

Education Report: Further decisions on the unified funding system funding category component

To:	Hon Chris Hipkins, Minister of Education		
Date:	16 July 2020	Priority:	High
Security Level:	In Confidence	METIS No:	1233742
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Messaging seen by Communications team:	No	Round robin:	No

Purpose

The attached annotated agenda seek your feedback on the proposed approach and next steps for the funding category component of the unified funding system.

Recommended actions

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

- a. **note** that officials wish to discuss the proposed approach and next steps for the funding category component of the unified funding system as set out in the attached annotated agenda at the agency meeting on the 20th of July
- b. **forward** this briefing and attachments to any additional ministers you may wish to inform
- c. **proactively release** this Education Report and attachments after further decisions have been taken

Noted

Release Not Release



Andy Jackson
Deputy Secretary, Graduate Achievement,
Vocations and Careers
Ministry of Education

16/07/2020



Gillian Dudgeon
Deputy Chief Executive – Delivery
Tertiary Education Commission

16/07/2020



Hon Chris Hipkins
Minister of Education

19/7/2020

Attachment

Attachment one: Annotated Agenda - decisions on the unified funding system for discussion
(with two annexes)

Annotated Agenda – decisions on the unified funding system for discussion

Reform of Vocational Education
20 July 2020

This annotated agenda seeks your feedback on the proposed approach and next steps for the funding category component of the unified funding system.

Item 1: Introduction

Advice to date

1. On 22 July 2019, as part of the Government's Reform of Vocational Education (RoVE), Cabinet agreed to develop a unified funding system [CAB-19-MIN-0354 refers]. Cabinet agreed that the unified funding system will apply to all provision at qualification levels 3 to 7 (excluding degree study) and all industry training. Cabinet further agreed to the development of a funding system with three components - learner success, funding category and strategic (see Annex One for more context).
2. In December 2019, you met with officials to discuss the high-level direction of the unified funding system [METIS 1210568 refers]. We provided you with further advice in March 2020, on the proposed approach to phasing work to design and implement the unified funding system, as well as in response to your requests for further advice on the learner and strategic components of the unified funding system [METIS 1218255 refers]. Due to the escalation of COVID-19, the advice was overtaken by events. The project is still on track to implement the unified funding system from 2023.
3. In April 2020, we developed two bids for Budget 2020 funding that were unsuccessful. We will integrate the ideas in these bids into the work on the unified funding system. This paper does not seek to determine the level of investment in the unified funding system; we will advise on that later in 2020 (to inform Budget 2021 or 2022).
4. For this meeting, we are seeking feedback on the funding category component. We intend to seek your views on the other two components (learner success and strategic) at the agency meeting on 27 July.

Structure of this advice

5. The structure of this Annotated Agenda is as follows:
 - Item 2: A new funding category system to subsidise education delivery and work-based learning
 - Item 3: Context and next steps
6. There are also two annexes which accompany this report. These provide further detail and context on the proposals outlined in this report.
 - Annex One is an overview which shows how the three components work together
 - Annex Two outlines the new funding category system

Item 2: A new funding category system to subsidise education delivery and work-based learning

Background

7. You previously agreed that further work to design a new funding system should focus on fields of study (or subjects/disciplines) and modes of delivery (i.e. *how* education is delivered and the respective roles of employers and providers) [METIS 1210568 refers].
8. A new funding category system is critical to enable and encourage TEOs to develop more responsive, high quality delivery models – including growing work-integrated learning to meet learner, employer, industry, iwi, and community needs. The funding category component is designed as volume based funding that recognises broad variations in the cost of delivery. Variations in cost include in capital costs, consumables, staffing and travel. It will apply to all providers undertaking a role in vocational education to ensure consistency across the system.

How a category funding rate could be derived

9. We propose that the funding category rate would be determined by multiplying the relevant subject rate (in dollars) by a mode rate (a ratio) at a chunk of learning level (for example, a course or group of credits).
10. This approach means we need to understand the components that comprise vocational education delivery, how these could be sensibly grouped to describe coherent modes of delivery, and the relative costs of each of these modes. We also need to consider the incentives we use to support providers to build up their work-integrated learning, including a focus on partnering with employers and stronger pathways for learners into work.
11. We also need to rationalise the number of subject rates to simplify the system. Industry training funding is not currently differentiated by subject so all current industry training would need to be assigned a subject rate. We propose undertaking work on subject rates in the second half of this year.

Developing an approach to mode definitions

12. Through a series of workshops we collaborated with a small number of technical sector experts to identify the key components of education delivery in vocational education and how these might be grouped together to form coherent modes.
13. Through this work we identified that the overall funding category rate should fund providers across vocational education settings to support:
 - a. programme development or accreditation
 - b. teaching and learning
 - c. brokering learners into employment with training
 - d. developing employers' capacity to train
 - e. learning support and pastoral care
 - f. assessment
14. We also developed four modes that describe how providers' activities would combine to support education over the range of vocational education settings.
15. Each mode would fund providers to have a degree of responsibility for each activity. Mode rates would reflect what level of activity we expect from the providers in that mode. We are not proposing directly purchasing each activity in a mode, but rather having a bulk rate for a subject by mode that enables providers to make choices about how they deliver all of the activities we expect to see in a mode.
16. Most learners' programmes of study would be funded through a combination of these rates within a programme. This is because each chunk of learning within a programme may be delivered in different modes. For example, current apprenticeships often have a combination of block courses delivered by providers and on-job learning. These different activities would receive the same subject multiplied by different mode rates.

The four modes

17. Below we describe each of the four proposed modes. For each mode we indicate a relative rate that would be paid to the provider. The following section discusses how we assigned the relative pricings. There are some commonalities between modes. In all the modes a provider would have a role in assessment of learning and in programme development or accreditation.
18. **Provider-led:** this is the only mode in which deliberate acts of teaching and learning are undertaken directly by a provider. The provider also has responsibility for learning support and pastoral care.
19. This would receive a relatively high rate to reflect higher capital, staff and consumable costs. In addition to qualifying parts of vocational education and training programmes, the provider-mode would cover any non-vocational programmes funded through the unified funding system (for example, Te Reo Māori).
20. **Work-integrated for learners brokered into employment:** this is where learners begin study with a provider and move into a training agreement that allows them to continue their study.
21. This mode is distinguished by: the provider brokering a learner into a job and supporting the learner to establish their learning in that job; the provider supporting employer capability to deliver teaching and learning and ensuring learners have access to learning support and pastoral care.
22. The employer has responsibility for deliberate acts of teaching and learning though could be supported by the provider delivering some elements in the workplace. This would receive either the highest rate or a high one-off payment to recognise the brokerage role. Rate setting will need to consider incentives for providers to move learners out of the provider-led mode at the best time for the learner.
23. **Work-integrated for learners who are employed:** this is where a learner has an employer willing to support a training agreement.
24. This mode is distinguished by: the provider supporting employer capability to deliver teaching and learning and ensuring learners have access to learning support and pastoral care. The employer has responsibility for deliberate acts of teaching and learning, though the employer could be supported by the provider delivering some elements in the workplace.
25. This would receive a medium rate to recognise both: the provider's role in supporting employers and learners, and that the provider has no direct role in teaching and learning.
26. **Employer-led:** this mode is distinguished by the employer being primarily responsible for training their employers including learners' learning support and pastoral care needs. The provider has an extremely limited role.
27. This would receive a relatively low rate to reflect that providers are only involved in assessment and accreditation.
28. The diagram below (*What We Are Buying from the Providers in Each Mode*) shows activities to be supported in each mode.

Sector feedback

29. In recent months, officials held workshops with sector experts from subsidiaries of the New Zealand Institute of Skills and Technology (NZIST), transitional industry training organisations, private training establishments (PTEs), and wānanga, to inform the development of new mode-based funding classifications. The technical experts were broadly supportive of the four modes.
30. The most contentious issue discussed in recent design workshops, and with our Funding Reference Group, was whether to have one or two different funding classifications and rates for work-integrated learning. Most sector experts strongly supported the approach which would explore the potential for active incentives to encourage providers to transition learners into work with a training agreement. However, some sector experts would prefer one mode for work-integrated learning with a 'medium funding rate', accompanied by monitoring and accountability to ensure appropriate transitions for learners.

What We Are Buying From The Provider In Each Mode

	Provider-led	Work integrated learners brokered into employment	Work integrated for learners who are employed	Employer-led
BROKERING LEARNERS INTO EMPLOYMENT		Provider works with employers to transition learners into work. Provider supports learner to establish their work and learning		
DEVELOPING EMPLOYERS CAPACITY TO TRAIN		Providers support employers to develop their capability to deliver teaching and learning, and learning support and pastoral care		
TEACHING AND LEARNING	Deliberate acts of teaching and learning undertaken by providers at an education delivery site or via technology enabled delivery	Providers support employers to deliver teaching and learning		
LEARNING SUPPORT AND PASTORAL CARE	Provider responsible for providing learning support and pastoral care	Provider is responsible for ensuring learner receives learning support and pastoral care.		
PROGRAMME DEVELOPMENT	Providers working with employer bodies and the community to develop programmes to meet regional and national skills priorities	Providers working with employer bodies and the community to develop programmes to meet regional and national skills priorities. This may also include employer specific skill development		Employers have developed programmes to meet their skill requirements. Providers work with employers to map this training to NZQF and have the training accredited
ASSESSMENT	Provider is responsible for the quality of assessment. They may undertake the assessment, purchase it from an external assessor, or support employers to assess			

KEY



31. Experts provided feedback on ensuring that the funding categories reward providers for providing good employer support to upskill existing employees, as well as fostering new delivery models to enable learners to shift from provider-led delivery into work with a training agreement. The majority agreed that providing an incentive to support transitions for learners into the workplace was a positive move, but that employers would continue to need high levels of support and provider responsiveness to upskill existing employees and that any rate should reflect this.
32. Based on the largely supportive feedback, we propose developing an approach that uses price to incentivise providers to shift some provision to work-integrated delivery models which support learners to shift into work with a training agreement. This approach also reflects feedback from learners (especially young Māori and Pacific learners) who have indicated they would like greater support to enable smooth transitions from provider study into work.

Recommendations:

33. We recommend that you:
 - a. **agree** to further work to develop the four modes: provider-led, work-integrated for learners brokered into employment, work-integrated for learners who are employed and employer-led.

AGREE **DISAGREE**

Pricing the modes

34. If you agree to further develop these modes we will undertake further work on how to price them. As we are seeking to understand the costs of new delivery modes that are not currently common in the system we will need to work closely with the sector to do this. We will need to work with them to identify the cost of similar activities, and build up the component parts of the modes from this work. We will also test the intended and unintended consequences of introducing active incentives for supporting learners to enter work. This will take some time as it requires new information from TEOs.
35. We also propose undertaking engagement with industry and employer stakeholders to test the modes and the incentives that they provide.
36. We have also identified two further choices in the way we price each mode. These are:
 - a. should the funding system differentiate between technology-enabled distance learning and education delivery from a physical site.
 - i. We propose to collect new sector-wide data on the different costs of these two ways of teaching and learning. This will help us to assess the feasibility and potential impacts of differentiating funding on this basis.
 - b. whether the funding system should actively reward delivery models which include unpaid work experience and internships, or reward transitions into work with a training agreement.
 - i. While unpaid work experience and internships can provide useful exposure to the world of work we propose that courses which include unpaid work-experience and internships should be classified and funded at a provider-led rate. Additional funding premiums would be paid at the point at which a learner transitions into paid work with a training agreement. This approach reflects feedback from learners who want more opportunities to 'earn while they learn'.
37. In the workshops, and in our discussions with the Funding Reference Group, there was strong support for future costing work to test assumptions and set relative rates based on the future delivery models we want in the new system, rather than replicating current cost structures. The Funding Reference Group supports sector-wide information gathering in 2021 prior to final policy decisions on funding categories and rates in early 2022.

Next steps

38. We seek your approval to use these modes as the basis for further operational design and guidance and sector-wide information gathering from the second half of 2020 as described above. We also seek your approval to engage with technical experts, including employer representatives.
39. This will allow us to undertake future-focused cost modelling, test cost assumptions linked to mode-based funding category classifications, and identify and assess options for confirming the relative size of subject versus mode-based funding categories to cost and test mode rates and the incentives these may provide.
40. We also propose further policy work in 2020 and 2021 to:
 - a. explore options for rationalising subject-based funding classifications and assigning subject-based funding category classifications to industry training
 - b. consider potential funding and regulatory options to support recognition of prior learning and assessment-only models of accreditation.

Recommendations:

41. We recommend that you:
 - a. **agree** the use of the four modes as the basis for further operational design and guidance, sector-wide information gathering, and engagement with technical experts including employers
 - b. **agree** that officials undertake further work on technology-enabled distance learning to identify the feasibility and potential impacts of differentiating funding on this basis.

AGREE **DISAGREE**

AGREE **DISAGREE**

Item 3: Context and next steps

The unified funding system interacts and complements other work across the education sector

42. For tertiary education organisations (TEOs), the total price they receive for education delivery and work-based learning is influenced by government subsidies, learner fees and employer contributions. Officials are undertaking related work to ensure that long-term settings for fees and employer contributions support the incentives that the unified funding system is looking to drive. The direction set by the unified funding system also has the potential to influence medium- and longer-term funding reform for both higher education and foundation education.
43. To realise the vision of the RoVE across the wider education system, we also need to strengthen vocational education for secondary school students. This requires increasing access to, and the quality of, vocational learning for school students, and improving school-employer connections and education-to-employment pathways. Recent volume increases for Trades Academy and Gateway places are the first steps to increase access to initial vocational education. Alongside this we need to reshape these programmes to better connect with higher-level vocational education, including in the workplace.
44. The recovery initiatives developed as part of Budget 2020 will have a large impact on the industry training sector over the next two years, helping to keep apprentices in jobs and training towards their qualifications. The unified funding system, implemented from 1 January 2023, as well as aligned fee regulation settings and employer contributions, will be well placed to continue to support the industry training sector to flourish, when the Apprenticeship Boost package and the Targeted Training and Apprenticeship Fund close in April 2022 and 31 December 2022, respectively.

We have tested the proposals with the Funding Reference Group and a sub-group of Te Taumata Aronui

45. The Funding Reference Group was set up to support officials to develop and design the unified funding system in confidence, including to generate and test ideas. Their views on the proposals are represented throughout this Annotated Agenda and the one being prepared about the learner success and strategic components.
46. The sub-group of Te Taumata Aronui that we consulted with reinforced that supporting learner success should be core business for TEOs and that this work is an opportunity to signal this. The subgroup also highlighted the need for funding to be agile to support TEOs to better adapt to needs of Māori whānau and employers. They recommend we design the package of proposals with Māori communities and industry.
47. This sub-group also highlighted that accountability measures and outcomes will be key to achieving the objectives of a new funding system. Accountability to and partnerships with Māori communities and industry are crucial to understand what success and good wellbeing looks like for a community, and how to achieve this. Further, TEOs should be required and able to demonstrate how they contribute to improved wellbeing of their learners and communities.

Next steps

48. We will report back on the further work described in this report: the design of subject-based funding categories; cost modelling on mode of delivery, and further design work (including on recognition of prior learning and distance learning). In addition, towards the end of 2020, we will provide further advice on any Budget 2021 implications of the unified funding system. This advice will consider whether to seek early Cabinet agreement to a high-level approach and associated contingency for the costs of the unified funding system as part of Budget 2021.

Annexes

Annex One: Overview A3

Annex Two: Funding category A3

Unified Funding System ▶▶

Vision

A Unified Funding System that supports closer integration of work-based and provider-based learning, encourages more work-relevant and tailored support for learners, and enables new models of education delivery which are responsive to employer and industry demand.

Current state

Two disconnected, volume driven funding systems with a negligible amount of strategic/learner based funding

PROVIDER FUNDING SYSTEM

Equity (<1%)

Student Achievement Component (SAC)
Level 3 and above (>99%) subsidises education delivery for learners enrolled with a tertiary provider



Student Achievement Component (SAC3+)

Funding is volume-driven with EFTS* rates based on the register level and subject area of the course (from \$6,408 to \$19,501). In 2018 TEC allocated \$529m to subsidise 65,804 EFTS of provider-based delivery at levels 3-7 (non-degree) for 130,162 learners.

Equity Funding

\$3m pa tuition top up for priority learners (Māori, Pacific and learners with disabilities).

INDUSTRY TRAINING FUNDING SYSTEM

JVAP (<2%)

Industry Training Fund (>99%) subsidises industry training organisations to support work-based learning



Industry Training Fund (ITF)

Funding is volume-driven with two STM* rates: \$3,200 for trainees and \$5,200 for apprentices. In 2018 TEC allocated \$182m to subsidise 44,873 STMs of workbased learning for 128,877 learners.

Joint Ventures Amalgamation Projects (JVAP)

\$3.4m pa for collaboration on innovative projects

Possible future state (for discussion)

UNIFIED FUNDING SYSTEM

Learner success component (Approx 10-20%)

Category component (Approx 70-85%)
Will subsidise education delivery, and support to work-based learners

Strategic component (5-10%)

The new learner success component will:

- Recognise different learner needs
- Improve performance for underserved learners
- Encourage equity of access, achievement, and outcomes

Upcoming design choices:

- The basis for allocating funding
- What monitoring and accountability should accompany learner-based funding?
- How, if at all, should learner based funding be linked to performance?
- What, if any, additional funding approaches may be required for learners with disabilities or additional learning support needs?

The new funding category component will set funding rates for different types of provision to:

- Recognise broad variations in delivery costs across subject areas and delivery modes (e.g. provider-led, work-integrated, employer-led)
- Enable and encourage responsive, new and innovative delivery models – including shifts to work-integrated learning
- Be simple and transparent

$$\text{GOVERNMENT SUBSIDY RATE FOR ALL EDUCATION PROVISION} = \text{SUBJECT RATE} \times \text{MODE RATE}$$

Upcoming design choices:

- To what extent should we seek a price neutral funding system which aligns government subsidy rates to differences in costs, and/or to directly incentivise work-integrated delivery models?
- How best to balance funding to support upskilling of existing employees, with funding to build the future skills pipeline, and support smoother transitions into work with ongoing training?
- The relative size of subject versus delivery-mode based funding categories.

The new strategic component will:

- Encourage innovation and increase responsiveness to national and regional skills priorities
- Support the NZIST to invest in long-term capability to address regional skills priorities in geographically isolated areas and ensure access to vocational education in all parts of New Zealand
- Complement related government funding support for wānanga capability and investment in te reo Māori and Mātauranga Māori.

Upcoming design choices:

- The relative priority to be placed on funding predictability versus responsiveness to changing skills priorities
- The period of funding allocation and the balance of provider-neutral versus NZIST-specific funding

Related work areas



Current Initiatives

You announced as part of the COVID-19 recovery in Budget 2020 the following initiatives to support the vocational education system:

- Targeted Training and Apprenticeship Fund
- Apprenticeship Boost



Potential further work

There is further potential work to consider the financing of vocational education and training, in light of RoVE, including work on:

- Fees
- Employer contributions and incentives

Funding Category Component

A new funding category system to subsidise education delivery and support work-based learning

RATIONALE FOR A NEW FUNDING CATEGORY SYSTEM:

Creating a sustainable vocational education system which better meets the needs of learners, communities and employers requires ambitious funding reform. Our current dual funding approach for work-based and provider-based learning fails to deliver the high-quality, well-integrated and sustainable vocational education system we need. A new funding category system to subsidise education delivery, and support work-based learning is a core component of the UFS.

Current state:

There are two separate funding systems which discourage connections between provider-based and work-based learning. Funding rates vary based on the *type of organisation*:

- providers receive higher subsidy funding rates, with course rates which vary by subject, and are intended to reflect broad differences in delivery costs across subjects
- industry training organisations (now TITOs) receive lower subsidy rates, with no variation to reflect differences in delivery costs by subject or industry sector. There are two funding rates, based on whether the learner is a trainee or apprentice.

Future state:

A new funding category system subsidises tertiary education organisations to deliver education and support work-based learning through consolidated funding categories and rates which:

- recognise broad variation in costs across subjects (to recognise subject-related differences in staffing costs, capital, consumables, travel etc)
- recognise broad variation in costs due to differences in mode of delivery (i.e. how the education and support is delivered, and the respective roles of providers and employers)
- support good practice, and enable and encourage responsive, new and innovative delivery models – including shifts to work-integrated learning which meet learner, employer, industry and community needs

Developing mode-based funding classifications is a critical first step towards a funding category system which supports work-integrated delivery

In recent months, we held a series of workshops with technical sector experts to develop and test definitions for draft mode-based funding classifications.

These modes reflect differences in the respective roles of employers and providers in relation to core functions such as: *programme design and development; deliberate acts of teaching and learning; pastoral and learning support; brokerage into employment; support for employer capability to train; assessment and accreditation.*

Sector experts have been engaged and supportive of the design we developed with them (**summarised below**). The most contentious issues raised in these workshops are outlined in the **accompanying annotated agenda**.

Proposed mode-based funding category classifications to inform future operational design, guidance and 2021 data collection

CONTINUUM OF PROVIDER/EMPLOYER ROLES IN EDUCATION DELIVERY AND SUPPORT

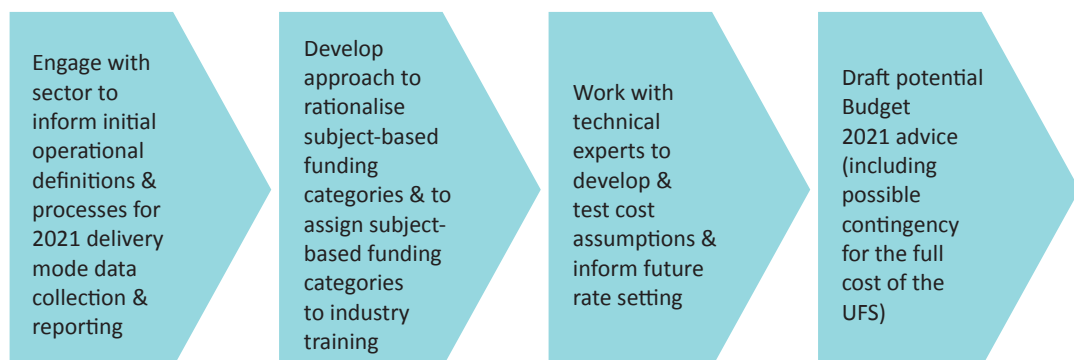


PROPOSED DELIVERY MODE CLASSIFICATIONS

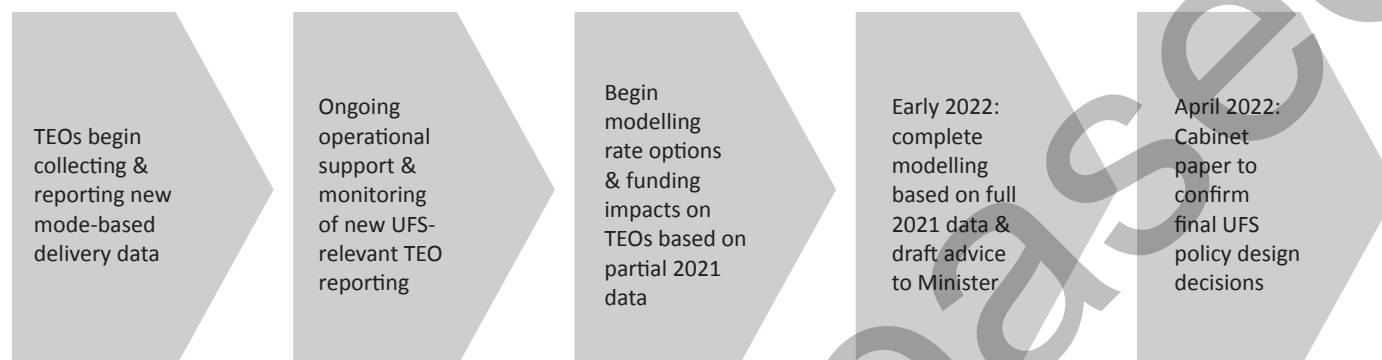
	Provider-led	Work-integrated for learners who providers transition into work with a training agreement	Work-integrated for employees with an employer seeking to support a training agreement	Employer-led training
SUMMARY DESCRIPTION	<p>Refers to education delivery which involves deliberate acts of teaching and learning <i>led by a provider</i>. Provider-led courses may be:</p> <ul style="list-style-type: none"> • facilitated, taught and assessed by academic and vocational staff at education delivery sites and/or • via technology-enabled distance learning, with access to learning and pastoral support. <p>A relatively high mode funding rate(s) would apply.</p> <p>Funding levels would need to recognise relatively high capital costs, staffing, and consumables costs for this delivery mode.</p> <p>This rate(s) would apply to VET and non-VET programmes (for example te reo Māori) delivered solely through provider-led courses, as well as provider-led courses within programmes which include work-integrated or employer-led training.</p> <p>We propose further work on technology enabled distance delivery, including operational design, data collection and costing work exploring the potential to classify and fund this delivery differently from courses delivered from an education site. This could enable future funding rates to recognise the relatively higher unit costs of face-to-face delivery.</p>	<p>Refers to <i>work-integrated delivery</i> which supports learners to shift from provider-led delivery to complete their training supported by an employer, in a job relevant to their intended qualification.</p> <p>A performance payment or a relatively high mode funding rate would apply to on-job learning <i>at the point at which a learner transitions from provider-led delivery</i>.</p> <p>Future rate setting will need to consider the size of any performance payment, the length of time a higher funding rate could apply, and the trade-offs between:</p> <p>a) <i>alignment with costs</i>. Relative to provider-led delivery, this mode involves:</p> <ul style="list-style-type: none"> • new costs for providers linked to employment brokerage, supporting employer capability to train, and providing learning and pastoral support to work-based learners • potentially lower capital, consumables, and staffing costs associated with work-based learning. <p>b) <i>incentives for providers</i> to reduce the amount of solely provider-led delivery, and to work with employers to develop new delivery models which enable learners to ‘earn while they learn.’</p>	<p>Refers to <i>work-integrated delivery</i> for learners who are employees, with an employer who wishes to support their upskilling through a training agreement.</p> <p>A medium funding rate would apply to on-job learning and support for these learners.</p> <p>Future rate setting would recognise that most learning occurs on the job with employer supervision, through a tripartite arrangement between the provider, employer and learner. The learner is in work, so the provider is not required to broker transitions into work-based learning in this mode.</p> <p>This mode includes significant level of provider support for:</p> <ul style="list-style-type: none"> • employer capability to train • addressing the learning and pastoral needs of individual learners. <p>We would expect some industry training and most delivery within current apprenticeship programmes to be funded in this mode, with flexibility to apply a provider-led rate to some elements of the programme, as required.</p> <p><i>Regulatory options to address risks of providers shifting the balance of programmes towards provider-led delivery will be considered in further advice.</i></p>	<p>Refers to <i>employer-led training</i>, in which an employer is primarily responsible for training their employees, and a provider plays a limited supporting role, with a particular focus on accreditation and assessment.</p> <p>A relatively low funding rate would apply.</p> <p>We would expect this funding rate to apply primarily to corporate models of industry training, in which large employers have their own training capability in-house.</p> <p>For most learners, this rate would apply to all of their programme of learning. However, there would be flexibility to apply a provider-led rate to some elements of the programme, where there is an identified need to address a specific skills gap which the employer cannot meet.</p> <p><i>Beyond this mode-based classification we propose further policy work explores system wide regulatory and funding options to support recognition of prior learning, and consideration of assessment-only models of accreditation.</i></p>
TARGET LEARNERS	<p>Learners who are:</p> <ul style="list-style-type: none"> • not in employment, or • looking to upskill or to develop new vocational skills and experience beyond their current job, or • interested in non-vocational programmes, or • self-employed/ contractors who do not have supervision and support from an employer 	<p>Likely to particularly benefit learners who lack access to relevant job opportunities through their existing networks, and those who are seeking to shift from provider-led delivery into work with a training agreement.</p> <p>For employers, this provides an opportunity to ensure potential employees are suitable and safe to have on a worksite, prior to any on-job learning.</p>	<p>Learners who are in employment with an employer seeking to support a training agreement. Learners require or expect a significant level of additional learning and pastoral support from a provider.</p>	<p>Learners who are seeking accreditation of skills and experience gained in the workplace. Most likely to apply to employees in large corporate organisations with their own training programmes and supervisors.</p>

Diagram 1: Key activities (2020-22) to support funding category design and implementation from 2023

Post July 2020: key activities



2021/2022: key activities



The phasing of key activities set out in diagram 1 aligns with:

- the timing of related RoVE changes to roles and functions, which will be completed by the end of 2022
- the end of the funding for the initial vocational education response to COVID-19, announced as part of the recent Budget.

KEY DESIGN CHOICES FOR GOVERNMENT

1	To what extent should we seek a price neutral funding category system which aligns government subsidy rates to differences in costs? Or a subsidy system which 'tilts' towards work-integrated learning, to incentivise shifts towards new delivery models?	We propose that future costing work explores a 'cost-plus' approach to funding work-integrated delivery models which support learners to shift from provider-led delivery into work with a training agreement. This approach is informed by analysis of current VET system performance and feedback from learners (especially young Māori and Pacific learners) who have indicated they would like greater support to enable smooth transitions into work.
2	Should the funding system actively reward delivery models which include unpaid work experience and internships, or transitions into work with a training agreement?	Unpaid work experience and internships can provide useful exposure to the world of work. We propose that courses which include unpaid work-experience and internships should be classified and funded at a provider-led rate, with any additional funding premiums at the point at which a learner transitions into paid work with a training agreement. This approach reflects feedback from learners who want more opportunities to 'earn while they learn'.
3	How best to balance funding to support upskilling of existing employees, with support for new delivery models to enable learners to shift from provider-led delivery into work with a training agreement?	We propose to test the intended and unintended consequences of introducing active incentives for providers to transition learners into work with a training agreement more widely through upcoming engagement with tertiary education sector, industry and employer stakeholders. We also intend to establish new monitoring and accountability arrangements linked to new data collection on delivery modes to identify and avoid any unintended consequences of future funding changes.
4	Should the funding system differentiate between technology-enabled distance learning and education delivery from a delivery site?	We propose to collect new sector-wide data on provider-led courses that are delivered via technology-enabled distance delivery, as well as those that are delivered from an education delivery site. This will help us to assess the feasibility and potential impacts of differentiating funding on this basis. Available cost data and sector feedback to date has reinforced that while ongoing unit costs of distance learning may be lower, this is partially dependent on scale, and upfront programme development costs can be higher. Technology-enabled delivery also plays a really important role in supporting access to vocational education, especially for learners with caring responsibilities, those combining work with study, and those in geographically isolated areas.

DESIGN ASSUMPTIONS WHICH UNDERPIN OFFICIALS' ADVICE:

- Targeting of government funding to providers should be efficient and effective.** Major price distortions between government subsidy rates and delivery costs in different areas of provision can create unintended consequences for the quality, sustainability, volume or mix of future supply.
- Funding should be allocated through **simple and transparent funding mechanisms**. This means balancing accuracy of targeting against administrative complexity. We should aim for the lowest number of funding categories and the simplest approach to classifying education that meets the Government's objectives.
- The future funding system should be agile, adaptive and subject to refinement over time**, in response to new information, issues or challenges.

DISCUSSION POINTS

Officials are seeking to confirm your comfort with the overall direction of travel outlined in this A3, and any specific feedback on:

- The high-level definitions of the draft mode-based funding category classifications outlined on page 1 of this A3.
- The key design choices for Government and how we propose to consider these choices and trade-offs in upcoming policy advice, operational design, data collection and analysis.
- The proposed phasing and approach to further work to support funding category design and implementation, including sector engagement on operational guidance and data collection in the second half of 2020, and new sector-wide data collection in 2021.