



Education Report: Further decisions on the unified funding system - learner success and strategic components

To:	Hon Chris Hipkins, Minister of Education		
Date:	22 July 2020	Priority:	High
Security Level:	In Confidence	METIS No:	1235409
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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 learner success and strategic 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 learner success and strategic component of the unified funding system as set out in the attached annotated agenda at the agency meeting on the 27th 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

22/07/2020

Gillian Dudgeon
Deputy Chief Executive – Delivery
Tertiary Education Commission

___/___/___



Hon Chris Hipkins
Minister of Education

25/7/2020

Attachment

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

Proactively Released



Annotated Agenda – decisions on the unified funding system for discussion

Reform of Vocational Education
27 July 2020

This annotated agenda seeks your feedback on the proposed approach and next steps for the learner success and strategic components 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.
2. On 20 July 2020, you agreed to recommendations about the funding category component. We are seeking feedback on the learner success and strategic components.

Structure of this advice

3. The structure of this Annotated Agenda is as follows:
 - Item 2: Learner-based funding to support learner success
 - Item 3: Strategic funding to address national and regional skills priorities
 - Item 4: Next steps
4. 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 A3 outlining the new learner success component
 - Annex Two is an A3 outlining the new strategic funding component

Item 2: Learner-based funding to support learner success

Background and purpose

5. You previously agreed that learner-based funding is needed to ensure the unified funding system delivers improved outcomes for learners, especially those who are currently underserved in the vocational education and training (VET) system. [METIS 1210568 refers].
6. A learner component with a significantly higher proportion of funding and a simple approach is needed to encourage and support TEOs to shift to a sustained focus on learner success, including by building their capability to do so. This funding would recognise that TEOs face additional costs to fully understand and respond to learners' needs (together with their communities, iwi and employers).
7. To achieve this aim we have developed an initial set of proposals regarding the quantum, structure and accountability for learner-based funding. The Funding Reference Group was supportive of the proposed approach.

Significantly more funding (between 10 and 20%) of overall UFS funding is needed to encourage organisational shifts for learner success

8. Current equity funding is very low (currently 0.4%) and not sufficient to support good equity outcomes for learner groups who are underserved. In addition, current funding is only available to providers (not TIOs), and only for Māori and Pacific learners enrolled in qualifications at New Zealand Qualification Framework (NZQF) level 5 and above.
9. The learner success component needs to be big enough to meaningfully address the needs of learners in the context of their communities, and to incentivise TEOs to focus on learner outcomes rather than just enrolments.
10. We propose that the learner success component should be around 10-20% of the unified funding system's total amount of funding. This would recognise that the organisational and capability shift required to tailor learning and provide adequate support for learners can have higher costs. It is also similar to the proportion of funding for equitable learner outcomes in comparable jurisdictions.¹
11. We will refine our advice on the funding quantum as we continue to develop the full package of proposals for the UFS, including through Budget 2021 and 2022, and further work on support for disabled learners and people with additional learning support needs.

Using a simple formulaic approach ...

12. In considering how to allocate additional funding for learner success, we sought an approach that could ensure enough predictability of funding to enable TEOs to take responsibility for investing longer-term in learner success.
13. Primarily formulaic funding based on the enrolments of priority learner groups would mean that funding:
 - a. is directed to TEOs with a greater proportion of learners from groups who are at higher risk of poorer education and employment outcomes and may require more tailored education and support, and
 - b. supports and recognises that greater tailoring of education delivery and support can come at higher cost.
14. In alignment with our earlier advice, we propose that funding is primarily based on enrolments of:
 - a. learners under 25 years without a prior qualification at level 3 or above
 - b. Māori learners
 - c. Pacific learners.
15. Our analysis and engagement found young learners with low prior attainment were the group most at risk of low achievement in VET and highlighted the need to lift VET system performance to improve education and employment outcomes for Māori and Pacific learners.
16. Although the enrolments of disabled learners and people with additional learning support needs are not currently included in the formula, TEOs' would need to undertake organisational and capability shifts to ensure learner success for *all of their learners*. This includes disabled learners and people with additional learning support needs. This would be achieved through the part of the proposal outlined in paragraphs 18-20.
17. Improved data collection would be needed to inform the inclusion of disabled learners and people with additional learning support needs in the formulaic approach to the learner-based funding. To support improved sector-wide data collection and inform refinement of our advice, we will undertake further work to develop and test an approach for how TEOs could collect more robust and consistent information about this learner group.

... linked to TEO's progress against learner success would recognise and reward progress and provide improved monitoring and accountability

18. The formulaic approach described above constructs funding based on groups that represent reasonable proxies of learner need. However, true learner (and community) need is a much more

¹ Wales and Scotland allocate 5% and around 10% respectively for equity targeted funding. Australian states vary but on average allocate approximately 7% for equity.

complex matter that will vary from individual to individual. For example, prior educational attainment is not a strong predictor of older learners' needs, but it will be important that providers have the flexibility to work with this group (e.g. to support displaced workers).

19. Therefore, we need an investment approach that provides flexibility for TEOs to use the formulaically-determined funding for more diverse purposes, but with clear expectations established and agreed upfront with the TEC. We propose that this can be achieved through TEC agreeing Learner Success and Disability Action Plans with TEOs, prior to TEOs receiving funding for the learner success component.²
20. TEOs would be held accountable for progress against the short, medium, and long term goals and actions set out in these plans. A small proportion of learner success funding would be linked to progress against commitments negotiated with the TEC. This would strengthen accountability and reinforce expectations for each TEO to identify and address the specific needs of their learners. This would mean that any performance funding would be used to recognise and reward improvement and innovation, rather than reducing funding to punish poor performance. We propose that 10-20% of the learner success component funding is linked to performance in this way.
21. Another important issue for TEOs is the duration and stability of funding. We propose that funding is simply based on 3 year rolling averages to balance responsiveness to learner needs with enough predictability of funding (and mitigating peaks and troughs) to support TEOs' medium and long-term investment in learner success.
22. We will provide you with further advice on how trialling innovative ways to support learner success could be enabled with TEC having the flexibility to directly fund TEOs through use of any underspends (comprised of progress payments which have not been awarded). This could have network-wide benefits through sharing lessons learned across the system.

Recommendations:

23. We recommend that you:

- a. **agree** to the proposed approach outlined above of primarily formulaic funding linked to TEOs' progress towards achieving learner success
- b. **agree** that we will share and test the design of this proposal for the learner success component with:
 - i. targeted groups such as tertiary education peak bodies
 - ii. key iwi and Māori organisations

AGREE **DISAGREE**

AGREE **DISAGREE**

Further work to support disabled learners and people with additional learning support needs through the learner success component

24. Government is committed to ensuring the reforms address the needs of disabled learners and people with additional learning support needs. 9(2)(f)(iv)

[Redacted content]

² Investment plan requirements would be scaled to reflect the size of the provider, as is current practice.

26. If we decide to move to a formulaic approach to supporting disabled learners and people with additional learning support needs, then new data collection would be required. Neither TEOs nor government agencies hold consistent or robust information about these learners in the tertiary education system. Addressing this major data gap will be a complex process that needs to balance collecting accurate information with protecting privacy and avoiding stigmatisation.
27. TEC's learner success approach aims to place learners at the centre of TEOs' decision making, this includes disabled learners and additional learning support needs. As part of this work, TEC is working to introduce a requirement for TEOs to develop Disability Action Plans. These plans will require a disabled learner focus at governance and senior leadership levels to be informed by Kia Ōrite (New Zealand's Code of Practice for an Inclusive Tertiary Education Environment for Students with Impairments).
28. We propose to develop and test an approach for collecting new data with the tertiary education sector and disabled peoples' organisations to ensure an appropriate design and change process. We anticipate that this would be phased in later than the rest of the learner-based funding component. This recognises the need to work closely with stakeholders, and will help to avoid overloading TEOs with another new data reporting requirement in 2021. We propose beginning any new data collection from TEOs on disabled learners and learners with additional learning support needs from 2022 at the earliest, which means funding based on this data collection would not be in place before 2024.

Recommendation:

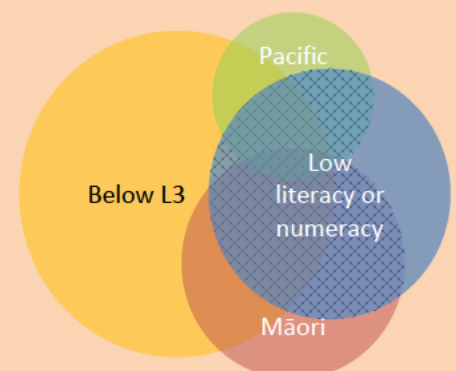
29. We recommend that you:
 - a. **agree** that officials will undertake the following work, informed by targeted engagement including disabled peoples' organisations and some key communities, relating to how best to support disabled learners and people with additional learning support needs:
 - i. develop and test an approach for how TEOs could collect more robust and consistent information about this learner group to support improved sector-wide data collection; and
 - ii. 9(2)(f)(iv)

AGREE **DISAGREE**

You requested further advice on the potential to link funding to learners with low literacy and numeracy

30. We have explored the relationship between low literacy and numeracy and the three other learner groups we recommended targeting learner-based funding to (young learners with low prior qualifications, Māori learners and Pacific learners). Our analysis has found that the effect of low literacy and numeracy on qualification completion rates was similar to the effect of having prior attainment below Level 3, with each being significantly more predictive of not completing for those under 25 years than for those 25 years and older.³
31. As shown in *Diagram 1*, around 80 per cent of the population aged 18-24 years with low literacy and numeracy is captured by three of the other learner groups proposed for inclusion in learner-based funding (young people with low prior qualifications, Māori, and Pacific people).
32. There are also issues with identifying and targeting funding to learners with low literacy and numeracy. We have identified two potential options.

Diagram 1: Overlap between young people aged 18-24 years with low literacy and numeracy and other target population groups



³ The difference in five year qualification completion rates was greater for under 25 year olds (57% for those with low LNAAT scores compared with 68% for those with higher scores) than those aged 25 and over (65% compared with 71%).

33. Firstly, we could identify young learners who have achieved some NCEA credits, but not met the NCEA literacy and numeracy requirements. However, the NCEA Review raised a number of questions about the reliability of literacy and numeracy assessments towards NCEA, and further work is underway to strengthen literacy and numeracy requirements. The new NCEA literacy and numeracy standards are not expected to be implemented in schools (or TEOs) until 2023.
34. Use of the LNAAT results for funding purposes would rely on much wider use of the tool by TEOs to assess learners at qualification levels 3 to 7 (excluding degrees). Officials have concerns that this approach could shift TEOs from a focus on assessment to inform teaching and learning, towards a focus on funding. This could lead to unnecessary assessment with little or no educational benefit for some learners. It may also create perverse behavioural incentives for TEOs around how they administer the tool because they would receive higher funding when learners performed poorly.
35. There are significant challenges to accurately identifying VET learners with low literacy and numeracy for funding purposes. There is also a significant overlap between learners with low literacy and numeracy and the other targeted population groups we have recommended. Therefore, officials do not recommend linking funding to low literacy and numeracy through the learner success component of the unified funding system at this time.

Recommendation:

36. We recommend that you:
 - a. **agree** that the learner success component of the unified funding system will not link funding directly on the basis of low literacy and numeracy at this time.

AGREE **DISAGREE**

Next Steps

37. With your agreement, over the next 12 months we propose to engage with targeted groups such as tertiary education and disabled peoples' peak bodies on the design details for this work. This engagement will inform further policy advice and operational design relating to:
 - a. the proportion of funding for progress payments to incentivise TEO innovation and improvement to support learner success
 - b. TEC's operational design of decision-making processes and criteria, to guide progress payments against learner success and disability action plans, and to directly fund new and innovative proposals.
38. We also propose to engage with some key iwi and Māori organisations on ensuring accountability for learners' success. We will update you on this engagement and further policy design decisions resulting from this.
39. In the first half of 2021 we propose to engage with the tertiary education peak bodies and disabled people's organisations on how TEOs can obtain more robust and consistent information about disabled learners and people with additional learning support needs. This could lead to sector wide data collection and improved monitoring from 2022. Following this engagement we will provide advice to you on this.

40. 9(2)(f)(iv)

Item 3: Strategic funding to address national and regional skills priorities

Background

41. You have previously indicated that you would like further advice on two types of funding as part of a new strategic component, both time-limited funding that shifts to support innovation and meeting national and regional skills priorities, and mission-led core funding for TEOs [METIS 1210568 refers].

42. A new strategic funding component will help to actively encourage TEOs to supply strategically important delivery or to meet national or regional skills needs.

What we are trying to achieve with strategic funding

43. We are looking to 'tilt the system' to incentivise strategically important delivery through the introduction of up to two new funding approaches, with up to 10% of funding available for:
- ✓ a. flexible funding to support innovative proposals from UFS-funded TEOs, which respond to national and regional skills priorities.
 - b. funding specific to the New Zealand Institute of Skills and Technology to address regional skills priorities in geographically isolated areas, in line with charter obligations to ensure access to vocational education in all parts of New Zealand, either as part of the flexible funding or as a stand-alone element.
- ✓
44. The flexible funding approach would create much needed funding flexibility to enable and reward TEO innovation, in line with national and regional skills priorities. We are proposing that TEOs in scope of the unified funding system would apply for time-limited funding to trial new approaches, learn what works and share best practice. Proposals could come from individual TEOs, partnerships between TEOs, or collaborations between TEOs and third parties, such as industry, employers or iwi. This funding would be for the life-cycle of the specific project.
45. The proposed strategic funding to support NZIST to meet one of their specific charter obligations to ensure access to vocational education in all parts of New Zealand reflects that one of the key objectives for the establishment of NZIST was to create a sustainable network of vocational education. Providing education delivery and support for work-based learning is more costly in areas of geographic isolation, due to issues such as scale and travel.

How a strategic funding component could be structured

46. We are seeking your feedback on our proposed approach, in particular the key design choice of whether to address NZIST strategic goals through a separate instrument, or as part of a broader flexible fund.
47. We are recommending the latter, with the NZIST applying as part of the flexible funding process. This option would allow the funding system to adapt as the sector grows and NZIST refines its approach to regional delivery. It would offer greater flexibility to respond to shifting regional and industry skills needs as these emerge.
48. Putting in place NZIST-specific funding would give it greater funding predictability and therefore allow it to develop flexibility within their network to respond to changing demands over a longer time span. However, on balance we believe the NZIST should be able to adapt to these longer term shifts within the scope of their overall funding, particularly given their large scale.
49. We recommend incorporating funding for NZIST within a single fund as this supports flexibility and system responsiveness over time.
50. If the option to establish a single strategic fund is chosen, we would look to ensure there was a strong focus on the issues associated with geographic isolation as part of the criteria for initial funding rounds, while retaining the flexible nature of the fund.

Sector feedback from the Funding Reference Group

51. This package of strategic funding proposals has been tested with the Funding Reference Group who were broadly supportive of the proposal for flexible funding in line with national and regional skills priorities. They emphasised the need for a clear framework for decision-making around how flexible funding will be allocated to support national and regional skills priorities and reinforced that this should be prioritised during the next stage of operational design and development.
52. One member of the Funding Reference Group raised a concern about the lack of consultation with the universities on this proposal to date, and noted that it was important that funding differentials did not encourage the university sector to exit VET provision.
53. This feedback indicates that the proposal to target some strategic funding directly to NZIST may not be well-received by all TEOs. However, we think this choice could be justified due to NZIST's specific obligations in relation to creating a sustainable national network of vocational education.

- 54. While the universities do not receive specific mission-led funding, they do receive the majority (96.7%) of the funding allocated by the Performance-Based Research Fund, designed to encourage and reward research excellence. This recognises the focus on research-led teaching at degree level and above.
- 55. PTEs are not Crown-owned and have a variety of drivers for the activities they undertake. It seems unlikely that working with all PTEs funded by the unified funding system to agree new strategic commitments would be as effective as working closely with NZIST to shape the system to respond to overarching RoVE aims.

Related work is underway to support wānanga capability and investment in te reo Māori and mātauranga Māori

- 56. You have recently received advice on Te Hono Wānanga and the four potential broad themes for exploration [METIS 1223372 refers], which have been developed through a strategic dialogue with wānanga sector leaders. This could include a form of mission funding to reflect the role, function and unique contributions of wānanga, similar to that being proposed for the NZIST as part of the strategic component.
- 57. The Government has also committed to reviewing the funding rates for te reo Māori and mātauranga Māori, in line with the national significance of this provision. Preliminary analysis of te reo Māori funding rates has been undertaken and officials are currently working on options and advice related to this. Work is also being undertaken on the scope of the review of mātauranga Māori funding, across both teaching and learning, and research (where there is an existing programme of work with the wānanga sector).

Recommendations:

58. We recommend that you:

a. **agree** that the strategic funding component will be made up of:

- i. two separate elements, both flexible funding and NZIST-specific funding

AGREE **DISAGREE**

OR

- ii. one flexible funding element that incorporates the need for NZIST to enable access and meet regional skills priorities (*recommended*)

AGREE **DISAGREE**

b. **agree** that officials share and test the high level proposals for strategic funding with sector stakeholders, including tertiary education peak bodies, to inform further policy development and operational design.

AGREE **DISAGREE**

Supporting learners in geographically isolated areas

- 59. You also agreed to further advice in December [METIS 1210568 refers] exploring how best to support education delivery and work-based learning for learners in geographically isolated areas, either through the learner success or strategic funding component.
- 60. We analysed a range of options for a volume-based formulaic top-up linked to enrolments via the learner success component. This analysis considered different proxies for geographic isolation, linked to learner address, education delivery site location and/or employer site location. We have concluded that a formulaic approach would be:
 - a. blunt and less effective than a more targeted strategic funding approach linked to regional skills priorities; and
 - b. more complex and difficult to implement, especially given the Government's objectives of increasing the supply of work-integrated learning which may involve a mix of delivery modes and locations.

61. We recommend addressing challenges associated with geographic isolation through the potential dual approach to strategic funding outlined above.
62. Members of the Funding Reference Group noted the complexity of attempting to address challenges associated with geographic isolation through the learner success component. One member noted that work undertaken for NZIST had come to a similar conclusion and so strongly endorsed a more strategic approach to address challenges associated with geographic isolation.

Recommendations:

63. We recommend that you:
 - a. **agree** that challenges associated with geographic isolation will be addressed through the strategic funding component of the unified funding system

AGREE **DISAGREE**

Next Steps

64. Once the structure of a new strategic funding component has been determined, there are subsequent key design choices to work through and provide you with advice on later this year. This includes how large the quantum of funding for different elements should be, criteria for funding, the period of allocation for any NZIST-specific funding, and the monitoring and accountability arrangements that would accompany funding.
65. We will also undertake further work on the links between the proposed flexible funding approach and other key pieces of work, including the creation of further Centres of Vocational Excellence (CoVEs) and ongoing efforts to make the funding system more responsive. The CoVEs have similar underlying intentions and design features to the flexible funding component. Flexible funding could provide a single mechanism for initiatives like CoVEs in the future.

Item 4: Next steps

66. We will report back on the further work described in this report, including the targeted engagement on both components with tertiary education peak bodies, disabled people's organisations, iwi, and Māori organisations. This engagement will feed into further policy development and operational design.
67. 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: Learner success component A3

Annex Two: Strategic funding A3

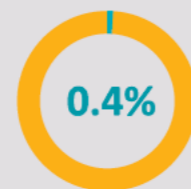
Learner Success Component

Significantly more funding and a simple approach - encouraging tertiary education organisations to keep learner success at the heart of all they do

CURRENT STATE

Current equity funding

- **Is very low (currently 0.4%)**
 - not sufficient to support good equity outcomes for learner groups who are underserved
 - does not recognise additional costs for tailoring educational delivery and support for learners
- **With a very narrow scope**
 - only applies to providers (not TITOs)
 - only for Māori and Pacific learners enrolled in qualifications at New Zealand Qualification Framework (NZQF) level 5 and above
- **And with limited ability to enable or reward tertiary education organisations' (TEO) investment in capability, progress, or improvement.**



A major funding system change...

- With a significantly higher proportion of funding, encouraging TEOs to undertake organisational change to keep learner success at the heart of everything they do
- Recognising there are additional costs for TEOs to fully understand and respond to learners' needs (together with their communities, iwi and employers) with the right tailored learning and support.

...combined with improved TEO monitoring and accountability for learner success

FUTURE STATE

The Tertiary Education Commissions' learner success framework supports TEOs to have:

- Strong leadership and effective relationships with learners and their iwi, communities and employers
- Clear, supported pathways so learners know what's needed before they enrol, and where their qualification can take them (employment or further study)
- Data and technology to better understand and support their learners
- Learners at the centre of decision-making, including teaching and learning environments

...so they can make the organisational shift needed to better support their learners to succeed.

As part of its Learner Success work, TEC is working to introduce a requirement for TEOs to develop Disability Action Plans. These plans will require a disabled learner focus at governance and senior leadership levels and be informed by Kia Ōrite (NZ's Code of Practice for an Inclusive Tertiary Education Environment for Students with Impairments).

WE PROPOSE TO ACHIEVE THIS WITH...

1. Significantly more funding to encourage organisational shifts ...

We propose that the learner success component should be up to 10-20% of total UFS funding.

- This is a significant increase in funding to recognise that the organisational shift required to tailor learning and provide adequate support for learners can have higher costs.
- 10-20% aligns with comparable jurisdictions' targeted funding for equitable learner outcomes.*
- The value of the learner success component needs to balance the size of the equity challenge with the need to incentivise TEOs to focus on learner outcomes rather than just enrolments.

2. Using a simple approach ...

We propose to fund based on enrolments of priority learner groups, so that funding:

- is directed to TEOs with a greater proportion of learners from groups who are at higher risk of poorer education and employment outcomes and may require more tailored education and support
- supports and recognises that greater tailoring of education delivery and support can come at higher cost
- provides predictability to enable TEOs to take responsibility for investing longer-term in learner success in line with the needs of their learners and communities.

We propose that funding is primarily based on enrolments of: **young learners with low prior qualifications (under 25 years and without a prior qualification at Level 3 or above), Māori learners and Pacific learners.**

- As discussed at the December Strategy Session, our analysis and engagement found young learners with low prior attainment were the group most at risk of low achievement in VET and highlighted the need to lift VET system performance to improve education and employment outcomes for Māori and Pacific learners.
- We will develop and test an approach for how TEOs could collect more robust and consistent information about their disabled learners and people with additional learning support needs to support improved sector-wide data collection. Improved data collection will be needed to include this group in learner-based funding (see **next steps** for further work with this learner group).

We propose that funding is simply based on 3 year rolling averages to balance responsiveness to learner needs with enough predictability of funding (and mitigating peaks and troughs) to support TEOs' medium and long-term investment in learner success.



3. Linked to TEOs' progress towards achieving learner success

In order for TEOs to funding in the learner success component, the TEC will need to agree **Learner Success and Disability Action Plans with TEOs. We propose that 10-20% of learner success component funding is linked to progress against TEC's Learner Success and Disability Action Plans, to recognise and reward improvement and innovation.****

The proposed approach sends a strong signal to TEOs that TEC monitoring and investment plan decisions will:

- support their investment in, and innovation for, learner success and
- enable and incentivise them to work flexibly to address their particular learner needs, recognising provider-specific mission and challenges.

This approach balances the need for TEOs to have enough flexibility to do what is needed for their learners' success but with clear expectations established and agreed upfront with the TEC. TEOs would be held accountable for progress against the short, medium and long term goals and actions set out in these plans.

We propose that any performance funding is used as a reward, rather than a punishment. This would mean TEOs could receive progress payments against their Learner Success and Disability Action Plans – in addition to the formulaic funding based on enrolments. This approach aims to create incentives for performance while also ensuring sufficient funding predictability for TEOs to invest in capability and improvement.

We propose that trialling innovative ways to support learner success could be enabled with TEC having the flexibility to directly fund TEOs through use of any underspends (comprised of progress payments which have not been awarded). This has network-wide benefits through sharing lessons learned across the system

NEXT STEPS

Over the next 12 months we propose to engage with targeted groups such as tertiary education and disabled peoples' peak bodies on these proposals. This engagement will inform further policy advice and operational design relating to:

- the **proportion of funding** for progress payments to incentivise TEO innovation and improvement to support learner success
- TEC's **operational design** of decision-making processes and criteria, to guide progress payments against learner success and disability action plans, and to directly fund new and innovative proposals.

- We also propose to engage with some key iwi and Māori organisations on **ensuring accountability** for learners' success.
- In the first half of 2021 we propose to engage with the tertiary education peak bodies and disabled people's organisations on how TEOs can obtain **more robust and consistent information about disabled learners** and people with additional learning support needs. This could lead to sector wide data collection and improved monitoring from 2022.

•9(2)(f)(iv)

* Wales and Scotland allocate 5% and around 10% respectively for equity targeted funding. Australian states vary but on average allocate approximately 7% for equity.

** Investment plan requirements will be scaled to reflect the size of the provider, as is the current practice.

Strategic Component

A new strategic funding component to encourage innovation and increase responsiveness to national and regional skills priorities

RATIONALE FOR STRATEGIC FUNDING

The current tertiary education funding system does not actively encourage TEOs to supply strategically important delivery or to meet national or regional skill needs. Funding policy:

- Encourages TEOs to prioritise the supply of programmes in areas that generate economies of scale, regardless of industry or employer demand
- Fails to recognise scale and other challenges associated with meeting skills priorities in geographically isolated areas.

PROPOSED FUTURE STATE

We propose to 'tilt the system' to incentivise strategically important delivery, through the introduction of up to two new funding approaches, with up to 10% of total UFS funding available for:

- Flexible funding to support innovative proposals from UFS-funded TEOs which respond to national and regional skills priorities
- NZIST-specific funding to address regional skills priorities in geographically isolated areas, in line with charter obligations to ensure access to vocational education in all parts of New Zealand, either as part of the flexible funding pool or as a stand-alone element.

This funding would complement related Government funding support for wānanga capability and investment in te reo Māori and mātauranga Māori.

DISCUSSION POINTS

Officials are seeking to confirm your comfort with:

- The overall direction of travel outlined in this A3 and any specific design priorities
- The inclusion of strategic funding to support IST, either as part of flexible funding (our recommended option) or as a stand-alone element
- Officials sharing the high level proposals set out in this A3 with sector stakeholders, including peak bodies

FLEXIBLE FUNDING TO SUPPORT INNOVATION AND RESPOND TO NATIONAL AND REGIONAL SKILLS PRIORITIES

This would create much needed funding flexibility to enable and reward TEO innovation, in line with national and regional skills priorities. We propose that UFS-funded TEOs would apply for time-limited funding to trial new approaches, learn what works and share best practice. Proposals could come from individual TEOs, partnerships between TEOs, or collaborations between TEOs and third parties, such as industry, employers or iwi.

KEY DESIGN CHOICES FOR GOVERNMENT

1. How large should the quantum of funding be, as a percentage of the overall UFS funding?

We propose that up to 5% of total UFS funding is allocated through this mechanism, because this would:

- Be sufficient to support innovative new projects, without undermining funding predictability for TEOs
- Ensure that providers are able to move successful projects into BAU, (and if too a high a proportion of UFS funding is time-limited, this will affect their ability to do so).

2. What should the process and criteria for funding look like?

Overall, we would expect funding proposals from TEOs to address the regional and national skills priorities set directly by Ministers, or the TEC, with external input from WDCs, RSLGs and iwi. Feedback from the Funding Reference Group indicates that establishing clear and specific criteria for funding and a transparent allocation process should be a priority.

As part of the allocation and selection process, there will be a need to balance:

- Enabling innovative 'bottom up' proposals from TEOs with good ideas – indicating that the criteria for funding should not be prescriptive about how exactly to address a given priority, and
- Avoiding setting funding criteria that are too high-level, as this could create high administrative costs for the TEC and TEOs, due to the high number of likely proposals with a correspondingly low success rate. Funding criteria that are too high-level would also reduce transparency of allocation decisions for TEOs.

There are potential options to address these competing objectives, which we would like to test with you:

- Draw on the model used by the National Science Challenges. This would involve establishing an expert panel to set high-level priorities, to apply to given period of time, and/or a specific funding allocation round
- Have priorities be set directly by Ministers, or the TEC, with external input from WDCs, RSLGs and iwi
- Related options to increase transparency and maximize benefits include:
 - Allowing the TEC to agree the duration and timing of payments to be determined on a project-by-project basis, but setting a maximum funding period for individual proposals
 - Setting clear expectations about the size of funding for individual proposals, to avoid multiple small applications, and to ensure proposals are of sufficient scale to enable and test new delivery models and approaches (our initial thinking indicated this could sit at around \$1million - \$2million per project).

3. What monitoring or accountability arrangements could accompany this funding?

We would expect successful proposals to include evidence of clear benefits, an evaluation plan, milestones and robust costings. We recommend that the TEC is given the flexibility to:

- Link funding to progress against milestones, agreed upfront as part of the contract for funding
- Respond quickly, where there is evidence a proposal is not delivering against expectations, including exiting early from unsuccessful projects.

We also recommend accountability to key external stakeholders is part of the monitoring framework for successful proposals. This provides an opportunity to strengthen industry and iwi voice.

STRATEGIC FUNDING TO SUPPORT NZIST TO MEET THEIR CHARTER OBLIGATIONS TO ENSURE ACCESS TO VOCATIONAL EDUCATION IN ALL PARTS OF NEW ZEALAND

One of the key objectives for the establishment of the NZIST was to create a sustainable national network of vocational education. However, providing education delivery and support for work-based learning is more costly in areas of geographic isolation, due to issues such as scale and travel. To support NZIST to enable access and meet regional skills priorities we need to address these longstanding cost challenges.

KEY DESIGN CHOICE – INCORPORATED INTO FLEXIBLE FUNDING OR A STAND-ALONE ELEMENT?

We have identified two ways that we could look to support NZIST to enable access and meet regional skills priorities through strategic funding. The funding could be incorporated into the flexible funding, with NZIST applying as part of that process or this could be done as a stand-alone element.

We are recommending the former, incorporating funding into the flexible funding element. If this option was chosen, we would look to ensure that there was a strong focus on the issues associated with geographic isolation as part of the criteria for initial funding rounds, while retaining the flexible nature of the fund.

We have also set out below the key design choices for a stand-alone element.

KEY DESIGN CHOICES FOR GOVERNMENT IF A STAND-ALONE ELEMENT WAS CHOSEN

1. How large should the quantum of funding be, as a percentage of NZIST's funding?

We are seeking your feedback on the potential size of NZIST-specific funding. Key trade-offs include setting a funding level that is sufficient to support access across New Zealand, but not so large that it:

- Discourages efficiency or compromises funding system responsiveness to changes in demand or need
- Creates a potentially unfair competitive advantage to NZIST, and affects the sustainability of VET across all other TEO subsectors.

There are limited international examples of tertiary education funding to address challenges associated with geographic isolation, which come from Scotland, Wales and Australia and range from 1.7% to 5%* of provider's funding. Within this range, NZIST-specific funding would fit within the total UFS funding we are proposing for both elements of strategic funding.

As a comparison, core funding for Crown Research Institutes (CRIs) is set at a much higher level (20%), which reflects the contestable nature of all other CRI funding, and the resulting instability this creates. The investment plan process creates a much higher level of funding predictability for New Zealand TEOs, indicating the quantum of NZIST-specific funding should be set at a lower level.

2. What should be the period of allocation for funding?

As a starting point for discussion with the sector, we propose a funding allocation period of 3 - 5 years, as this would:

- Recognise the long-standing challenges associated with meeting regional skills priorities in areas of geographic isolation and the need to support NZIST's long-term planning and capability
- Align with CRI science investment funding, and represent a significant shift from current 1-3 year investment plans.

3. What monitoring or accountability arrangements could accompany this funding?

We propose that NZIST develops a strategic plan for the period of allocation, with associated performance commitments, for TEC approval. TEC will monitor against these commitments. There is also an opportunity to reinforce accountability to key stakeholders through the plan approval and monitoring process. This could include RSLGs, WDCs, and iwi representatives.

Officials do not recommend tying funding directly to performance within the period of allocation as this would undermine funding predictability. However, past performance could inform the quantum of future funding at the end of an allocation period.

* Wales allocated 5% of funding based on multiple considerations (of which rural location is one)