Education Report: Final decisions on unified funding system rates for 2023 for joint Ministers approval

To:	Hon Grant Robertson, Minister of Finance Hon Chris Hipkins, Minister of Education		
Date:	01 April 2022	**Priority:**	High
Security Level:	In Confidence	**METIS No:**	1280928
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Messaging seen by Communications team:	No	**Round Robin:**	Yes

Purpose of report

This report seeks final agreement to the unified funding system (UFS) rates for vocational education and training (VET) for 2023. We seek your feedback on this paper as soon as possible so that decisions on the rates can be made before the Budget moratorium starts on 11 April.

Summary

The Reform of Vocational Education (RoVE) represents a fundamental overhaul of the structure of New Zealand's VET system to build a strong, unified, sustainable VET system. The UFS is the final major component of RoVE that will be implemented from 2023 and will bring together the two separate funding systems for work-based training and provider-based study. It will incentivise providers to support learners to transition to work-based training, better meet the needs of employers and learners, and support strategic priorities.

In December 2021, Cabinet delegated decisions on setting the final funding rates for 2023 to the Minister of Education and the Minister of Finance [CAB-21-MIN-0525 refers] and noted that the rates would be set at fiscally neutral levels. Cabinet also agreed to the high-level design of the UFS, including the three core components of the UFS (the delivery component, the learner component, and the strategic component) and the broad parameters for how the UFS rates would be set.

The UFS has been designed specifically for the reformed VET system and to support the objectives of RoVE. Our focus in setting the UFS rates is to provide the right financial incentives for providers to influence their decisions and, ultimately, achieve the improvements the Government is seeking for the VET system.

We seek your agreement to implement the rates proposed in this paper for 2023. The proposed rates meet all the criteria agreed by Cabinet and are estimated to be fiscally neutral based on modelling. We are confident that they strike the right balance between meeting different costs of provision and incentivising change. These rates will result in a significant increase in funding for both work-based training and supporting learners when compared to the current dual funding system for VET.

At a subsector level, the rates proposed in this paper will have a range of impacts compared to the current system:

- **Te Pūkenga** will see an overall increase in funding of approximately 18 percent for VET provision, due to the significant increase in funding for work-based provision. Te Pūkenga is expected to take on approximately 85 percent of full-time equivalent learners from transitional industry training organisations (ITOs).

- **Private training establishments (PTEs)** will see an overall funding increase of approximately 6 percent for VET provision when including those PTEs taking on the arranging training functions of ITOs. However, the impact across the PTE sector will be highly variable, with volume-based funding for PTEs' existing provider-based study decreasing by an average of 15 percent. For some PTEs this will be made up through the strategic component. We expect that many PTEs will be well placed to quickly adapt to the new incentives of the UFS and focus on growing work-based delivery. To support this, the Minister of Education agreed for the Tertiary Education Commission (TEC) to put in place a two-year transition period for PTEs.

- **Wānanga** will see their funding based on volume largely retained at current levels due to the decision to maintain the current funding rate for te reo Māori and tikanga Māori provision. The wānanga will also benefit from access to the Programme Development and Maintenance Fund (PDMF) as part of the strategic component. Officials are currently undertaking a review of funding for te reo Māori and mātauranga Māori across all levels of tertiary education that may impact future funding rates, subject to future Budget decisions.

- **Universities** will see a decline in funding for VET provision through the UFS, however, this represents a very small share of their overall funding. We estimate this represents a 0.3 percent reduction to their overall volume-based funding.

It is important to note that our work to model the rates is based on 2021 volumes and does not attempt to predict behavioural shifts and resulting volume changes that could occur from 2023. There are existing TEC processes in place to manage any significant volume changes (including shifts in mode) within the baseline and to mitigate the associated risks. We will closely monitor how providers respond to the UFS and provide further advice on any necessary policy adjustments.

Following your decisions on the UFS rates for 2023, we will look to communicate the rates to the sector. The timing of the rates announcement will be confirmed by the Minister of Education. The TEC is developing a communications plan to provide clarity to the sector on what the UFS rates mean for them and to support business planning for 2023. Officials will also work with the Minister of Education's office on any ministerial announcement of the rates and press release.

Recommendations

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

a. **note** that in December 2021, Cabinet agreed to the high-level design of the unified funding system, including the delivery component, the learner component, and the strategic component, and the broad parameters on how the rates would be set [CAB-21-MIN-0525 refers]

b. **note** that Cabinet delegated decisions on setting the final funding rates for 2023 to the Minister of Education and the Minister of Finance [CAB-21-MIN-0525 refers]

c. **note** that we have modelled a version of the unified funding system rates that meet all the criteria agreed by Cabinet and are estimated to be fiscally neutral

d. **agree** to the following delivery component rates for the unified funding system in 2023:

	Mode of delivery / $ per full time equivalent learner (FTEL)				
Funding categories	**Provider-based**	**Extra-mural**	**Work-based**	**Pathway to work**	**A&V[1]**
Humanities, Business and Social Service Vocations (F1)	$5,425	$4,750	$5,155	$6,240	$1,500
Trades, Creative Arts, Information Technology and Health-related Professions (F2)	$8,626	$4,750	$7,075	$8,801	$1,500
Agriculture, Engineering, Health Sciences and Science (F3)	$9,711	$4,750	$7,726	$9,669	$1,500
Pilot Training and Priority Engineering (F4)	$11,881	$4,750	$9,028	$11,405	$1,500
Foreign-going Nautical and Specialist Agriculture (F5)	$16,275	$4,750	$11,665	$14,920	N/A
Te Reo and Tikanga Māori (F6)	$6,589	$6,589	$6,589	$6,589	N/A

Hon Robertson
Agree / Disagree

Hon Hipkins
Agree / Disagree

e. **agree** to the following rates for the learner component of the unified funding system for 2023:

Learner component	
Learner group	**Funding rates per FTEL**
Learners with low prior achievement	$1,200
Disabled learners	$1,200
Māori and Pacific learners in qualifications at level 7 of the New Zealand Qualifications Framework (NZQF)	$329
Māori and Pacific learners in qualifications from level 3 to 6 of NZQF	$137

Hon Robertson
Agree / Disagree

Hon Hipkins
Agree / Disagree

[1] Assessment and Verification.

f. **note** that officials have confidence that the proposed rates will provide the right financial incentives on tertiary education providers to influence their decisions and, ultimately, achieve the improvements the Government is seeking for the vocational education and training system

g. **note** that we are undertaking further work on allocation of the learner component for 2023, and will provide further advice to the Minister of Education on this ahead of indicative allocations

h. **note** that the volume-based rates provided above for your agreement do not include any cost adjustment for 2023 (as this is subject to separate Budget 2022 decisions)

i. **note** that the national and regional skill priorities element of the strategic component will be $37 million in 2023, divided 70/30 between Te Pūkenga and private training establishments (totalling $25.9m and $11.1m respectively)

j. **note** that the Programme Development and Maintenance Fund as part of the strategic component will be $37 million in 2023, divided 60/30/10 between Te Pūkenga, private training establishments and wānanga (totalling $22.2m; $11.1m; $3.7m respectively)

k. **note** that we request your feedback on this paper as soon as possible to enable all decisions on the unified funding system rates to be taken before the Budget moratorium on 11 April

l. **note** that the timing of the rates announcement will be confirmed by the Minister of Education

m. **agree** to proactively release this education report after announcements of the unified funding system rates, with any redactions in line with the provisions of the Official Information Act 1982.

Hon Robertson
Agree / Disagree

Hon Hipkins
Agree / Disagree

pp.

Katrina Sutich
Group Manager
Te Puna Kaupapahere
Ministry of Education

01/04/2022

Deirdre Marshall
Acting-Deputy Chief Executive – Delivery
Tertiary Education Commission

01/04/2022

Hon Grant Robertson
Minister of Finance

10/4/2022

Hon Chris Hipkins
Minister of Education

3/4/2022

Background

1. In December 2021, Cabinet agreed to delegate decisions on the 2023 funding rates for the unified funding system (UFS) for vocational education and training (VET) to you [CAB-21-MIN-0525 refers]. The UFS is the final major component of the Reform of Vocational Education (RoVE). **Annex 1** provides the sequence of key decisions to determine the UFS funding rates and the timing for this.

2. RoVE represents a fundamental overhaul of the structure of New Zealand's VET system. This reform includes the creation of Te Pūkenga (established on 1 April 2020), transferring the arranging training functions of industry training organisations (ITOs) to tertiary education providers, and forming six industry governed Workforce Development Councils (WDCs) and 15 Regional Skills Leadership Groups (RSLGs). These structural changes were made to build a strong, unified, sustainable VET system.

3. VET is currently split into two largely separate funding systems, governed by different funding policies:

    a. **the Industry Training Fund (ITF)** for work-based training, previously arranged by ITOs but this function is shifting to providers (around $185 million per annum); and

    b. **the Student Achievement Component (SAC)** funds provider-based learning (around $520 million per annum for VET).

4. This existing funding model is not fit for purpose because it creates barriers between provider-based and work-based training. This means work-based learners do not always get the appropriate level of support and training does not always align with the needs of industry. The system underserves all learners and does not support strategic priorities.

Key decisions have already been taken to support setting of 2023 UFS rates

5. In December 2021, Cabinet agreed to the high-level design of the UFS, including the broad parameters for how the UFS rates would be set and the following three core components of the UFS [CAB-21-MIN-0525 refers]:

The delivery component (approximately 85 percent of UFS funding)
This will fund providers based on learner volume, subject, and the way learning is delivered, that is, the mode of delivery (see **Annex 2** for more information about the modes of delivery).
The Cabinet paper specified that: • funding rates for provider-based provision in the delivery component would be set at between 80 and 85 percent of current SAC rates, so that funding is close to current levels when combined with funding from the learner and strategic components; and • funding rates for what is currently industry training would increase by between 40 and 90 percent to strengthen incentives on providers to deliver work-based learning. Cabinet also agreed that the funding rate for te reo Māori and tikanga Māori provision would be maintained at no less than the current rate, regardless of mode of delivery.

The learner component (approximately 7 percent of UFS funding)
This 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. Key learner groups are used as a proxy for determining the level of learner need (and therefore funding required) at a provider.
The Cabinet paper specified that the funding rates for learners with low prior achievement and disabled learners would be set between $1,100 and $1,300 per full-time equivalent learner (FTEL) to strongly incentivise providers to enrol and support these learners.

The strategic component (approximately 8 percent of UFS funding)
This will provide funding that is distinct from learner enrolments to progress strategic priorities.
The Cabinet paper specified that: • 50 percent of the component will respond to regional and national skills priorities identified by WDCs and RSLGs; and • 50 percent of the component will support programme development, including extramural programmes, where there is a high upfront development cost.

6. The Minister of Education has also made several key decisions to establish the parameters of the final UFS rates and settings for 2023. Together with decisions from Cabinet, this forms the basis of the proposed rates in this paper. **Annex 3** provides more detail and the rationale for these decisions.

The proposed unified funding system rates for 2023 support the Government's objectives for RoVE

7. The UFS has been designed specifically for the reformed VET system and to support the objectives of RoVE. Our focus in setting the UFS rates is to provide the right financial incentives on providers to influence their decisions and, ultimately, achieve the improvements the Government is seeking for the VET system. At the same time, it is important that funding rates reflect the different costs of provision across subjects and modes. We are confident that our proposed rates strike a good balance between meeting different costs of provision and incentivising change.

The delivery, learner and strategic components will work together to drive change

The delivery component will enable and encourage providers to grow work-integrated learning

8. We seek your agreement to the proposed delivery component rates in Table 1. These rates will incentivise providers to:

   a. **Support learners to transition to work-based training** – Based on modelling against 2021 enrolments, the average rate for what is currently industry training will increase by approximately 50 percent (from $4,900 per FTEL to $7,400 per FTEL). The significant increases to rates for work-based training and the 'pathway to work' mode will incentivise providers to better support learners to start or transition into work-based training. The outcomes for learners who can work and earn at the same time are often much better in terms of earning potential and social capital.

b. **Enhance support for employers** – The significant increase in funding for work-based training will provide greater support to meet the costs of this training and support higher quality provision that meets the needs of employers. This will also encourage more employers to participate in the VET system.

c. **Ensure a strong and sustainable regional network of provision** – Maintaining provider-based rates at a level that – alongside the learner and strategic components – is close to current funding will help to ensure that most providers can meet the needs of learners and employers by delivering high-quality, consistent VET across New Zealand.

Table 1: Final proposed UFS delivery component rates for 2023

	Mode of delivery / $ per full-time equivalent learner (FTEL)				
Funding categories	**Provider-based**	**Extra-mural**	**Work-based**	**Pathway to work**	**A&V[2]**
Humanities, Business and Social Service Vocations (F1)	$5,425	$4,750	$5,155	$6,240	$1,500
Trades, Creative Arts, Information Technology and Health-related Professions (F2)	$8,626	$4,750	$7,075	$8,801	$1,500
Agriculture[3], Engineering, Health Sciences and Science (F3)	$9,711	$4,750	$7,726	$9,669	$1,500
Pilot Training and Priority Engineering (F4)	$11,881	$4,750	$9,028	$11,405	$1,500
Foreign-going Nautical and Specialist Agriculture (F5)[4]	$16,275	$4,750	$11,655	$14,920	N/A
Te Reo and Tikanga Māori (F6)	$6,589	$6,589	$6,589	$6,589	N/A

The learner component will put learners at the centre of the system

9. We seek your agreement to the proposed learner component rates in Table 2. These rates are set at a level which creates strong incentives to support learners while maintaining an appropriate balance with delivery component rates.

10. This represents a significant increase in the amount of funding targeted to supporting learners (currently this is less than 1 percent of VET funding). This will increase and improve success and support for all learners and result in more support to providers with a greater number of learners that have traditionally been underserved by the system.

[2] Assessment and Verification.

[3] The previous version of the delivery component rates had specified 'Primary Industry Vocations' was included in F3. We have removed this and added 'Agriculture' to make the distinction between F3 and 'Trades' in F2 clearer following feedback from transitional ITOs on the subject category groupings.

[4] The previous version of the rates had named F5 as 'Specialist Low-volume, High-cost Vocations.' However, feedback from transitional ITOs and providers taking on arranging training functions indicated this was unclear and that there were many areas beyond those included in this category that could be classified as specialist low-volume, high-cost vocations. We have refined the name of this category to clarify what is included in F5.

Table 2: Final proposed learner component rates for 2023

Learner component	
Learner group	**Funding rates per FTEL**
Learners with low prior achievement	$1,200
Disabled learners	$1,200
Māori and Pacific learners in qualifications at level 7 of the New Zealand Qualifications Framework (NZQF)	$329
Māori and Pacific learners in qualifications from level 3 to 6 of the NZQF	$137

The strategic component will support providers to respond to key challenges in the system

11. The Minister of Education has agreed that the strategic component will be set at $74 million in 2023 [METIS 1280927 refers]. Table 3 sets out how the strategic component will be divided between subsectors. The rationale for these decisions is set out in **Annex 3**.

Table 3: Final agreed subsector splits for the strategic component

Strategic component				
Subsector	**For regional and national skills priorities**		**Programme Development and Maintenance Fund (PDMF)**	
	Share	Funding (millions)	Share	Funding (millions)
Te Pūkenga	70%	$25.9	60%	$22.2
Private Training Establishments (PTEs)	30%	$11.1	30%	$11.1
Wānanga	N/A[5]	N/A	10%	$3.7

Subsector impacts of the proposed rates

12. We have modelled how the UFS compares to current funding to understand how funding could shift across the VET system, including by subsectors. The subsector impacts are summarised in Table 4 below and the funding changes from the current system are shown in **Annex 4**.

13. Table 4 shows that more funding will be directed to work-based learning, creating stronger incentives for learner pathways into work and collaborative arrangements between providers and employers. While there will be a reduction in funding for provider-based enrolments through the delivery component of between 15 and 20 percent, the learner and strategic components mean that overall Te Pūkenga, the PTE sector and the wānanga experience on average an increase on 2021 funding (per FTEL).

14. Funding based on extramural enrolments reduces significantly for providers due to the lower fixed extramural rate that does not vary based on subject area. This will be partially

[5] 9(2)(f)(iv) [redacted]

balanced by the PDMF element of the strategic component which will provide up-front programme costs (see **Annex 3** for further information).

Table 4: Impacts of proposed rates within subsectors[6]

Subsector	Range of impacts[7]	Overall change in funding	Commentary
Te Pūkenga	-34% to +53%	+$95.2m (+17.6%)	The changes affect the whole Te Pūkenga network. The decreases are biggest where there is a focus on online provision (i.e., Open Polytechnic). There is a significant increase in funding (53 percent) for their work-based delivery, with approximately 85 percent of volume from transitional ITOs transferring to Te Pūkenga. Overall, the significant increase in funding for work-based provision will result in significant funding increases for Te Pūkenga, despite lower provider-based and extramural rates. This will provide strong incentives for Te Pūkenga to grow work-based learning.
PTEs	-57% to +72%	+$11.3m (+5.9%)	The PTE subsector will on average receive a 6 percent increase in funding for VET (including all components of the UFS and including those PTEs taking on the arranging training functions of ITOs). However, there are a range of impacts at individual PTEs. Volume-based funding for PTEs' existing provider-based study will decrease by an average of 15 percent. Some PTEs will be able to make this up through the strategic component. The proposed rates would mean that 46 out of 160 PTEs would lose more than $100,000 and eight would lose more than $500,000. This is based on 2021 enrolments, mixes of provision (subject areas) and modes. Many PTEs will be well placed to quickly adapt to the new incentives of the UFS and to grow work-based delivery. To support this, the Minister of Education has agreed for the TEC to put in place a two-year transition period for PTEs. The TEC's transition approach will limit funding reductions for priority and niche areas of provision at PTEs with significant funding reductions. There will be some PTEs that either do not qualify for transition funding support or that cannot adapt their business models around the new incentives of the UFS and shift more delivery to work-based provision. As a result, there will very likely be some PTEs that cease operations from 2023.[8] The TEC will work closely with the New Zealand Qualifications Authority (NZQA) to support continuity for learners that are impacted by PTE closures during the next few years.

[6] 9(2)(ba)(ii) [redacted]

[7] This is the lowest and highest percentage change in funding experienced by individual providers (or subsidiaries of Te Pūkenga) from the current funding system in 2021 to the UFS rates if they were implemented in 2021. It is only based on funding through the delivery component and learner components and does not include strategic component funding which cannot be apportioned to specific providers (or subsidiaries of Te Pūkenga).

[8] This is particularly the case for those PTEs most impacted the decline in international student enrolments due to the border closure and by the proposed changes to eligibility requirements for student visas and post-study work rights through the Ministry of Business, Innovation and Employment's (MBIE's) Immigration Rebalance.

Subsector	Range of impacts[7]	Overall change in funding	Commentary
Wānanga	-0.4% to +2.9%	+$4.0m (+4.2%)	Wānanga funding based on volume is largely retained at current levels due to the decision to maintain the funding rate for te reo Māori and tikanga Māori provision. Wānanga will also be well-placed to consider shifts into work-based delivery and respond to the incentives of the UFS. Officials are also currently undertaking a review of funding for te reo Māori and mātauranga Māori across all levels of tertiary education that may impact future funding rates, subject to future Budget decisions.
Universities	-30% to -5%	-$4.6m (-16.4%)	The impacts on universities are small as a share of their total revenue given that only 2 percent of their current funding for volume is from VET.[9] The UFS will result in a 0.3 percent reduction in their overall funding for volume. The effect is more significant for Lincoln University and Massey University, particularly due to changes in extramural rates, representing an estimated decrease of 1.7 and 1.1 percent respectively of their overall funding for volume.

Our modelling has been rigorous, but there are still risks to monitor and manage

15. We have rigorously modelled different scenarios for funding VET over the past year to support final decisions on the 2023 rates for the UFS. This modelling has allowed us to understand and test how different funding rates could shape the VET system. Our modelling can help us avoid significant negative consequences of funding changes; however, modelling can never be perfect – it is informed by several assumptions which mean there are risks to consider. See Table 5 below for two key modelling assumptions, and the associated risks and mitigations (and see **Annex 5** for a more detailed list).

Table 5: Key underlying assumptions for modelling and the risks associated with this

Assumption	Risks	Mitigations
The distribution of volume by mode and subject will be the same in 2023 as 2021 The UFS and RoVE represent a significant multi-year transformation of the VET system. It is not possible to predict the pace and scale of change and to factor this into decisions on the UFS rates, particularly given the uncertainty created by the impacts of COVID-19, the Apprenticeship Boost Initiative (ABI) and the end of the Targeted Training and Apprenticeship Fund (TTAF).	The model does not accurately reflect total 2023 volumes by mode of delivery or subject which means that the overall system cost in 2023 will vary.	There are existing TEC processes in place to manage any significant volume changes (including shifts in mode) within the baseline and to mitigate the associated risks, including: - Careful consideration of providers' Investment Plans and mixes of provision to approve shifts in provision before they occur (this will be supported by advice from WDCs); and - Managing volume purchased, which could be through in-year adjustments. Significant increases in volume would require additional funding through Budget if you wanted to fund this (see below regarding Budget 2022 initiatives).

[9] This excludes funding for research and private investment that universities receive, which totals nearly $1 billion annually.

Assumption	Risks	Mitigations
The current funding system is the best representation we have of costs. While benchmarking data helps us to understand the relative cost differences between areas of provision, ultimately the cost of delivery is derived from funding and other revenue sources. We have undertaken a significant amount of work with the sector to understand their cost structures, particularly transitional ITOs. We concluded that the best approach was to use the current funding system as the starting point to model changes and shift incentives on providers.	Funding rates underestimate the costs of delivery, meaning funding is insufficient to support some provider-based provision. This could result in more PTEs exiting the system without having time to adapt their business models to the new incentives. It also means there is a risk that the rates are too low to support niche areas of provision.	This can be mitigated through transition arrangements for PTEs, including providing PTEs with additional resourcing and time to adapt their business models to the new incentives. We will also closely monitor the adequacy of the UFS rates and consider any future changes in line with provider responses and advice from WDCs. Changes to rates are likely to be considered as part of a Budget process and take effect from the following calendar year.

Decisions on Budget 2022 funding for volume and rates changes

16. We have conducted sensitivity testing of the rates against the available funding and volumes in the 2023 baseline. This indicates that the proposed UFS rates for 2023 can fund almost the same volume (99.8%) within appropriated baseline funding as we could under the current funding system.

17. The model does not factor in estimated changes in volume through to 2023 and beyond on the basis that changes to volumes or shortfalls in baselines (such as the projected shortfall in the ITF baselines for 2023) will be treated as a volume issue. The current Budget bid *Funding higher demand for tertiary education and training* seeks funding for 2023 volumes and is costed based on an average of the proposed UFS funding rates.

18. The rates do not currently include any further cost adjustment for 2023, as that is still being considered as part of Budget 2022. Subject to Budget decisions, these rates will be revised up to factor in any cost adjustment.

Ongoing work in how we allocate the learner component

19. We are undertaking further work on how we allocate the learner component in 2023 and manage within the appropriation. The learner component builds on the intentions of current Equity Funding, which is allocated based on the most recent full-year data available (for example, 2021 allocations were calculated in 2020, based on 2019 enrolments). This is because accurately projecting or committing to learner volumes by demographic is difficult, particularly with disabled learners and learners with low prior achievement. Furthermore, this funding is intended to support *medium-term* capability and service delivery at providers.

20. The proposed UFS rates, including for the learner component, have been modelled to be fiscally neutral based on 2021 enrolment patterns. Appropriated funding for 2023 will be somewhat lower than the amount required to fund 2021 volumes (even after the Budget initiative outlined above), reflecting lower levels of projected enrolments. If the learner component is allocated based on actual 2021 volumes, we would exceed the amount available in this category of the multi-category appropriation. We are working on

approaches to allocate this funding in a way that manages within current baselines. The Minister of Education will receive advice prior to indicative allocations being confirmed.

Next steps

21. We seek your feedback on this advice as soon as possible to meet timelines to make decisions before the Budget moratorium starts on 11 April.[10] Following your decisions, we will communicate the rates to the sector. The timing of the rates announcement will be confirmed by the Minister of Education.

22. The TEC is developing a communications plan to provide clarity to the sector on what the rates mean for them and to support their planning for 2023. This will include new and updated web content, schedules of sector briefings and online events, proactive communications material to key providers and sector peak bodies. Officials will also work with the Minister of Education's office on any ministerial announcement of the rates and press release, given that communicating the UFS rates is a critical milestone for RoVE.

Annexes

Annex 1: Sequence of key UFS decisions

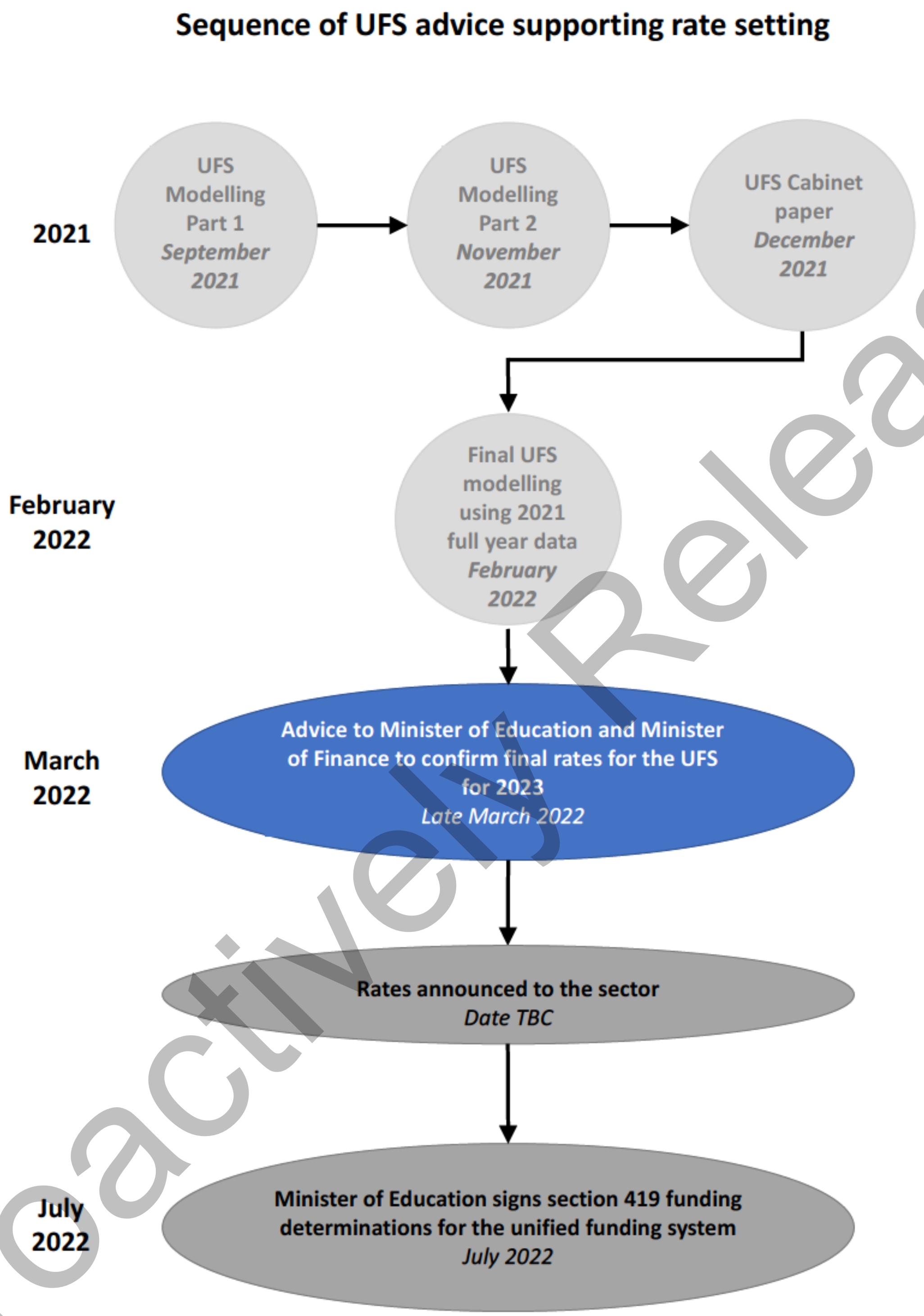
Annex 2: Definitions of unified funding system modes for the delivery component

Annex 3: Key decisions regarding unified funding system rates

Annex 4: Subsector impacts of recommended unified funding system rates

Annex 5: Assessment of key risks and mitigations for the unified funding system rates

[10] While a decision on the UFS rates is intended to be fiscally neutral, the decisions will have consequential impacts on appropriation splits which we recommend taking before the Budget moratorium process commences on 11 April.


Sequence of UFS advice supporting rate setting
2021
UFS Modelling Part 1 September 2021
UFS Modelling Part 2 November 2021
UFS Cabinet paper December 2021
February 2022
Final UFS modelling using 2021 full year data February 2022
March 2022
Advice to Minister of Education and Minister of Finance to confirm final rates for the UFS for 2023 Late March 2022
Rates announced to the sector Date TBC
July 2022
Minister of Education signs section 419 funding determinations for the unified funding system July 2022

Annex 2: Definitions of unified funding system modes for the delivery component[11]

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 larger upfront costs of programme development 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, this mode of delivery will 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.
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, the funding rate for the assessment and verification mode of delivery will be a flat rate that is substantially less than the other modes of delivery.

[11] These are the mode definitions from the UFS Cabinet paper [CAB-21-MIN-0525 refers]. The TEC is finalising operational definitions and will communicate these to the sector alongside the UFS rates.

Annex 3: Key decisions regarding unified funding system rates

Delivery component
Delivery component • Approximately 85 percent of funding in the unified funding system • Funding is volume-based, with rates differentiated by the subject and mode of delivery • Rebalances investment between provider- and work-based learning to better support learners in work • Incentivises providers to support learners to transition to work-based learning and build more work-integrated learning pathways

Decision	Rationale
Fund based on mode of delivery including...	• 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.
…setting provider-based provision at 80-85 percent of current SAC rates.	• Lower rates for provider-based provision strengthens incentives on providers to offer work-based learning. • When combining delivery component rates for provider-based provision with funding from the learner and strategic components, funding is closer to current levels. • Rates for provider-based provision will remain higher than work-based rates, to acknowledge the higher underlying costs structures (such as capital costs).
…creating a new extramural mode at a fixed rate of $4,500 across all subjects (40 to 70 percent of current rates).	• 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). • Cost differentials for extramural delivery are built into the programme development phase (see strategic component below), which is more appropriate for extramural delivery than subject differentials. • When combining the extramural rate with funding from the learner and strategic components, funding is closer to current levels.
… increasing work-based learning rates by 40-90 percent.	• Higher rates for work-based learning and bringing them closer to rates for provider-based learning strengthens incentives on providers to engage in work-based learning. • This will also enable a greater amount of support from the provider for work-based learners and their employers. • Within work-based learning, greater differentiation of rates by mode and subject will better reflects costs of delivery of different types of work-based provision and will incentivise providers towards higher-quality work-based provision.
… creating a new work-based pathway to work mode.	• This important new element of the VET system will meet the need identified by learners for providers to have an active role in supporting them to continue their learning in the workplace. • Higher rates for this mode will incentive providers to undertake this new activity.
… creating a new assessment and verification mode at a fixed rate across all subjects.	• A lower rate for this new mode reflects the minimal involvement of providers in instances where employers deliver their own training. • The fixed rate reflects that the costs to providers of assessment and verification do not substantially differ by subject.

Decision	Rationale
Fund based on subject groupings, including…	• 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 provider-based system.
… Establishing a new subject category for Pilot Training and Priority Engineering set at approximately 85 percent of the average SAC rates.	• This means the decrease in funding rates for provider-based Pilot Training and Priority Engineering will be in line with other provider-based funding rate decreases. • Without a separate subject category for Pilot Training and Priority Engineering, their funding rates would have decreased more than other provider-based rates (70 to 75 percent).
… Maintaining the funding rate for te reo Māori and tikanga Māori provision at no less than the current rate, regardless of 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. Officials are currently undertaking a review of funding for te reo Māori across tertiary education. Decisions about funding for te reo Māori and tikanga Māori will be made as part of that review.
Extending eligibility for funding for work-based provision to people in the workplace who are not employees, such as the self-employed, contractors and volunteers.	• This aligns with the current settings for provider-based training, resulting in the same rules across the UFS.
Removing eligibility for funding for work-based provision for individuals who are not citizens, residence class visa holders, or otherwise classified as domestic tertiary students, with exemptions to allow some non-domestic trainees and apprentices to be eligible for domestic funding rates.	• Removing eligibility for funding for non-domestic learners in work-based provision will align with the approach for provider-based learning, resulting in the same rules across the UFS. • WDCs would advise TEC to provide subsidies where (a) occupations are on the immigration 'green list' or are within the scope of a sector agreement, and (b) there is good supply of education and training for domestic students (or a plan to create this), and a timetable for moving away from a reliance on public subsidies.

Learner component

- Approximately 7 percent of funding in the unified funding system
- Large increase in funding to support learners
- 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
- Officials are working with the VET and disability sectors to develop advice about additional funding for disabled learners who require higher investments to meet their needs to support a bid for funding from Budget 2023.

Decision	Rationale
Set funding for learners with low prior achievement and disabled learners between $1,100 and $1,300	• This is a significant increase on existing funding targeted at supporting learners who are more likely to experience disadvantage in the VET system. • This rate will strongly incentivise providers to enrol and support learners with low prior achievement and disabled

Decision	Rationale
	learners (without being so high as to distort the incentive powers of delivery component rates). • These learner groups are 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.
Set funding for Māori and Pacific learners in line with 2021 Equity Funding rates ($137 per full-time equivalent learner at levels 3-6, $329 at level 7 non-degree)	• 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.

Strategic component

- Approximately 8 percent of funding in the unified funding system.
- Supports national and regional skills priorities identified by WDCs and RSLGs.
- Supporting Te Pūkenga to meet its charter obligations to sustain a national network of provision.
- Support programme development and maintenance aligned with the RoVE objectives.

Decision	Rationale
Create funding linked to national and regional skills priorities (half of strategic component funding), with: • 70 percent of funding for Te Pūkenga • 30 percent of funding for PTEs.	• 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. • 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. • 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.
Create a new Programme Development and Maintenance Fund (PDMF) divided proportionately to each sub-sector's share of overall UFS funding with: • 60 percent of funding for Te Pūkenga • 30 percent of funding for PTEs • 10 percent of funding for wānanga.	• The PDMF will support the development of new programmes and the review and maintenance of existing programmes, where appropriate. Programmes that are innovative, flexible, and responsive to new elements in the system will be prioritised, aligning with the RoVE objectives and the vision of WDCs. • It will meet the high upfront costs of programme development, including for extramural programmes. • In 2023 and 2024, a portion of the funding available for PTEs will also be allocated to support PTEs to transition to the new funding rates, with a focus on PTEs with a significant fall in funding and either priority or niche provision. • The basis for the percentage split of overall funding excludes te reo Māori and tikanga as the funding rates for this provision will be retained. A component of a Budget 2022 initiative will set up a high proficiency fund for te reo Māori which could provide targeted support for the development of advanced and immersion te reo Māori programmes.

Annex 4: Subsector impacts of recommended unified funding system rates

		Comparing proposed UFS rates to current 2021 funding under SAC & ITF			
		Current 2021 value of provision in SAC and ITF ($m)	*UFS funding based on 2021 value of provision & proposed rates ($m)*	*Difference ($m)*	*Difference %*
Te Pūkenga	*Te Pūkenga subsidiaries excluding work-based (incl. strategic component))*	$339.0	$327.2	-$11.8	-3.5%
	Transitional ITO provision[12]	9(2)(b)(ii) [redacted]	[redacted]	[redacted]	[redacted]
	Total (incl. strategic component)	9(2)(ba)(ii) [redacted]	[redacted]	[redacted]	[redacted]
Unassigned transitional ITO provision[13]		9(2)(b)(ii) [redacted]	[redacted]	[redacted]	[redacted]
PTEs (incl. strategic component and transitional ITO provision)[14]		9(2)(b)(ii) [redacted]	[redacted]	[redacted]	[redacted]
Wānanga (incl. PDMF)		$94.9	$98.8	$4.0	4.2%
Universities		$28.0	$23.4	-$4.6	-16.4%
Total		**$863.0**	**$970.7**	**$107.6**	**12.5%**

9(2)(b)(ii) [redacted]

Annex 5: Assessment of key risks and mitigations for the unified funding system rates

The table below sets out the detailed risks for the modelling:

Risk	Likelihood	Impacts	Discussion	Mitigations
The model does not accurately represent actual 2023 mode or subject splits.	Moderate	The overall system cost in 2023 will vary depending on the actual mode and subject split. Depending on the direction of change cost may go up or down. Shifts from provider-based to work-based mode or from F5 downwards mainly reduces overall cost. Shifts from work-based to provider-based mode or from F1 upwards mainly increases overall cost.	The model is based on data reported on modes for 2021 that was available at the time. The model also does not predict behaviour or shifts for 2023. Work on the TEC's operational definitions of modes is also still being finalised and so may have some impact on final reporting. TEC's work to map programmes at transitional ITOs to the UFS subject categories may result in some changes to subject grouping categorisations for programmes. There is a degree of uncertainty about how the broader changes described above will impact how demand will be spread across modes and subjects.	Careful consideration of providers' Investment Plans and mixes of provision to catch any shifts early. Managing any cost increases within baseline. Managing volume purchased. Significant shifts to more expensive modes or subjects may require additional funding through Budget if you wanted to fund them.
Rates are set at a level that result in large numbers of providers exiting the system without having time to adapt their business models to the new incentives.	Low	Learners are not appropriately supported to complete their study. Learner and employer choice are reduced. Competition is reduced. Some areas of provision may be lost at local, regional or national levels.	Some providers will see sharp decreases in their overall funding. This can be mitigated by changes to their business models but this will need time to occur. While we expect some providers to exit (and new providers to enter) the system, this needs to be carefully managed. If too many providers exit the system at the same time, continuity for learners is impacted.	Careful consideration of sector and provider level impacts of rate setting. Clear transitional arrangements. Careful consideration of the network of provision.

Rates are too low to support niche provision areas.	Moderate	Learner and employer choice is reduced. Appropriate skills are not available for some employers.	Some areas of provision are offered by only one provider or one provider in a region.	Careful consideration of providers' Investment Plans and mixes of provision to catch any shifts early. Careful consideration of the network of provision. Additional support where required from the strategic component or from rate adjustments (for example moving a subject area up a rate).