

## Education Report: Further advice on the strategic component and our approach to seeking your decisions on the Unified Funding System

<b>To:</b>	Hon Chris Hipkins, Minister of Education		
<b>Date:</b>	26 July 2021	<b>Priority:</b>	High
<b>Security Level:</b>	In Confidence	<b>METIS No:</b>	1266423
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<b>Messaging seen by Communications team:</b>	No	<b>Round Robin:</b>	No

### Purpose of Report

This report seeks your agreement to the proposed funding elements of the strategic component of the Unified Funding System (UFS). It also provides you with an update on the upcoming major milestones of the UFS over the coming few months and our approach to seeking your advice on how the components fit together.

### Recommended Actions

The Ministry of Education and the TEC recommend you:

- a. **note** that we will seek a number of decisions or “in principle” decisions subject to modelling from you through a series of Education Reports over the next two months, which will enable us to refine our modelling to meet the milestones for a paper to Cabinet in November
- b. **agree** that the strategic component will be made up of two elements:
  - i. a flexible funding element which responds to national and regional skills priorities
  - ii. a Te Pūkenga specific funding element to support its charter obligations to build a sustainable national network

~~Agree / Disagree~~

- c. **agree** through a section 419 funding determination to direct the TEC Board to set national and regional skills priorities for the flexible funding element, based on the advice provided by WDCs and RSLGs

~~Agree / Disagree~~

- d. **note** that providers outside of Te Pūkenga who are currently meeting regional needs could be supported through the transitions approach

~~Agree / Disagree~~

- e. **indicate** if you would like to discuss any of the design decisions for the strategic component with officials

Yes /  No

- f. **note** that the Ministry of Education intends to proactively release this education report once final decisions on the UFS for vocational education have been taken by Cabinet.



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

26/07/2021



**Gillian Dudgeon**  
Deputy Chief Executive – Delivery  
Tertiary Education Commission

26/07/2021



**Hon Chris Hipkins**  
Minister of Education

7 / 8 / 2021

I would prefer 3 strategic funds:

1. a dedicated strategic fund for Te Pukenga
2. a contestable fund for other providers (not Te Pukenga or Wananga)
3. a strategic fund for wananga

I don't think small providers should have to compete with Te Pukenga, and I also don't think our ability to hold Te Pukenga to account for fulfilling its goals and priorities should be compromised by the uncertainty of contestable funding.

## Supporting your decision-making on the unified funding system

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- 1 At the regular agencies' meeting on 31 May you indicated that you would like advice on the whole of the UFS, including modelling, to understand how the parts fit together. We are working to prepare this advice, but there are also a number of foundational decisions that we need a steer from you on in order to develop our modelling. This section sets out a proposal for how we work with you on the UFS over the coming few months.
- 2 The upcoming major milestones for developing the UFS are as follows:
  - a. September: Enrolment data though to end of August data returns is available, allowing us to refine our model and develop preliminary whole-of-UFS advice for you.
  - b. October/November: We support you to take a paper to Cabinet seeking agreement to the policy design of the UFS, to allow sector certainty and to inform Investment Plan guidance to the tertiary sector.
  - c. March 2022: We refine our modelling based on full-year 2021 enrolment data and seek your decision on final funding rates and transition approaches.
- 3 To achieve the September and November milestones, we will put a series of Education Reports to you on the three components before September. We have attached a diagram to illustrate the sequencing of future advice to you (**Annex One**).
- 4 We propose to seek decisions from you through these reports on a number of design aspects of the components. Your decisions on these reports will give us the steer we need to develop our model, particularly to narrow the range of variables so that there are a manageable number of permutations to model.
- 5 We propose some decisions be "in principle" before you have considered our whole-of-UFS advice and modelling in September, at which point we will ask you to confirm your decision if our modelling supports it. Or, if the results of the modelling seem to support a different decision, we will provide you with further detailed advice.
- 6 We do not recommend delaying decisions on the design aspects of the individual components until we have preliminary whole-of-UFS modelling available in September, on the basis that:
  - a. our modelling would be less refined as there would be a greater number of permutations to consider.
  - b. we would have to provide you with a significant amount of advice in a very short time period to be able to take a paper to Cabinet in November, and we may not be able to get through the content with you in such a concentrated period of time.
  - c. the TEC would have reduced certainty about what it is designing and this would result in ambiguity for the sector around these funding changes.

### Strategic Component

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- 7 In July 2020, you agreed the overall scope of the strategic component with two funding approaches which we have further explored and detailed, including with the sector as set out below [METIS 1235409 refers].

## **Flexible Funding Element**

- 8 You agreed that a portion of the strategic component will be allocated to support proposals for innovative initiatives, including trialling new approaches to provision or other activities that respond to national and regional skills priorities [METIS 1235409 refers].
- 9 The current Student Achievement Component funding system rewards the delivery of existing provision with known enrolments and does not incentivise or support trialling new approaches. The flexible funding 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.
- 10 The TEC would manage a contestable fund process which will allow funding to be allocated to TEOs for fixed term projects that respond to national and regional skills priorities. You asked for advice on the role of WDCs and RSLGs in the process.

### *Setting the skills priorities for the fund*

- 11 The TEC proposes to work with WDCs and RSLGs to inform setting national and regional skills priorities for the fund. We propose that you would specify a high-level process in a funding determination issued under section 419 of the Education and Training Act, that requires the TEC Board to set priorities based on advice from WDCs and RSLGs.
- 12 In the initial years of implementation of the UFS we propose that priorities will be informed through a range of mechanisms, including Workforce Development Plans from WDCs and Regional Workforce Plans from RSLGs, as well as advice the TEC receives from WDCs and RSLGs through direct engagement.
- 13 Depending on the level of funding available and feedback from these entities, the TEC may initially focus on a small number of priorities, especially as the UFS, WDCs and RSLGs, while established, will still be developing. Over time we would expect these priorities to change, as they are informed by evolving workforce plans.
- 14 We expect that during this period the WDCs and RSLGs will need a greater level of facilitation and support from the TEC to help inform and support development of these priorities. However, as their organisational capability matures, we anticipate that the role of WDCs and RSLGs could be scaled up to ensure that targeted and emerging priorities are captured in the TEC Board's priority setting. This is to ensure that the priorities can be responsive to evolving skills needs for industries and regions.
- 15 The TEC may also consider involving other entities to inform these priorities, such as iwi. Consideration of priorities within the strategic component will also need to align to broader system priorities as outlined in the Tertiary Education Strategy and the outcomes sought from ROVE.
- 16 We also considered the option of national and regional skills priorities being directly set by you in the funding determination. We do not recommend this approach as it would introduce an undesirable level of detail and prescription into the funding determination and reduce the ability of the TEC, WDCs and RSLGs to respond to emerging skills priorities because of the time required to amend a ministerial direction.

### *Design of the decision-making process*

- 17 As part of the operational process design, the TEC will consider how to bring in WDCs and RSLGs or other relevant expert input and advice into the decision-making process. The TEC, in developing this design process, will aim to minimise administrative bureaucracy for relevant parties and will inform you of its approach to how this will be achieved.

*The Flexible funding element will complement CoVEs*

- 18 At this stage, Centres of Vocational Excellence (CoVEs) are funded separately and are expected to continue as we implement the UFS from 2023. As we implement this fund, we will ensure, where appropriate, that the priorities and the application process complement funding provided to the CoVEs.

**Funding specific to Te Pūkenga to address national network of vocational education**

- 19 In July 2020, you agreed that we test with the sector the idea that the strategic component will also support Te Pūkenga to meet its charter obligations to create a sustainable national network of vocational education and ensure access to learners in all parts of New Zealand [METIS 1235409 refers].
- 20 We propose that the second portion of the strategic funding component be dedicated specifically to Te Pūkenga to support its charter obligations. s9(2)(f)(iv) to support the role, function and unique contributions of wānanga in the sector.
- 21 Once we have developed the modelling for the UFS, we will provide further advice on how the quantum of funding available for each element will be determined.
- 22 This fund would also give Te Pūkenga some further funding predictability and therefore allow it to develop flexibility within its network to respond to changing demands over a longer time span. Te Pūkenga should be able to adapt to longer-term shifts in skills demand in the regions with this funding certainty.

*Sector concerns with this approach for meeting regional needs*

- 23 When testing this proposal with the sector we heard concerns from the sector that Te Pūkenga would not have the capacity and capability to build the regional skills provision network, particularly in the short term.
- 24 In our view, some of these concerns may be valid where providers outside of Te Pūkenga who are currently meeting a regional need may be unable to continue provision where volume is not enough to drive sustainability in the new system. This is something we will know more about following modelling.
- 25 While we considered allowing this funding to be allocated to other providers to support the national network of provision, the additional complexity that would be added for small amounts of funding would increase compliance unnecessarily. Instead we think these concerns will be better addressed through the transition approach to support these providers to adapt their business models to the new funding system. This approach will help ensure learners continue to access regional provision, while Te Pūkenga builds its network.

*Operationalising the fund*

- 26 We propose that the TEC will use the existing Investment Plan framework for investment, reporting and monitoring to support Te Pūkenga to meet its regional network of provision charter obligations as a means to administer the fund.
- 27 When refining this approach, we will need to consider the different expectations we may have on Te Pūkenga in the short-term (as it builds its network of provision across the country) and the long-term (as it moves to sustain the network). In the early years of the UFS, the TEC may undertake a more active engagement approach to support Te Pūkenga in building an enduring network of provision for the UFS.

- 28 The TEC will work closely with Te Pūkenga to define and clarify the “network of provision” and how Te Pūkenga will build this up over time. This may also be informed by RSLGs and WDCs, predominately through the Regional Workforce Plans and Workforce Development Plans, and direct engagement as required.

### The interaction between the strategic component and discretionary funding

- 29 You were advised by officials in June [METIS 1260163 refers] that there is a cross over between this proposal and the proposed additional discretionary funding for the TEC.
- 30 The flexible funding element within the strategic component aligns with some of the focus of the discretionary funding proposal. Meeting national and regional skills priorities is consistent with supporting the Government’s strategic goals, which is the aim of the discretionary funding proposal. There are also some overlaps with the objectives of the learner success component. We will provide you with further advice on these interactions as part of our coming advice on the learner success component.
- 31 Officials will also provide advice on whether discretionary funding would be useful in the vocational education space from 2023 as part of further advice on the discretionary funding proposal.

### Next Steps

- 32 Your decisions in this paper will be reflected in the modelling we will undertake later this year of the UFS. This modelling will inform advice to Cabinet on the design of the UFS in November, including the recommended percentage split of funding between components.

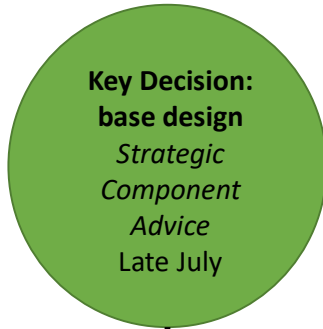
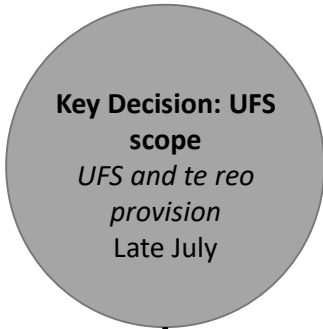
### Annexes

- 33 Annex One: Diagram of sequencing of future advice to you on the UFS.

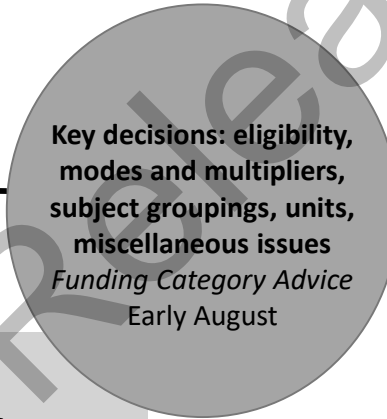
# Sequence of key UFS decisions

We need decisions before modelling on the key parameters of the UFS design, to lessen the number of permutations in the modelling.  
There will be other pieces of advice adjacent to the UFS that will also require decisions from you.

July

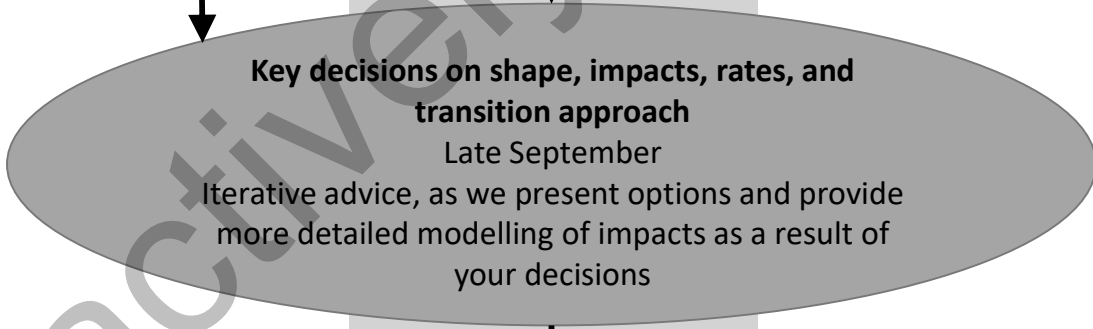


August



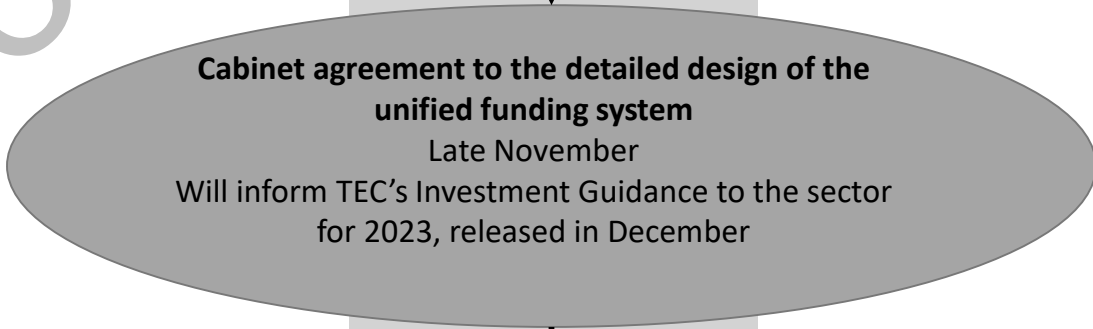
September

**Modelling**



October

November



March 2022

