall allocation, I propose to set up some additional transition measures to give them time to adjust to new incentives. I propose to make final decisions on these additional measures alongside final decisions on funding rates after considering further advice from officials.

#### **Eligibility for tuition subsidies would align with current settings for provider-based training**

- 42 I propose to align eligibility for subsidies within the unified funding system with the current provider-based eligibility rules. This will have two main impacts:

- 42.1 extending funding for work-based training to people in the workplace who are not employees, such as the self-employed, contractors and volunteers
- 42.2 removing eligibility for training subsidies for legally employed individuals (who are not citizens, residence class visa holders, or otherwise classified as domestic tertiary students).
- 43 The second change means that work-based training for individuals (who are not citizens or residence class visa holders) would not be subsidised by the government. Employers could still access training for these individuals, but they would be classed as international students, and therefore could be charged international fees.
- 44 I intend to set up an exemptions scheme to allow some non-domestic learners to access specific training areas. I will also develop transition arrangements, including grandparenting those learners with a training agreement at the time of implementation, and transition plans as needed for affected industries. I propose to confirm these arrangements alongside final decisions on funding rates in 2022.

### **Implementation**

- 45 The unified funding system is due to be implemented from 1 January 2023. The Tertiary Education Commission (TEC) will be responsible for the operationalisation of the unified funding system, with support from the Ministry of Education.
- 46 The TEC will use several levers to monitor performance in the unified funding system. The TEC's funding decisions, performance measurement, and monitoring for VET will need to consider the design principles of the unified funding system and ensure that we retain an appropriate balance between provider- and work-based training. The TEC's expectations for providers' performance will be significantly heightened. This includes improved learner outcomes, support for employers, and ensuring programmes deliver skills employers need in the future.

### **Risks and mitigations**

- 47 The proposals set out in this paper represent significant change, and therefore come with significant risks requiring strong mitigation strategies.

*The key risk is that rates are set at unsustainable levels for providers*

- 48 To balance incentives between different modes of delivery, some provider-based provision will be funded at a lower rate than previously. This is likely to affect niche providers and particular areas of provision. For some, the funding drop could potentially force them out of the network entirely. This could have damaging impacts on skills pipelines and the quality of training in particular industries.
- 49 There are three mitigations to this risk:

- 49.1 Firstly, funding rates will not be finalised until final 2021 data is collected. This will allow for a more accurate assessment of the impacts certain funding rates will have on overall provider revenue.
- 49.2 This assessment will allow us to target our transition support for PTEs. Supporting these providers to transition to respond to the new incentives will ensure nationally significant provision is not at risk.
- 49.3 After monitoring the effects on provision and providers closely throughout 2023, further adjustments to funding rates can be made for 2024.

50 Table 2 below sets out several other risks and mitigations.

Risks	Mitigations
Providers continue to underserve particular groups of learners in VET, for example, providers 'cherry pick' learners in priority groups to ensure a high rate of success.	The TEC will monitor a range of quantitative and qualitative measures to ensure providers are supporting their learners, not just gaming achievement metrics.
Work-based learning is not sufficiently incentivised, and provider-based volumes increase.	The TEC will monitor the training occurring in each mode of delivery and will be able to limit delivery in each mode (informed by advice from WDCs). Funding rates can be adjusted for 2024 to create a stronger incentive.
Implementation is more disruptive or takes longer than anticipated	Officials will develop a comprehensive communication strategy to support providers, employers and learners. This will ensure the transition approach allows for flexibility to respond to emerging issues in a timely manner.
The design of the unified funding system does not provide clear signals about supporting Māori learners.	Clear and strong communication to the sector about the expectations of increased learner success. The TEC will undertake further engagement with Māori in the process of developing performance expectations, funding priorities, and the requirements for providers to engage with Māori and iwi in planning and delivery, to ensure these deliver on the needs and aspirations of Māori.
Māori stakeholders feel that their feedback about the current VET system problems for Māori learners is not reflected in the policy design.	Careful communication about the rationale and design of the unified funding system.

### Financial Implications

- 51 There are no direct financial implications arising from the decisions within this paper, noting that indicative funding rates have been calculated based on currently appropriated funding, including the additional investment from Budget 2021.

- 52 However, I note that additional funding is likely to be required for increased tertiary enrolments from 2023, and that changes to the rates for VET provision will change the cost of funding additional learner volume in the future.
- 53 Government's funding of VET is currently administered through the Tertiary Tuition and Training Multi-Category Appropriation (MCA) within Vote Tertiary Education. Funding for provider and work-based delivery sits in different categories: the Student Achievement Component and the Industry Training Fund, respectively. Implementing the unified funding system will include significant changes to this MCA. I intend to progress this work as a technical initiative in Budget 2022.

### Legislative Implications

- 54 There are no legislative implications arising directly from the proposals of this paper.

### Population Implications

- 55 Table 3 identifies groups of learners who have traditionally been under-served by the VET system, the key disadvantages they face, and the impacts the unified funding system will have for them. In addition to the impacts listed in the table, *all* VET learners could increasingly expect learning and wellbeing support that is tailored to their unique needs. I expect providers to more proactively identify learners who may need support with most staff at providers to be more focused on learners' needs.

Table 3: Population impacts

Learners	Key issues currently	Impacts of the unified funding system
Māori learners	Māori VET graduates have lower employment outcomes. Māori have lower enrolment rates and lower qualification completion rates in apprenticeships, which have stronger employment outcomes. Māori learners see a lack of cultural competency in providers.	Māori learners could increasingly enrol in, and complete, VET qualifications with strong employment outcomes, including apprenticeships. Providers and employers could increasingly work together to increase hiring, training and support for Māori. Labour market underutilisation rates could drop, and median salaries could increase. Māori learners could consistently expect culturally affirming learning environments. This will support <i>Ka Hikitia – Ka Hāpaitia, the Māori Education Strategy</i> .
Learners with low prior educational achievement	These learners, particularly aged 16 to 24, have lower qualification completion rates in VET compared to other learner groups.	Learners with low prior educational achievement could expect more support to complete their qualifications. The difference in qualification completion rates for these learners compared to other learner groups would significantly lessen.

Learners	Key issues currently	Impacts of the unified funding system
Disabled learners	<p>Disabled people participate in VET at lower rates than non-disabled people, including work-based training, which has stronger employment outcomes.</p> <p>Disabled learners want more accessibility services and teaching staff who are better able to support their needs. They also want to be more work-ready after completing qualifications.</p>	<p>Providers have the capability and capacity to understand, identify and support disabled learners' needs.</p> <p>Providers and employers could increasingly work together to improve hiring and training rates and support for disabled employees.</p> <p>Disabled learners could increasingly enrol in, and complete, VET qualifications with strong employment outcomes, including work-based training.</p> <p>The very high labour market underutilisation rates could drop.</p> <p>Improved information about disabled learners in VET will help TEOs and government better understand and support the needs of disabled learners.</p> <p>This will support the <i>New Zealand Disability Strategy</i>, the <i>Learning Support Action Plan</i>, and <i>Working Matters – the Disability Employment Action Plan</i>.</p>
Pacific learners	<p>Pacific VET graduates have lower employment outcomes.</p> <p>Pacific learners have lower enrolment rates and lower qualification completion rates in apprenticeships, which have stronger employment outcomes.</p>	<p>Pacific learners could increasingly enrol in and complete VET qualifications with strong employment outcomes, including apprenticeships.</p> <p>Providers and employers could increasingly work together to improve hiring, training and support for Pacific employees.</p> <p>Labour market underutilisation rates could drop, and median salaries could increase.</p> <p>This will support the <i>Action Plan for Pacific Education</i>.</p>
Women	<p>Women are significantly underrepresented in work-based VET, particularly in apprenticeships and in traditionally male-dominated industries.</p>	<p>More women could enrol and complete qualifications in work-based training, including apprenticeships and including in traditionally male-dominated industries.</p> <p>Providers and employers could increasingly work together to improve hiring, training and support for women, particularly in traditionally male-dominated industries.</p> <p>This could help lessen the gender pay gap.</p>
Learners in isolated areas	<p>Learners may not be able to enrol in VET in their area.</p>	<p>Learners in isolated areas could expect Te Pūkenga to support them to access VET in all parts of New Zealand.</p>

## Human Rights

56 I consider the proposals in this paper to be consistent with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993.

- 57 Improved support for disabled learners in VET would help support the *United Nations Convention on the Rights of Persons with Disabilities, Article 24 – Education, and Article 27 – Work and Employment*.

### Consultation

- 58 The Ministry of Education consulted with the following agencies:

Education New Zealand	Ministry of Pacific Peoples
Ministry for Primary Industries	Ministry of Social Development
Office for Disability Issues	New Zealand Qualifications Authority
Tertiary Education Commission	Te Puni Kōkiri
Te Arawhiti – The Office for Māori Crown Relations	Ministry of Business, Innovation and Employment
Department of the Prime Minister and Cabinet	The Treasury

### Communications

- 59 I will work with the Minister of Finance and the Prime Minister's Office to determine how to announce these decisions.

### Proactive Release

- 60 I propose that this paper is proactively released within 30 days of Cabinet decisions having been made, with any redactions in line with the provisions of the Official Information Act 1982.

### Recommendations

The Minister for Education recommends the Committee:

- 1 note that in July 2019, Cabinet agreed to develop a unified funding system for vocational education and training as part of the Reform of Vocational Education [CAB-19-MIN-0354] and that a unified funding system is the final essential part of the reform;
- 2 agree to implement a unified funding system across all provider-based provision at levels 3 to 7 (non-degree) on the New Zealand Qualifications Framework and all industry training from 1 January 2023;
- 3 agree that the unified funding system for vocational education and training have three components: a delivery component, a learner component, and a strategic component;
- 4 agree that the delivery component allocate funding based on the subject, how delivery occurs (mode of delivery), and the amount of learning (common across all modes);
- 5 agree to maintain the tuition subsidy funding rates for te reo and tikanga Māori provision at no less than their current funding rate, regardless of the mode of

delivery, while work continues on a review of funding for te reo and mātauranga Māori across all levels of tertiary education;

- 6 agree that there that there will be five modes of delivery:
- 6.1 a provider-based mode where learners study mainly in a campus setting with supported self-directed learning, for which funding remains higher than work-based provision, but is less than current provider-based funding rates;
  - 6.2 a provider-based: extramural mode where a learner studies mainly away from campus, but not in the workplace, for which the funding rate is substantially less than the provider-based mode recognising the lower per-learner cost of delivery;
  - 6.3 a work-based mode where learning takes place primarily in the workplace, supported by both the provider and the employer, for which the funding rate is closer to provider-based provision than current funding rates;
  - 6.4 a work-based pathway to work mode, where a learner studying in a provider-based setting is assisted by the provider to find a job with a training agreement, and supported to establish their learning in the workplace, which is incentivised by the funding rate;
  - 6.5 an assessment and verification mode, where an employer has created or purchased, and delivers, a programme of study, which the provider matches to the New Zealand Qualification Framework and monitors assessment, for which the funding rate is a flat rate that is lower than other modes;
- 7 agree that most learner component funding is calculated based on enrolments of learners with low prior educational achievement and disabled learners;
- 8 agree that a portion of the learner component will be calculated based on enrolments of Māori and Pacific learners, with rates that reflect current Equity Funding;
- 9 agree that a portion of the learner component is used to reward providers for meeting performance commitments;
- 10 s9(2)(f)(iv)
- 11 agree that that the strategic component be made up of two elements:
- 11.1 funding to respond to national and regional skills priorities, including funding for Te Pūkenga to support it to meet its charter obligations to build a sustainable national network; and

- 11.2 funding for programme development and maintenance in line with the objectives of the Reform of Vocational Education;
- 12 agree that the process for determining the national and regional skills priorities for the strategic component will involve both the Regional Skills Leadership Groups and Workforce Development Councils;
- 13 agree that the current provider-based eligibility rules will apply across the unified funding system;
- 14 agree that an eligibility exemption scheme is developed to allow some non-domestic learners to access specific training areas;
- 15 agree that current work-based eligibility for tuition subsidies be continued for those learners with a training agreement on 1 January 2023;
- 16 agree to delegate the setting of final funding rates for the unified funding system to the Minister of Education and the Minister of Finance;
- 17 agree to delegate to the Minister of Education approval of detailed policy decisions on the unified funding system, consistent with the approach outlined in this paper, including the finalisation of transition and eligibility exemption arrangements;
- 18 note that the Minister of Education intends to progress significant changes to the Tertiary Tuition and Training Multi-Category Appropriation in Vote Tertiary Education as part of a technical initiative in Budget 2022.

Authorised for lodgement

Hon Chris Hipkins

Minister for Education

## **Appendices**

Appendix 1 – Overview of the unified funding system (attached separately)