MINISTRY OF EDUCATION
TE TĀHUHU O TE MĀTAURANGA

Tertiary Education Commission
Te Amorangi Mātauranga Matua

Education Report: Further advice on the unified funding system

To:	Hon Chris Hipkins, Minister of Education		
Date:	7 December 2021	**Priority:**	High
Security Level:	In Confidence	**METIS No:**	1276773
Drafter:	Miriam Gibson	**DDI:**	04 4637688
Key Contact:	Katrina Sutich	**DDI:**	04 463 7638 9(2)(a) [redacted]
Messaging seen by Communications team:	No	**Round Robin:**	No

Purpose of report

This paper seeks your agreement to the design of the mechanism for allocating the Programme Development and Maintenance Fund, the applications-based exemptions regime for non-domestic apprentices and trainees, and the transition arrangements for private training establishments (PTEs).

Summary

Programme Development and Maintenance Fund (PDMF)

You recently agreed to the establishment of a Programme Development and Maintenance Fund (PDMF) within the Strategic Component of the unified funding system (UFS), [METIS 1275119 refers]. This paper outlines our proposed process for allocating this funding to Te Pūkenga, wānanga and PTEs.

Modes of delivery are rapidly becoming more fluid and less distinct. To facilitate a system shift towards the intended outcomes of RoVE, we propose allocating a portion of the PDMF specifically for provider-based extramural programmes, with the remainder being available for programmes in other modes.

We propose that funding be allocated to Te Pūkenga from 2023, as part of Tertiary Education Commission's (TEC) investment process, based on negotiated plans aligned to the priorities identified by Workforce Development Councils (WDCs). This investment will support Te Pūkenga as they consolidate their programmes and develop new models of work-based learning.

The PDMF funding will be available to support wānanga who are developing work-based learning programmes. We will work with wānanga to agree the mechanism for allocating the PDMF.

We propose funding for PTEs be allocated using a contestable process. PTEs will need to submit an application that provides evidence of WDC support and considers the RSLGs' Regional Skills Plans.

To enable PTEs to assess the impact of the UFS on their business models, and to ensure Workforce Development Plans are in place and able to inform the application process, we propose a staged implementation of a contestable funding process, starting in 2023.

Approving public tuition subsidies for non-domestic trainees and apprentices

We also propose a process for approving public tuition subsidies for non-domestic trainees and apprentices. 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.

If you agree with these proposals, we will do further work with the Ministry of Business, Innovation and Employment (MBIE) and WDCs to develop the process details.

Managing the transition to UFS for PTEs

Modelling shows that the impact of the UFS is more acute and widely distributed for PTEs than for TEIs. While PTEs are very agile in adapting to changes in funding, these are large shifts, and rates are not being announced until April 2022. This means PTEs will have a very short time to adapt, and many will not know their total funding until the Strategic Component is allocated.

We therefore propose that a transitional period, of no more than two years, be provided for PTEs. The general principle of this transition should be to move each PTE fully into UFS funding as early as possible, but to allow time to adapt that also takes account of the performance of the PTE. We recommend the transition approach is funded out of the PTE Strategic Component. TEC will develop a detailed approach to this. We will report back to you on the cost and approach for transition alongside rate finalisation in April 2022.

Recommendations

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

a. **Agree** to allocate programme development and maintenance funding to Te Pūkenga from 2023, for programme development and maintenance across their networks, aligned to priorities outlined by the WDCs, and considering the RSLG's Regional Skill Plans.

Agree **Disagree**

b. **Agree** to allocate programme development and maintenance funding to wānanga interested in delivering work-based learning from 2023, using a mechanism co-designed with wānanga.

Agree / **Disagree**

c. **Agree** to allocate programme development and maintenance funding to PTEs from 2023, via a contestable process, based on submission of an application aligned to the priorities outlined by WDCs' Workforce Development Plans, and considering the RSLG's Regional Skill Plans.

Agree **Disagree**

d. **Agree** that WDCs will advise TEC about public tuition subsidies for non-domestic trainees and apprentices, based on an immigration test and a skills strategy test.

Agree Disagree

e. **Agree** that the applications-based regime, together with grandparenting arrangements, provides sufficient transition arrangements for the removal of tuition subsidies for non-domestic apprentices and trainees.

Agree Disagree

f. **Agree** to a transition period of no more than two-years for PTEs, that aims to move each PTE fully into UFS funding as early as possible, but allows time for adaption to the new incentives and minimises disruption for learners and employers.

Agree / Disagree

g. **Agree** that the transition approach be funded using the PTE Strategic Component.

Agree / Disagree

h. **Agree** that the TEC will develop a detailed transition approach and report back in April 2022 on this.

Agree / Disagree

i. **Agree** to forward this paper to your associate Ministers of Education.

Agree / Disagree

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

Agree Disagree

Katrina Sutich
Group Manager
Te Puna Kaupapahere
Ministry of Education

6 / 12 / 2021

Gillian Dudgeon
Deputy Chief Executive - Delivery
Tertiary Education Commission

6 / 12 / 2021

Hon Chris Hipkins
Minister of Education

5 / 1 / 2022

I'm a little nervous around (c) that an overly bureaucratic process could undermine the intention of the fund, which in large part is about innovation and future-thinking.

I have similar concerns about paras 10-13. The 'strategic' component can't be overly controlled from the centre or it runs the risk of not ending up being that strategic.

Background

1. You recently agreed to establish a Programme Development and Maintenance Fund (PDMF) within the Strategic Component of the unified funding system (UFS) [METIS 1275119 refers]. Te Pūkenga, wānanga and Private Training Establishments (PTEs) will be eligible for this funding.

2. The PDMF recognises the high up-front costs associated with programme and resource development, particularly for extramural programmes.

3. The PDMF makes up 50% of the Strategic Component. The remaining 50% will respond to regional and national skills priorities identified by Workforce Development Councils (WDCs) and Regional Skills Leadership Groups (RSLGs), taking into consideration the interests of Māori. It will also support Te Pūkenga to meet its charter obligations, including building a sustainable national network of provision.

4. Public funding is to be removed for non-domestic trainees and apprentices (i.e., those who do not have residency or citizenship). You have asked us to develop an exemption arrangement, based on applications from industry [METIS 1275119 refers].

5. You have lodged a Cabinet paper on the design of the unified funding system for consideration by the Cabinet Social Wellbeing Committee on Wednesday 8 December.

The Programme Development and Maintenance Fund

The PDMF will take a broad approach to programme development and maintenance costs

6. The PDMF will support the development of new programmes and the review and maintenance of existing programmes, where appropriate. This flexible approach will ensure we can continue to fully allocate the PDMF as Te Pūkenga's programme consolidation progresses. We may also need to consider if ongoing support is needed to maintain essential and relevant niche provision aligned with Tertiary Education Strategy priorities and labour market needs.

7. Programmes typically contain a high-level outline of each component of learning, including the level, credits, learning outcomes and assessment methodology. They do not include detailed information about how the teaching and learning will be delivered (lesson plans) or the resources that will be used.

8. To make sure we are supporting high quality provision that meets the needs of industry and learners, we propose initially taking a flexible approach to the scope of programme related activities funded by the PDMF, including funding learning and resource design where appropriate.

9. Over time, and as our understanding of programme development and maintenance costs grow, we will be able to become more structured about the activities that should be funded and their relative cost.

Supporting provider-based extramural provision

10. Currently, the definition of the provider-based extramural mode includes learners who study mainly away from a campus setting but not in a workplace. We will work to refine the scope of the extramural mode for 2024, to focus on online only delivery, where economies of scale are most likely to be realised.

11. In allocating the PDMF, TEC will need to ensure that a suitable proportion of funding is allocated to programmes (or courses within programmes) that are purely extramural, in recognition of the different cost structures of these programmes and hence the lower per-learner funding rates. In doing so, they should have regard to the total investment in extramural provision, especially in the first few years of the UFS as the new funding system beds in.

12. Modes of delivery are rapidly becoming more fluid and less distinct. To facilitate a system shift towards the intended outcomes of RoVE, we propose that funding should also be allocated to programmes that are not exclusively extramural. Programmes and resources that support innovative, flexible delivery, and those that respond to new elements in the system such as skill standards and national curricula, should be prioritised for funding.

13. WDCs are critical to ensuring that any programme development supports the intended outcomes of RoVE and aligns to their vision for the VET system. We will work with WDCs to agree an efficient process for ensuring that only programmes that align to their workforce development planning are funded.

Allocating PDMF funding to Te Pūkenga

14. The PDMF will be allocated as part of TEC's investment process, based on a negotiated plan, setting out milestones for delivery and payment.

15. Te Pūkenga's plan will build on work they are doing to consolidate programmes. The focus should be on extramural provision, but with an interest in all programmes, such as the work to develop new models of work-based learning.

16. The plan should be developed in consultation with WDCs and align with the priorities set out in their Workforce Development Plans, once these are available. Consideration should also be given to the RSLG's Regional Skills Plans.

Allocating PDMF funding to wānanga

17. We will work with wānanga who are interested in delivering work-based learning to co-design the mechanism for allocating the PDMF. Our initial thinking is that this will be based on a negotiated approach, similar to that taken with Te Pūkenga.

18. 9(2)(f)(iv) [redacted]

Allocating PDMF funding to PTEs

19. Funding for PTEs will be allocated using a similar contestable process as the one proposed for the allocation of the regional and national skills priorities element of the Strategic Component [METIS 1466423 refers].

20. PTEs will be invited to submit applications for the development and maintenance of programmes, demonstrating how their proposal aligns with the priorities identified by the WDCs and RSLGs. In addition, PTEs will need to show that they have carried out initial engagement with the relevant industries and WDCs, and that any proposed new programme has the support of industry and demonstrated demand from learners.

21. PTEs may apply for funding that covers the life of the programme's development, recognising that sometimes a long lead in time is needed. Payments will be tied to milestones identified in the application and through negotiation.

22. We suggest that PTEs should also be able to work in partnerships with other PTEs and organisations and submit joint applications.

23. We propose a staged implementation of the contestable process from 2023 to give PTEs time to understand the impact of the wider funding changes on their business models, and make decisions about how to respond, prior to submitting their investment plans and funding applications. This would mean only a portion of the PDMF would be allocated for 2023, with the remainder used for transitional support, as discussed from paragraph 36 below.

24. Staged implementation will also provide time for WDCs to develop their Workforce Development Plans which will inform PDMF applications. This is particularly important for PTEs, for whom the Strategic Component may comprise a larger proportion of their overall funding, and who will need to know if they are receiving Strategic Component funding before submitting their investment plans.

Public tuition subsidies for non-domestic trainees and apprentices

Applications-based exemption regime

25. We propose that WDCs be responsible for advising TEC about where non-domestic apprentices and trainees should receive public tuition subsidies for a qualification or group of qualifications.

26. Broadly, tuition subsidies should be granted where there is a national interest in ensuring skills supply to the industry and the industry has, or is working towards, a high-quality labour market with good skills development.

27. The process and criteria for achieving this could be as follows:

    a) Immigration test: To be considered for funding, the occupation must be included on the new ‘green list’ or be within scope of a sector agreement. This assesses labour market need and national interest.

    b) Skills strategy: For those occupations that meet the immigration test, WDCs may choose to advise TEC about an exemption. Their advice would need to include:

        i. The occupations to be supported, and the qualifications related to those occupations.
        ii. Supporting evidence from their Workforce Development Plans about the skills supply for domestic students – and in particular, if it is weak (e.g., with low training rates), what the plan is to improve it.
        iii. A timetable to move away from a reliance on public subsidies for training non-domestic apprentices and trainees.

    c) Assessment: TEC would assess the proposals and negotiate the coverage and duration of tuition subsidies.

28. It will be important that this process connects easily across MBIE, WDCs and TEC. TEC will work with these organisations as it operationalises the policy.

29. We will need to work through the implementation of this with WDCs, including the implementation timetable. It may be that we need an interim arrangement for 2023, with a pared back process using the immigration test and WDC advice about the match between occupations and qualifications.

30. The cost of this is not yet certain. In 2020 there were 22,500 non-domestic trainees and apprentices, accounting for 6,700 Standard Training Measures (STMs). We will continue to work with immigration as the Immigration Rebalance work proceeds, to sharpen our estimates of the number of trainees to be funded. This will allow us to include estimates in modelling work in April 2022, which will include many other refinements and the effects of full-year data for 2021.

31. However, we note that the Immigration test may prove to be quite restrictive, depending on the scope of sector agreements. The largest numbers of non-domestic apprentices and trainees are in three sectors:

    a) Construction: 4,650 learners (21% of all non-domestic learners) – the draft Immigration Rebalance cabinet paper says there is potential for a sector agreement.
    b) Primary industries: 4,075 learners (18%) – potential sector agreement for the meat sector specifically.
    c) Healthcare: 3,715 (17%) – potential sector agreement for aged care.

32. If, after further work, you wish to extend eligibility further, we can provide options for nominating sectors that could apply without passing the immigration test.

Transition arrangements for changes to public tuition subsidies for non-domestic learners

33. The proposed process includes a transition arrangement within it, since WDCs must set out a timetable to move away from a reliance on public tuition subsidies for those occupations that meet the immigration test.

34. In addition, grandparenting arrangements for non-domestic apprentices and trainees receiving public funding under the Industry Training Fund will mean around 40% of non-domestic apprentices and trainees who were enrolled in 2022 will continue to be funded in 2023 and until the end of their training. These two arrangements together cover most non-domestic trainees and apprentices.

35. If you wish to go further and provide for a transition arrangement for all industries, WDCs could set out proposals for each industry as part of Workforce Development Plans. However, this would add to WDCs' workload, and in any event, there will be a decrease in the number of non-domestic employees to be trained in the industries that do not meet the immigration test.

UFS transition arrangements for PTEs

36. In response to earlier advice, you agreed to implement the UFS fully for Tertiary Education Institutions (TEIs) in 2023 [METIS 1276629 refers]. This section provides further advice, as promised, on the transition for PTEs.

37. The impacts on PTEs are more widely distributed than for TEIs. The exact effects will depend on your decision on the options presented in *Updated UFS Modelling* [METIS 1276629 refers]. We set out in the table below the implications for PTEs of option 2. Under this option, some PTEs experience funding decreases of over 50%. This is an overall decrease of funding of around $22 million, equivalent to the Strategic Component for PTEs which is not yet allocated to individual providers. This is because the distribution of these funds is not based on volume, but rather subject to contestable processes.

Table 1: Pattern of change for PTEs

Change in funding	Number of PTEs	Total change
		$ million
Reduction of 50% +	6	-0.8
Reduction of 40% +	2	-2.6
Reduction of 30% +	4	-1.6
Reduction of 20% +	19	-4.3
Reduction of 11% to 20%	38	-9.2
Reduction of 6% to 10%	43	-3.6
Reduction of 0% to 5%	28	-1.1
Increase of 0% to 7%	12	0.1
Total	**152**	**-21.9**[1]

38. The largest decreases are due to the lowered extramural funding rate, but the rebalancing of provider-based and work-based rates impacts most PTEs.

39. It is unclear how PTEs will respond to the change in funding rates, and it may take time for them to work through the effects on their business model including any adaptations to respond to the new incentives, particularly for work-based learning. This may also result in PTEs choosing to exit the system. Some of this consolidation may be helpful, improving the quality and coherence of provision. However, both these shifts will need to be managed to limit disruption for learners and employers.

40. PTEs are agile in adapting to changing funding. However, these are large shifts and rates are not being announced until April 2022. This means PTEs will have a short time to adapt before being required to commit to the volume of their delivery for 2023. Furthermore, many will not know their total funding until the Strategic Component is allocated. This creates a risk that valuable delivery may be lost from the system alongside the disruption intended by the incentives. If large numbers of PTEs exit the system at the same time this could create considerable disruption for learners and employers.

We recommend a two-year transition period funded out of existing UFS funding

41. We propose that a transitional period be provided for PTEs, of no more than two years. The general principle should be to move each PTE fully into UFS funding as early as possible, but to allow time to adapt that also takes account of the performance of the PTE (i.e., TEC's usual investment decisions would still have effect).

42. One option is to limit the level of funding decreases, taking into account any reductions due to performance matters. For example, any funding decrease could be restricted to 5% in 2023, and 10% in 2024, relative to what TEC would have allocated under previous funding settings. However, the TEC is considering whether a more bespoke arrangement could be operated, taking into account each PTE's role and performance, and any implications for learners.

43. The approach chosen will change the cost of transition. For example, transition support could be restricted to two thirds of the Strategic Component in 2023, and one third in 2024.

[1] Numbers do not total correctly due to rounding

This would cost around $14 million and $7 million respectively, based on current modelling. This could be considered to be an upper limit on the cost of PTE transitions.

44. We recommend the approach to transition is funded out of the PTE Strategic Component. This would allow time to develop our approach for the PTE Strategic Component. We will further test these figures and report back to you with final costs in April 2022.

45. TEC is working to develop a transition approach that takes into account promoting UFS incentives, managing disruption for learners and employers, maintaining the network of provision, certainty for providers and minimising additional compliance on the sector and agencies. TEC will provide you with advice on this approach alongside the advice on rate finalisation we will provide you in March 2022.

Operational impacts

46. The PDMF and advice on public tuition subsidies for non-domestic learners both require additional support from WDCs. The proposals above include time to talk over these activities with WDCs. Following your and Cabinet's approval, we will work through the operational detail with WDCs. They may consider that additional funding is required to support this work.

Next steps

47. Subject to your agreement to the proposals outlined in this paper, we will carry out further work as part of the overall design and implementation of the UFS, including new funding determinations and finalising funding rates.