MINISTRY OF EDUCATION
TE TĀHUHU O TE MĀTAURANGA

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Hin. Hipkins

Tertiary Education
Commission
Te Amorangi Mātauranga Matua

Education Report: High-level decisions on the unified funding system for discussion at the strategy session on 12 December

To:	Hon Chris Hipkins, Minister of Education		
Date:	3 December 2019	Priority:	High
Security Level:	Budget Sensitive	METIS No:	1210568
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Messaging seen by Communications team:	No	Round robin:	No

Purpose

The attached annotated agenda provides an update on the progress of the unified funding system project. We are seeking your feedback on initial policy design choices and high-level decisions to guide the direction of further work with sector experts and end-users in 2020.

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Recommended actions

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

a. **note** that officials wish to discuss a number of high-level decisions on the initial policy design decisions set out in the attached Annotated Agenda at the strategy session on 12 December

Noted

b. **forward** this briefing and attachments to any additional ministers you may wish to inform

c. **proactively release** this Education Report and attachments after Cabinet decisions on a strategy to manage the fiscal implications of the Reform of Vocational Education in 2020 (which you will receive a draft of on 11 December).

Release / Not Release

Grant Klinkum
Deputy Secretary, Graduate Achievement,
Vocations and Careers
Ministry of Education

3 / 12 / 2019

Gillian Dudgeon
Deputy Chief Executive – Delivery
Tertiary Education Commission

3 / 12 / 2019

Hon Chris Hipkins
Minister of Education

12 / 12 / 19

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Context

1. On July 22, Cabinet agreed to develop a unified funding system to apply to all provider-based and work-integrated education at certificate and diploma qualification levels 3 to 7 (excluding degree study) and all industry training [CAB MIN 0354 refers].

2. In September, we provided you with an update on our work to establish a Funding Reference Group, and to plan and undertake upcoming engagement and analysis [METIS 1204429 refers].

3. On 12 December you are scheduled to have a strategy session on the unified funding system. The attached annotated agenda is intended to support the discussion.

4. Officials are seeking your feedback on initial policy design choices and high-level decisions to guide the direction of further work with sector experts and end-users in 2020. In particular, we are seeking your agreement for further work to design:

   a. a new funding category system should include a focus on fields of study and modes of delivery

   b. a learner-based funding component should explore different funding approaches to meet the needs of each learner group, and focus on:

      i. young learners with low prior attainment

      ii. Māori learners

      iii. Pacific learners

      iv. disabled learners

      v. learners in isolated areas

   c. strategic funding should focus on better aligning the skills supply with demand, and supporting innovative programme design and delivery.

5. We are also seeking your views on the potential size of different components of the unified funding system, and your preferred approach to transitioning from one funding system to the next.

6. We think there would be value in sending an early signal of the direction of future funding changes. We are seeking your agreement to develop two proposals, as first steps, for inclusion in the February 2020 Reform of Vocational Education fiscal implications Cabinet paper, for potential implementation in 2021:

   a. A new strategic fund to support the design and development of new work-integrated delivery models

   AND EITHER

   b. A new learner-based funding premium for tertiary education organisations to support young learners with low prior attainment who enrol in qualifications at levels 3 to 7 (excluding degree study)

   OR

   c. Extending strategic funding to fund projects to support young learners with low prior attainment in vocational education.

Attachment

Attachment one: Annotated Agenda - High-level decisions on the unified funding system for discussion at the strategy session on 12 December (with three annexes).

Annotated Agenda – High-level decisions on the unified funding system for discussion at the strategy session on 12 December

Reform of Vocational Education
12 December 2019

Attendees	Minister of Education, Hon Chris Hipkins
	Other Ministers to be confirmed
	Officials to be confirmed

This annotated agenda provides an update on the progress of the unified funding system project. We are seeking your feedback on initial policy design choices and high-level decisions to guide the direction of further work with sector experts and end-users in 2020.

Item 1: Introduction

Background

1. On 22 July, as part of the Government's Reform of Vocational Education (RoVE), Cabinet agreed to develop a unified funding system. A new funding system is an essential element of the reformed vocational education system, to enable the integration of provider-based and work-based learning, ensure learners can access more work-relevant and tailored support, and enable new models of education delivery that are more responsive to employer and industry demand.

2. Cabinet agreed that the unified funding system will apply to all provider-based and work-integrated education at certificate and diploma qualifications levels 3 to 7 (excluding degree study) and all industry training. Cabinet also agreed to four design principles to guide this work, that is, that the unified funding system should:

    a. reward and encourage the delivery of high-quality education and training which meets the needs of learners, communities and employers

    b. support access to work-based education and training and encourage growth of work-integrated delivery models

    c. supply strategically important delivery to meet national priorities, address regional labour market demand, and be highly responsive to employer skill needs

    d. allocate funding through simple and transparent funding mechanisms which ensure provider accountability, and provide for greater stability as a platform to invest in innovation and growth [CAB-19-MIN-0354 refers].

3. You reported to Cabinet that future work, informed by end-user perspectives and sector experts, would focus on the development of three new funding components:

    a. *A new funding category system* to set funding categories for different modes or types of tuition and training with different underlying costs, and to set the relative funding weight to assign to each category

    b. *A new learner-based funding approach* to recognise the higher costs of delivery that responds to a range of students' and trainees' needs, and to incentivise improved system performance for traditionally underserved learners (especially Māori, Pacific and disabled learners)

c. *A new funding approach for strategically important delivery* to support national priorities and to increase responsiveness to regional labour-market demand. This could include sector-specific funding for wānanga and/or the New Zealand Institute of Skills and Technology (NZIST).

Overview of work to date

4. The development of a new unified funding system represents a major reform agenda, which requires a multi-year programme of work to design and implement. The 'direction of travel' 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.

5. Over recent months officials have undertaken the first phase of evidence gathering, engagement and data analysis to inform initial policy design options for the unified funding system. This has had a strong focus on understanding:

    a. what priority learners (Māori, Pacific, and disabled learners) want and need from the future vocational education and training (VET) system, and system performance for different learner groups

    b. collecting and analysing financial data to understand the *current* costs of education delivery, and support to work-based learners.

6. Table 1 provides a summary of evidence gathering, engagement, and analysis that has informed work to date. The results of this analysis are included in the following sections. This is a first step only – to design a fit-for-purpose, future-focused funding system, we cannot rely entirely on historic data collection and analysis. As we discuss further in the following two sections of this AA, the first stage of this work has highlighted some significant data gaps, which we will need to work with the sector to address to inform future policy design and cost modelling.

Table 1: a summary of evidence gathering, engagement and analysis to date

Evidence gathering and engagement	Learner-based data analysis	Financial and delivery cost analysis
• International comparison of VET funding systems. • Evidence from previous engagement and research on what works and what the challenges are for priority learner groups in VET. • Targeted learner workshops with over 80 Māori, Pacific and disabled learners to explore VET system challenges and how tertiary education organisations can support learners' success.	• Analysis of VET system performance for Māori, Pacific, and disabled learners. • Analysis of potential risk factors associated with achievement in VET.	• Analysis of government funding and delivery costs across broad fields of study for all public tertiary education institutions. • Industry training data collection and analysis of cost drivers for industry training *(analysis is ongoing)*. • Institutes of Technology and Polytechnics (ITPs) data collection and analysis of delivery costs by mode of delivery, location and learner group *(data collection and analysis is ongoing)*.

7. Officials have also been working closely with a Funding Reference Group (FRG) to test ideas and understand the potential implications of different funding system changes. The FRG includes an independent Chair and a mix of experts from across the tertiary sector. The FRG has an operational understanding of how funding influences the behaviour of tertiary education organisations (TEOs), industry experience, and the ability to engage with the strategic goals of the reforms. Between September and November 2019, we held five meetings with the FRG.

8. The remainder of this Annotated Agenda (and related annexes) provide a basis for an open discussion at the upcoming Strategy Session on 12 December of potential future policy directions. We seek your views on initial policy design choices to inform further data collection, analytic work, and engagement with the sector and end-users in 2020. As the funding policy work progresses, we will need to consider the interplay with other related RoVE changes, including the introduction of

Workforce Development Councils, Centres of Vocational Excellence, and Regional Skills Leadership Groups.

9. The structure of this Annotated Agenda is as follows:

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

    Item 3: Introducing a learner-component to funding

    Item 4: Introducing a strategic approach to funding

    Item 5: Wider issues and themes raised by the Funding Reference Group

    Item 6: Structure of the future unified funding system and potential approach to phasing

10. There are also three annexes which accompany this report:

    Annex One provides an overview of the current VET funding system (Powerpoint slides)

    Annex Two provides further analysis of learner groups we considered for learner-based funding

    Annex Three is an overview A3 for the strategy session which provides initial ideas on the future design of the unified funding system and identifies some key strategic choices.

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

Rationale and design principles for a new funding category system

11. 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 want to address the needs of learners and employers. Having separate funds for work-based learning and provider-based learning results in:

    a. unhelpful competition and discourages co-operation between organisations supporting work-based and provider-based learning

    b. challenges in maintaining a sustainable network of provision across business cycles (as provider enrolments tend to decrease and demand for work-based learning increases in times of high employment and vice versa)

    c. limited work-integrated learning opportunities for provider-based learners and limited learning and pastoral support for work-based learners.

12. We expect a new funding category system to provide an important foundation for the unified funding system. International comparisons show that funding based on volume (the credit value or amount of learning undertaken) and rate (the price paid for different programmes of learning) is a core component of tertiary education funding systems.

13. Significant mismatches between delivery costs and funding levels can influence TEO's decisions about the viability of delivery in areas that are relatively under-funded, with a negative impact on quality and/or learner access to education. TEO's also face incentives to prioritise the supply of programmes or delivery models that are relatively more profitable – regardless of industry or employer demand.

14. As a result, getting the funding incentives 'right' to support responsive education delivery and the growth of high-quality, work-integrated delivery models is critical to the success of the future VET system. A new approach to government funding for provider-based, work-integrated and work-based learning will complement the incentives created by strategic funding and learner-based funding.

15. Set out below is how we think the overarching design principles for the unified funding system should apply to the development of a new funding category system:

    a. Funding rates should enable and encourage shifts to work-integrated delivery models (so more provider-based learners gain exposure to learning in the work-place, and more work-based learners can access increased learning and pastoral support)

b. Providers should not face perverse incentives to under- or over-supply particular types of provision due to significant mismatches between costs and government subsidy rates

c. Criteria for different funding categories should be clear, with the number of different funding rates kept to the minimum required to meet policy objectives.

16. These principles have informed the development and assessment of initial policy options for the design of a new funding category system. This initial advice also draws on an awareness of VET funding system design in other jurisdictions, feedback received through the RoVE consultation earlier this year, and our assumptions that the new system should:

a. recognise major variations in delivery costs across different types of programmes, but be future focused (historic costs may not accurately reflect high-quality future delivery models)

b. be neutral across providers (i.e. the same rate should apply to the same type of education delivery, and in-work support, regardless of provider type)

c. be formula-driven, with funding rates linked to the amount of learning undertaken, and allocated through the Investment Plan system.

Recommendations:

17. We recommend that you:

a. **discuss** with officials the design principles and assumptions about a new funding category system set out in paragraphs 15 and 16

What should be the basis for a new funding category system?

18. The first high-level policy design question to resolve is what should funding categories be based on? Officials have tested the following three options with the FRG:

Option A: Base future funding categories on subjects areas/fields of study *only*

Option B: Base future funding categories on modes of delivery *only* (e.g. online, provider-based, work-based, work-integrated)

Option C: Base future funding categories on a mix of fields of study and modes of delivery.

19. Table 2 provides a description and initial assessment of each option. The approach set out for each option is not exhaustive. The detailed design of funding categories will require further engagement with the sector and key stakeholders, as well as new data collection, analysis, and modelling.

20. The three high-level options have quite different implications for how funding would be allocated (or reallocated) across the system.

Table 2: High-level policy design options for a new funding category system

Option	Approach	Initial assessment
Option A: Base future funding categories on fields of study only	• Funding categories would recognise broad cost differentiation across *subject areas/fields of study only.* • This option would build off the current Student Achievement Component (SAC) tuition subsidy funding system and assign field of study-based funding rates to programmes of work-based learning which are currently funded through the Industry Training Fund. • Funding would align to *which* courses/programmes/qualifications are supplied, rather than *how* they are delivered. • Government subsidy rates would not vary by delivery mode (i.e. within a field of study, work-based, work-integrated and provider-based delivery would all be funded at the same rate).	• This approach prioritises design simplicity. • This would be relatively straightforward to implement but at the likely expense of other system objectives and outcomes, especially growth of higher cost work-integrated delivery. • This approach could create perverse incentives for providers to maintain or expand the lowest cost delivery models, such as: a) wholly provider-based or online learning delivery (i.e. with no exposure to work-based learning) b) solely work-based learning (i.e. with no or limited learning and pastoral support).

Option	Approach	Initial assessment
Option B: Base future funding categories on modes of delivery only	• Funding categories would recognise broad cost differentiation across *modes of delivery only* (e.g. online, provider-based, work-based, work-integrated). • Specific modes of delivery and the relative rates between different delivery modes would be confirmed subject to further cost analysis. • Government subsidy rates would not vary by field of study (i.e. all provider-based delivery would be funded at the same rate, regardless of relative delivery costs).	• This approach prioritises support for work-based learning, growth of work-integrated delivery, and - to a lesser extent - design simplicity. • This would represent a significant change to current funding models. All courses and/or programmes would need to be assigned a 'delivery mode'. • Government subsidies would not recognise any variation in delivery costs across fields of study. • This approach could create perverse incentives for providers to shift towards low-cost fields of study and/or away from higher-cost fields of study (e.g. those which involve higher capital costs and/or staff ratios and learning via workshops, or fieldwork).
Option C: Base future funding categories on a mix of fields of study and modes of delivery	• Funding categories would take into account *both* field of study and delivery mode. • This option would look to support shifts towards work-integrated delivery models, while recognising major cost differentials across fields of study. • In principle, higher-cost delivery modes and subject areas would receive higher subsidy rates than lower-cost delivery modes and fields of study.[1]	• The approach prioritises high-quality education and training which meets learner and employer needs, and growth of work-integrated delivery, over design simplicity. • The introduction of funding based on delivery mode could be accompanied by rationalisation of subject-based tuition subsidy funding categories into a smaller number of price groupings (e.g. low, medium, high), to address the principle of design simplicity. • Further delivery cost analysis is required to inform which and how many potential cost drivers associated with either field of study or delivery mode should be taken into account in the design of new funding categories.

21. As set out in Table 2, we think Option C would best support the outcomes the Government is seeking from the RoVE. This preference for Option C was reinforced through our engagement with the FRG members. We recognise, however, that this option is relatively more complex to administer than either Option A or B.

22. Basing future funding categories on a mix of fields of study and modes of delivery would represent a major funding change. Assuming total government funding remains constant, Option C would likely involve:

    a. rationalisation of existing tuition subsidy funding categories, but the retention of significant funding differentials across broad fields of study, aligned to differences in delivery costs

    b. relatively lower premium(s) for lower-cost modes of delivery, such as:

       i. skills accreditation or assessment only (to recognise prior learning where training is undertaken solely by employers)

       ii. solely provider-based learning (especially in lower cost fields of study)

       iii. low-cost online-only delivery (subject to further cost analysis)

    c. relatively higher premium(s) for higher-cost work-integrated learning to support and incentivise programmes which include:

       i. significant on-job learning and pastoral support for work-based learners

       ii. a mixture of on-job and off-job components (for learners with training agreements as well as those who enrol with providers).

23. There are future choices about how many future funding categories there should be and how these should be defined. This will involve balancing complexity, to acknowledge cost differentiation across

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[1] By retaining some differentiation by field of study, Option C would also enable Government to implement the outcomes of the education-wide review of funding for te reo Māori, by applying a price adjustment to te reo Māori courses and/or qualifications.

work-based and work-integrated delivery models, with administrative simplicity. FRG members reinforced that setting the 'right' funding relativities between funding categories is critical to avoid creating perverse incentives for TEOs to design and deliver programmes to maximise revenue, rather than to meet learner and employer needs.

24. FRG members indicated that they support a future funding system which takes into account both field of study and delivery modes (provider-based, work-based, and work-integrated). However, a number of members queried the rationale for, and potential impact of, creating a new funding category with lower rates for online delivery. FRG members reinforced that while online delivery may have different cost structures to provider-based delivery, high-quality, modern online delivery is not necessarily less expensive. Creating relatively lower premiums for online delivery could therefore entrench low cost and/or lower value delivery models.

25. FRG members also noted that blended delivery, which involves a mix of online, face-to-face, and/or work-based learning, plays an important role in meeting the needs of learners combining study with work and caring responsibilities. Potential funding design solutions – such as differentiating between low-cost, self-directed online learning, and more intensive or blended online delivery - would add administrative complexity to the new system.

Recommendations:

26. We recommend that you:

   a. **discuss** with officials the three options for a new funding category system [see Table 2]

   b. **agree** that further work to design a funding category system should include a focus on fields of study and modes of delivery

   AGREE / DISAGREE

Confirming future funding categories – proposed next steps

27. Our current information systems do not collect information about delivery modes – or *how* TEOs provide education delivery and support for work-based learners. We also do not know the extent to which individual TEOs capture and record information about each learner outside of standard reporting processes. This means further sector engagement, data collection, analysis, and modelling will be required in 2020-2021 to inform the design of future funding categories.

28. Our initial work to collect and analyse current financial data from industry training organisations (ITOs) about cost drivers and variation in costs to support work-based learners has reinforced the challenges of using historic data as a basis for future modelling. ITOs have signalled that they do not currently disaggregate arranging training costs by location, employer size/number of trainees, and mode of delivery (or in many cases, even industry sector). This reflects the fact that the current funding system for work-based training does not differentiate funding on the basis of any of these factors.

29. A number of ITOs have, however, indicated that they are willing to work with us to develop a 'bottom up' model of costs linked to different types of support for work-based learners. A more future-focused approach to cost modelling would also address concerns that historic delivery costs will not necessarily reflect the type or level of support for work-based learners that we want to see in the future VET system. We propose undertaking further work to explore costs associated with different types of support for work-based learners with selected ITO experts in the New Year. This work will also be informed by the best practice models being explored by the NZIST establishment unit's co-design working group for work-based learning.

30. More robust information about delivery costs *across fields of study* is available from public tertiary education institutions, through data collected in the New Zealand Benchmarking Tool (NZBT). We have now completed analysis of relative costs and tuition subsidy funding across broad fields of study using NZBT data. We are currently working with the ITPs and Te Wānanga o Aotearoa to collect and analyse new information about relative costs across modes of delivery, location of delivery site, and learner group. This work includes a focus on current costs associated with online delivery.

31. One FRG member (Kim Crosland, chief executive of ITENZ) has signalled the private training establishment (PTE) sector's willingness to work with us to address current data gaps for both work-based and provider-based learning. This may prove a useful supplement to information from public tertiary education providers and industry training organisations, particularly PTEs which represent a significant proportion of current education delivery and support to work-based learners in particular industries or fields of study.

Recommendations:

32. We recommend that you:

    a. **discuss** with officials the proposed next steps for the design of future funding categories

Item 3: Introducing a learner-component to funding

Rationale for learner-based funding and design principles

33. Some groups of learners are underserved by the VET system. This means that they may participate in VET in lower numbers, complete VET qualifications at lower rates and/or experience poorer employment outcomes from VET.

34. This could be for a range of reasons, for example, TEOs may:

    a. not always be able to identify learners' needs

    b. not prioritise improving performance for particular groups of learners

    c. not always have the expertise to meet learners' needs

    d. require additional funding to meet learners' needs.

35. Funding can be a powerful lever to influence TEO behaviour. However, in our current funding system, one-size-fits-all funding does not generally encourage or support TEOs to target help to those who need it most, or to tailor their learning or pastoral support to meet individual learners' needs.

Current Equity Funding is poorly designed to meet the needs of learners

36. The proportion of total funding for provider-based delivery at levels 3 to 7 (excluding degree study) that goes to Equity Funding is very low by international standards – less than 1%. As Table 3 shows, Equity Funding is also poorly targeted (for more information on Equity Funding and the current funding system, see Annex 1).

Table 3: Current state of Equity Funding

Māori and Pacific learners	Disabled learners

• Providers receive a small tuition subsidy top-up for Māori and Pacific learners enrolled in a qualification at New Zealand Qualification Framework (NZQF) level 5 and above. This means that Equity Funding does not directly support providers to enrol and meet the needs of Māori and Pacific learners below level 5.
 	
• ITOs are not eligible for Equity Funding. This means that Equity Funding does not directly support ITOs to meet the needs of Māori and Pacific learners. But it is within industry training where the current system underperforms for Māori and Pacific learners:
 	
  o Māori and Pacific learners are underrepresented in industry training and apprenticeships (NZQF level 4) compared to New Zealand European learners.
 	
  o Māori and Pacific learners in apprenticeships have lower completion rates than New Zealand European learners (see Annex 2 for more information).
	• Public tertiary education institutions receive a small tuition subsidy top-up for all learners, regardless of whether they have a disability, enrolled at any qualification level. While it is expected that public tertiary education institutions use this top-up to support their disabled learners, the top-up is not targeted to disabled learners.
	
	• PTEs and ITOs are not eligible for Equity Funding for disabled learners (you will receive advice shortly on a proposal to extend Equity Funding for disabled learners to PTEs).
	
	• Disabled learners have told us that they want their qualifications to better prepare them for work, which means that it is important that disabled learners are supported in work-based learning.

A well-designed learner-based funding component could improve VET system performs for learners

37. Designing the new unified funding system with a learner-based funding component could better target support to learners who need it and improve the way the VET system performs for learners.

38. Set out below is how we think the overarching design principles for the unified funding system should apply for learner-based funding:

    a. Funding recognises that learners require different learning and pastoral support, and that some this comes at a higher cost

    b. Funding incentivises improved system performance for groups of underserved learners

    c. Funding design encourages equity of access, achievement and outcomes across provider-based, work-integrated and work based learning

    d. Learner groups that attract funding are relatively large

    e. Learner characteristics that attract funding are: reliable; evident to providers at (or close to) enrolment; verifiable (by provider or audit); are not easily subject to gaming; do not require providers to collect (or learners to provide) information that may seem overly personal

    f. The number of different learner groups that attract funding is kept to a minimum.

39. A learner-based approach to funding does not mean that funding would be used only for particular learners and/or particular needs. Providers will still be expected to identify the unique needs of all their learners, make decisions about how they support them, and allocate funding accordingly.

40. This means that the indicators we use to link funding to learners should be sufficiently robust to (re)allocate money to providers with a greater proportion of learners requiring greater tailoring of education delivery and support. Indicators do not have to precisely identify all learners at risk of being underserved by the VET system.

Recommendations:

41. We recommend that you:

    a. **discuss** with officials the design principles for learner-based funding in paragraph 37

Identifying learner groups to consider for funding

42. We have used a mixture of quantitative and qualitative analysis to identify and understand which groups of learners could benefit most from a learner-based approach to funding. We focused our analysis on factors that are likely to indicate a greater need for tailoring of education delivery and support, including the factors which are the most helpful in predicting whether a learner is at risk of not achieving a VET qualification.

43. There is a large body of research which explores relationships between different individual, family, and socio-economic factors and tertiary education participation, achievement, and outcomes. We focused our analysis on low prior education, low literacy and numeracy skills, low socioeconomic background, age, ethnicity, disability, and living in an isolated area.

44. Our analysis aimed to identify the learner characteristics which are most helpful in predicting whether a learner is at risk of not achieving a VET qualification. We also focused primarily on achievement rather than participation, because learners with the characteristics noted above tend to be over-represented in VET (compared in some instances to being under-represented at universities or in degree-level study).

45. We also considered analysing a wider range of factors which previous research has shown are associated with tertiary education participation and achievement for school leavers (such as young parenthood, parental education, and engagement with the justice sector). However, many of these factors are complex, interact with each other and other factors, and are either less relevant for the older age profile of many VET learners, or more difficult for providers to identify or verify at the point of enrolment.

46. In addition to quantitative data analysis, we drew on information about the experience of New Zealand learners in the VET system, in particular about learning and pastoral support that learners

need to succeed in VET and how this support needs to improve. We undertook new targeted workshops with over 80 Māori, Pacific and disabled learners to better understand both the challenges faced by those who engage in the VET system, and also how TEOs can support learner success. We have also drawn on previous consultation and engagement findings.

47. Our analysis shows that learner-based funding would likely have the most impact if directed at five groups of learners, as set out in Table 4.

Table 4: Potential groups of learners to attract funding

Learner group	Rationale
Young learners with low prior education	*Definition: Learners under age 25 who have not previously achieved a qualification at NZQF levels 3 or above.* Young learners with low prior education are particularly at risk of not achieving a VET qualification compared to young learners with higher prior education. This combination of variables – youth and low prior education – is the strongest predictor of not completing a VET qualification of the learner characteristics we examined (older learners with low prior qualifications is not a useful predictor of completing a VET qualification.)
Māori learners	Māori learners are less likely than New Zealand European learners to enrol in or complete qualifications in industry training, including apprenticeships, which are more closely associated with better employment outcomes. Māori VET graduates are less likely than New Zealand European VET graduates to be in employment four years after completing their qualification, and those in employment have lower median earnings. When considering how the VET system performs for Māori learners across a number of variables (e.g. age, field of study, subsector and provider), we see further differences in patterns of participation, achievement and outcomes for Māori learners compared to New Zealand European learners. Overall, VET system performance for Māori learners is complex. Māori learners want to see teaching and learning that better reflects and fosters their identity, language, culture, and values as well as cultural competency in TEOs to be able to understand and respond to their needs.
Pacific learners	Pacific learners are less likely than New Zealand European learners to enrol in qualifications in industry training, including apprenticeships, which are more closely associated with better employment outcomes. Pacific learners in apprenticeships also have slightly lower qualification completion rates compared to New Zealand European learners, and Pacific VET graduates are less likely than New Zealand European VET graduates to be in employment four years after completing their qualification. When considering how the VET system performs for Pacific learners across a number of variables (e.g. age, field of study, subsector and provider), we see further differences in patterns of participation, achievement and outcomes for Pacific learners compared to New Zealand European learners. Overall, VET system performance for Pacific learners is complex. Pacific learners want to see their faith-based values and Pacific languages, practices, histories and stories including in their learning, and more flexible learning options that allow them to work and earn at the same time.

Disabled learners	Younger disabled learners, particularly those with higher support needs, are less likely to participate in industry training.
	
	Many disabled learners require individualised, and sometimes higher-cost, learning and pastoral support. However:
	
	  o there is a significant reduction in education funding for disabled learners after age 18
	  o the Ministry funds almost 50 different services as part of learning support for those aged 5 to 18. This reduces to approximately 8 for those aged 18 to 21, with only 2 funds available for use at tertiary education providers.
	
	Disabled learners have told us that they need more accessibility services and teaching staff who are better able to support their needs. They also want to be more work-ready after completing qualifications.

Isolated learners	*Definition: Learners whose address prior to start date is estimated to be above the isolation threshold in the revised school and ECE isolation index that is currently in development* *(an alternative is to link funding to provider/employer sites that are isolated. See paragraph 72).* The higher cost of delivering to learners in isolated areas may limit their options for enrolling in VET. Because of the higher costs for TEOs, providers may not offer VET in isolated areas, or there may be risks to the quality and viability of their offerings.

48. The FRG is largely supportive of the proposed focus on these five groups of learners. Some members questioned why low literacy and numeracy and low socioeconomic status were not included, as they explained that within their TEOs, they find these learners need more support. However, our exploration of available indicators of low literacy and numeracy, and low socioeconomic background found that these were not useful predictors of success in VET. See Annex 2 for more information.

49. Some of the issues that we have identified reflect disadvantages that Māori, Pacific, and disabled people can experience in the labour-market. Better-designed VET funding policies can contribute to improving outcomes for learners, but active labour-market policies may also be needed to address labour-market disadvantages and particularly to improve participation and achievement patterns for some Māori, Pacific, and disabled learners in work-based training.

Recommendations:

50. We recommend that you:

    a. **discuss** with officials the above analysis of learner groups that could be linked to funding

    b. **agree** that further work to develop proposals for learner-based should focus on the five identified learner groups:

        I. young learners with low prior attainment

                                    AGREE / DISAGREE

        II. Māori learners

                                      AGREE / DISAGREE

        III. Pacific learners

                                      AGREE / DISAGREE

        IV. disabled learners

                                      AGREE / DISAGREE

        V. learners in isolated areas

        VI. *learners with low literacy + numeracy*   **AGREE / DISAGREE**

How funding could be linked to these learner groups

51. There are a number of ways in which learner-based funding could be linked to these groups of learners. We have identified the key high-level policy choices in Table 5.

Table 5: Key high-level policy choices for learner-based funding

Simplicity vs complexity	• Using the same funding approach for each learner group • Tailoring learner-based funding to recognise different issues and needs for each learner group
Formulaic vs negotiated	• Directly related to enrolments • Enrolments as a starting point for negotiation according to each TEO's strategic commitments
Enrolments vs performance	• Solely enrolments • Enrolments plus formulaic learner performance measures (retention, progression, completions, or other measures) • Enrolments plus provider-by-provider strategic commitments (each TEO's individual agreements with the Tertiary Education Commission (TEC), recognising each TEO's starting point, performance challenges, learner populations, etc.)
Bulk funding vs direct funding / purchasing	• Bulk funding, where TEOs make decisions about internal allocations • Direct funding/purchasing of specific services
Shorter vs longer funding approvals	• Aligned with TEC's current payment schedules • Longer than TEC's current payment schedules

52. Given the principles for this workstream and our analysis to date, we think that learner-based funding could be most effective if it were made up of different approaches according to different groups of learners. This would add complexity, but increase the effectiveness of learner-based funding. In designing the details of learner-based funding policies, it will be important to prioritise transparency to ensure that the system does not become unwieldy.

53. The following sections set out how we think these choices in Table 5 could be best applied to link funding to each learner group.

Young learners with low prior education

54. Patterns of participation and achievement for this group of learners are relatively straightforward, meaning a relatively simple formulaic approach to funding would be sufficiently targeted to meet these learners' needs. It would also support providers to enrol learners in the highest qualification in which they are likely to be successful.

55. Funding could be derived from a formulaic approach directly related to enrolments. TEOs would then determine how to spend their funding to meet the needs of their young learners with low prior education. Funding could be paid in bulk and aligned with TEC's current payment schedules. To incentivise good outcomes for these learners, a set portion of each TEO's funding amount could be paid upon achieving select learner performance metrics (e.g. course completion, progression, qualification completion, etc.).

56. The FRG gave mixed feedback on linking funding to learner performance, with some valuing the incentives this puts on providers to support their learners, and others strongly against a formulaic approach that does not account for each learners' starting point or positive outcomes (such as employment before finishing a qualification). Any links to performance would have to be carefully designed with sector input.

57. This approach would align well with the principles for this workstream, particularly designing allocation mechanisms that are simple and clear.

Māori and Pacific learners

58. Patterns of participation and achievement for these groups of learners are complex, meaning formulaic funding would have to be complex and granular to be sufficiently targeted. We believe an approach that allows TEC and TEOs to negotiate funding linked to each TEO's strategic commitments would better enable TEOs to meet the unique needs of their Māori and Pacific learners.

59. Strategic commitments could involve capability building for staff, developing specific support strategies or services for learners, meeting certain performance targets, etc. (it will be important to design this to ensure that any additional compliance for TEOs and TEC is worthwhile, particularly for small PTEs, where it might be more appropriate to have a more formulaic approach).

60. This means that enrolments could be a starting point for funding negotiation according to each TEO's strategic commitments as agreed via their Investment Plan. Strategic commitments would set out how each TEO intends to meet the needs of its Māori and Pacific learners. TEOs would then determine how to spend their funding according to the needs of their Māori and Pacific learners and their strategic commitments.

61. TEC could have the ability to withhold funding if commitments are missing or insufficient. To incentivise TEOs to achieve their commitments, TEC and each TEO could negotiate a portion of each TEO's funding to be paid upon achieving expectations in the Plan. Funding could be paid in bulk, but could be agreed over multiple years to allow TEOs to plan and achieve longer-term strategic commitments.

62. TEC is already working closely with TEOs to achieve patterns of parity for Māori and Pacific learners. This proposal could support TEC's and TEOs' efforts, and accelerate change, for Māori and Pacific VET learners.

63. This approach is more complex than the simple, formulaic approach proposed for young learners with low prior education. But we believe this is the simplest way to design a funding approach linked to ethnicity that recognises the complex performance patterns for Māori and Pacific learners, the varying capabilities of providers, and the different needs of each TEO's learners and communities.

64. The FRG has expressed mixed views on our proposed approach of linking funding for Māori and Pacific learners to negotiated strategic commitments. Some support the approach as it would recognise that each TEO has different needs. Others are concerned that it would be difficult for TEC to be transparent about how funding is linked to strategic commitments.

Disabled learners

65. As with Māori and Pacific learners, patterns of participation and achievement for this group of learners are complex, meaning funding that is entirely formulaic would have to be complex and granular to be sufficiently targeted. Further, disabled learners have a range of needs, and the costs of providing support for these needs can vary significantly. This means that a bulk funding approach, where each TEO decides how to allocate support for their learners, could perversely incentivise TEOs to support learners with lower-cost needs over learners with higher-cost needs.

66. All of this requires TEOs to have the capability to implement different and complex interventions. This can be particularly hard for small or remote TEOs. TEOs have patchy capability across the system to identify the needs of their disabled learners and offer appropriate support.

67. We do not believe it is possible to design a single approach that would adequately meet the needs of all disabled learners. Table 6 sets out the three potential approaches and also explains choices and issues that we will need to work through in designing and implementing them. These approaches are not mutually exclusive – a comprehensive reform package for disabled learners could involve all three.

Table 6: Approaches to support disabled learners

Approach description and rationale	Choices / issues
Approach 1 *For disabled learners with lower-cost needs* Government would bulk-fund TEOs based on their enrolments of disabled learners and their strategic commitments to support disabled learners with lower-cost needs. The design would be similar as the approach set out for Māori and Pacific learners.	• Rather than the current approach via Equity Funding of providing a top up for all learners regardless of disability status, this approach would apply funding for each learner who identified disability on enrolment. • This approach has some significant challenges arising from the complex issues involved in collecting data about disability, including how to collect accurate information, protect privacy, and avoid stigmatisation. • This approach would require improved data collection, most likely through the introduction of compulsory screening questions on enrolment. There is ongoing debate regarding the use of compulsory screening questions in educational and other settings. • We can draw on international standards[2] to implement appropriate data collection. We would focus on options that enable us to take an individual needs-based approach (rather than a medical approach based on a formal diagnosis). • The Ministerial Leadership Group on Disability Issues is also looking at ways in which meaningful and consistent data on disabled people can be collected across government. • We may need to adapt international standards to ensure data is collected about the range of learners' needs (e.g. some neurocognitive disorders are not identified by standard collection approaches.) • Changes would take time to implement and would impact on TEC and TEO data systems. As part of policy design, it would be important to test approaches with the disability community and providers.

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[2] Particularly, the Washington Group Short Set of Questions on Disability developed by the Washington Group on Disability Statistics, under the aegis of the United Nations Statistical Division. This set of questions is now used in the New Zealand General Social Survey, the Household Labour Force Survey, and the Census.

The United Nations Committee on the Rights of Persons with Disabilities has indicated New Zealand needs to collect better data about disabled people, as having up to date and meaningful data is critical for understanding the experiences of disabled people as well as informing policy development and service planning.

Approach description and rationale	Choices/issues

9(2)(f)(iv)

Approach description and rationale	Choices/issues
Approach 3 *Network-wide solutions to addressing systemic problems* Government could directly fund or purchase activities that would stretch across multiple TEOs (and possibly partner organisations that support disabled learners in education and work). Approaches 1 and 2 would be implemented on a TEO-by-TEO basis. But there are a number of network-wide and/or systemic challenges that could be better addressed by joined-up services across the VET system.	What activities to fund? Examples could include: • sharing good practice with TEOs and employers • requiring/incentivising larger TEOs to work with smaller TEOs to support the needs of their learners • centralised information to help TEO's, employers, and their learners navigate and access support for high-cost needs • developing system-wide initiatives to address systemic problems (e.g. improving transitions for disabled learners into VET and from VET to employment). This could be implemented via project-based funding for shorter-term issues, and pilot programmes could be helpful for designing solutions to longer-term issues. It will be important to explore options with stakeholders.

68. TEC is already working with TEOs to improve support for disabled learners, including by supporting the renewal of ACHIEVE (the national network to ensure equal opportunity and access to post-secondary education and training for people with impairments). In 2020 ACHIEVE will update and reissue Kia Orite – the New Zealand Code of Practice for an Inclusive Education Environment for Students with Impairments. TEC is also intending to require TEOs to have disability action plans in place as a condition of funding from 2021.

69. These proposals for better supporting disabled learners in VET could support TEC's and ACHIEVE's efforts and accelerate change within VET.

70. The proposals set out in the table above would represent a significant change in the way that government supports disabled learners in VET and the capability of TEOs to support disabled learners. The work programme to implement these proposals would be significant, implementation would unfold over multiple years, 9(2)(f)(iv)

Isolated learners

71. The issue for isolated learners is reasonably straightforward: the higher cost of delivery in isolated areas means that TEOs are not incentivised/able to offer provision and support in areas that these learners can easily access. This means that a relatively simple, formulaic approach to funding would be sufficiently targeted to meet these learners' needs.

72. Funding could be derived from a formulaic approach directly related to enrolments. Given that the issue is linked to enrolments rather than performance (e.g. qualification completion), it does not seem necessary to link any funding to learner performance metrics. Funding could be paid in bulk and aligned with TEC's current payment schedules.

73. There is a choice about linking funding to learners' location (home addresses upon enrolment) vs employer and/or delivery site location. But given that delivery and support could run across multiple employer and delivery sites for a single learner, it would be simpler to link funding to learners' addresses at the time of first enrolment. In either case, changes to data collection would be required

to improve the quality of information collected about learners' addresses at the time of enrolment or about employer and/or delivery site location.

Item 4: Introducing a strategic approach to funding

Rationale for a new approach to strategic funding and design principles

75. The current tertiary education funding system does not actively encourage TEOs to supply strategically important delivery or to meet regional skill needs. Instead, TEOs face incentives to prioritise the supply of programmes in areas that generate economies of scale, regardless of industry or employer demand. TEOs are bulk-funded, with total funding linked to volume x subsidy rate. This gives the Government and the TEC limited levers to incentivise TEOs to shift the mix of their provision, especially in times of declining enrolments.

76. The FRG tell us that responding to emerging skill needs, changing delivery models, or investing in new programme development, is 'risky' in the current bulk-funded system, which does not actively encourage or reward TEOs to invest in innovation. This bias towards the status quo was also noted by the Productivity Commission in their 2017 report on new models of tertiary education delivery.

77. Strategic funding would complement the new funding category system by introducing a new positive incentive for TEOs to address areas of national priority and regional labour-market demand. This could incentivise changes in the behaviour of TEOs by increasing the price paid for specific qualifications, outcomes or activities. The aim would be to generate shifts in enrolments, achievement or outcomes in specific priority areas.

78. We know from past experience in areas such as engineering that providing nation-wide targeted tuition subsidy increases to broad fields of study through the funding category system does not necessarily lead to the changes in quality or supply of provision that we're looking for. Strategic funding could provide a much more targeted approach, by enabling the TEC to invest directly in specific programmes and providers, as well as activities to build the skills pipeline or to improve employment transitions in priority areas.

79. There is likely to be high competition for limited strategic funds and it will be necessary to prioritise in order to balance the competition for funding. Areas of strategic priority could include addressing skill needs identified by Workforce Development Councils (WDCs) and Regional Skill Leadership Groups (RSLGs), developing new more responsive delivery models, and/or meeting other government priorities.

80. Initial policy design choices reflect the relative priority placed on the design principle of providing greater funding stability for TEOs to invest in innovation and growth versus the design principle of improving responsiveness to industry and employer skill needs. The tertiary education sector have indicated a strong preference for carefully balancing funding stability with increased system responsiveness.

Potential approaches

81. We have identified two potential options to strategic funding. These two options are compared overleaf in Table 7.

Table 7: Potential approaches for strategic funding

	Challenge/Opportunity	Basis for funding	Funding distribution
Option A (could be either of these approaches or a combination of the two)	Match skills supply more closely with skills demand by linking funding to national and regional skill needs. (Short- and medium-term priorities)	Price increases could be targeted at: • Supporting providers to maintain or grow supply in areas of current or expected future demand; • Outcomes-based funding, for example linked to employment outcomes for learners undertaking or completing specific industry qualifications in areas of current or expected future demand; • Addressing major cost mismatches between the localised cost of provision and the amount of funding received; or • A combination of the three.	Priority areas could be determined by: • The Minister through funding determinations; • TEC and distributed through Plan guidance taking into account WDCs skill mix requirements and RSLG priorities; or • A combination of the two.
	Promote innovative programme design and delivery. (Short- and medium-term)	Time-limited project-based funding.	Contestable funding rounds with varying levels of prescribed of criteria. Priority areas could be determined by: • The Minister through funding determinations; • TEC taking into account WDCs skill mix requirements and RSLG priorities; or • A combination of the two.
		OR	
Option B	Support providers to invest in longer-term capability development, quality, and outcomes.	Agreed yearly payment either disbursed annually or in staggered amounts across a year. Potentially staggered based on performance: for example 90% up front with 10% based on performance.	Could be targeted to: • All VET providers • A limited number of major VET providers • NZIST as the leading VET provider

Option A

82. The first option combines two potential approaches for directing funding towards strategically important delivery:

    a. *Targeted funding for strategically important delivery.* Price increases could be used to quickly indicate new priorities and support the responsiveness of providers in addressing identified skill needs. Targeted funding could be directed towards building the skills pipeline in areas of current or expected future demand identified by WDC, RSLGs and Government. This approach would allow Government to use positive incentives to more closely steer the system in line with RoVE objectives.

    b. *Application-based funding for innovative programme design and delivery.* The Government is seeking to encourage new models of work-integrated learning, which will require TEOs to change existing delivery models and form new relationships with employers. Time-limited project funding could provide non-volume-based funding to support investment in new programme development and delivery models to meet the RoVE objectives.

83. Option A would support TEOs to respond flexibly to changing skill needs. It could be highly targeted to respond to specific areas of need including at specific industry, job, TEO or region. Time-limited funding would shift money across the system in line with new priorities, but relatively

small amounts of money would be needed to incentivise changes in TEO's behaviour. This approach balances funding stability with responsiveness.

Option B

84. The second option focuses on providing stable funding to TEOs through mission-led core funding (on a similar basis to core funding for Crown Research Institutes). This could involve a relatively high percentage (25-35%) of funding being paid to each TEO as guaranteed core funding to support strategic activities.

85. Mission-led core funding could support TEO's capability development, quality improvement and investment in medium- to long-term outcomes. Institution-specific commitments could be linked to performance expectations aligned to the Tertiary Education Strategy or VET-system priorities. These could be negotiated between TEC and each TEO via the Investment Plan process and/or a longer strategic planning process if the funding runs over more than a Plan period.

86. It is likely that such funding would be less responsive to changing skills priorities than the more targeted approach above, as funding would shift more slowly and TEOs would have greater freedom to identify and respond to their own institution-specific priorities. The FRG argued that this approach would require a larger upfront amount of money than Option A above. This approach prioritises funding stability over responsiveness.

87. Following discussions with the FRG, we recommend further work to develop the two approaches covered in Option A. This is because this is a stronger and more direct lever to drive system responsiveness to WDC and RSLG priorities and work-integrated delivery models.

88. The FRG noted that if the other two components described in this paper (funding category and learner components) were well-designed and set at the appropriate level, TEOs would have less need for additional 'mission-led' funding. As indicated in the next section, FRG members also signalled a strong interest in the potential for future changes to the investment plan system, to provide TEOs with greater funding predictability and stability within and between years.

Recommendations:

89. We recommend that you:

   a. **agree** that further work to design strategic funding should focus on better aligning the skills supply with demand, and supporting innovative programme design and delivery [Option A]

   AGREE / DISAGREE

   OR

   b. **agree** that further work to design strategic funding should focus on providing stable funding to TEOs through mission-led core funding to support strategic activities [Option B]

   AGREE / DISAGREE

Item 5: Wider issues and themes raised by the Funding Reference Group

90. Across the five meetings officials had with the FRG, many wider issues and themes arose that were of interest and concern to the FRG members. They saw these issues impacting on the success of the policy options for future work set out in this paper. These issues were:

   a. **the importance of new money** being moved into the system, rather than relying solely on re-balancing existing funding to build the learner-based and strategic elements of new system. While the FRG members were relatively comfortable with the proposals, they expressed concern about being able to meeting the new system expectations if new money was not available to support them. They indicated that new money should be an ongoing commitment.

   b. **funding stability** within the new system. The FRG members placed a high priority on maintaining a level of funding certainty within years, and across an Investment Plan period. They had particular concerns about in-year funding clawbacks as well as the time at which

they receive funding approvals from the TEC. The TEC's work to adapt the investment Plan process to meet the wider RoVE objectives was also of interest to the group.

c. **performance measures** being fit for purpose. The FRG indicated that performance measures (such as the education performance indicators) should be reviewed to achieve the objectives of the new system. However, there were mixed views on how closely funding could or should be tied directly to performance, especially when this would result in funding clawbacks.

d. **the new system's interaction with other parts of the funding system**. Most providers also receive funding for foundation education and/or delivery at degree-level and above. The FRG expressed some concern about how the unified funding system might interact with other parts of the funding system, administrative complexity, and the potential for other parts of the system to be left behind.

e. **the importance of considering employer contributions**. The FRG members, particularly those from ITOs, thought that work around employer contributions should be considered alongside this work programme, so that related funding changes can be implemented together.

91. We note these for your interest and will include them to relevant work areas as the opportunity arises.

Item 6: Structure of the future unified funding system and potential approach to phasing

92. We would like to test your initial views on the potential size of the different components of the unified funding system, and preferences regarding transitions from one funding system to the next. Your steer will inform further policy design work, implementation planning, and the development of any unified funding system proposals for consideration in the February 2020 RoVE fiscal implications Cabinet paper.

Potential size of different components of the unified funding system

93. Our initial ideas on the structure of different components of the unified funding system have been informed by VET funding systems in other jurisdictions, and the priority we have placed on increasing funding system responsiveness to employer and learner need.

94. As set out in Annex 3, as a starting point for discussion, we have indicated that:

a. The new funding category system could account for between 70-90% of total government funding (a reduction from approximately 99%). Core bulk funding, based on standard metrics (volume x rate), balances funding flexibility and predictability for providers, with the ability for funding to shift in response to changing enrolment patterns.

b. Learner-based funding to support education providers to tailor education delivery and support to meet individual learner needs could account for between 5-20% of total government funding. This is a significant increase from less than 1% of current government funding, and would bring New Zealand into closer alignment with international VET funding systems.

c. Strategic funding to increase system responsiveness to national priorities and regional labour-market demand could make up between 5-10% of total government funding, depending on your preferred design option(s) for this component. This would enable the government to use price as well as volume as a lever to encourage providers to shift their mix of provision to address major skills mismatches. The New Zealand experience of performance-linked funding suggests that shifting a relatively small percentage of total funding can have a significant impact on provider behaviour.

95. As discussed in item 4, if your preferred option for strategic funding places a much higher priority on TEO-led planning and funding stability, you may wish to direct a significantly higher proportion of funding (e.g. 25-30%) through the strategic funding component.

96. We expect further funding policy work to occur alongside the TEC's work to adapt the Investment Plan process, including how the TEC will balance advice from the WDCs and RSLGs to inform future investment decisions.

Recommendations

97. We recommend that you:

   a. **discuss** with officials the potential size of different components of the unified funding system

Approach to transitioning from the current system to the next

98. The options set out above involve major funding change. This would involve large scale re-balancing of funding across the system, with funding categories differentiated according to mode of delivery (encouraging providers to shift how and where they offer learning), a learner-based component incentivising better support for a broader range of learners, and a strategic funding component that encourages more responsiveness to industry and employer need.

99. In the absence of new money, implementing these changes will require significant reductions to funding allocated through the new funding category system, to increase funding allocated to meet learner needs, and new funding for strategically important delivery.

100. The FRG has emphasised that additional money will be required to meet the new system expectations. For example, there are currently very limited services and supports for disabled learners in the VET system. A sole focus on re-balancing existing funding is therefore unlikely to lead to a major change in support for disabled learners.

101. We are seeking your steer on the approach you wish to take for transitioning from one funding system to the next, once all the appropriate data systems and processes are in place. There are two high-level options:

   a. A swift transition to the unified funding system. This approach gets to the endpoint faster, so that the new funding incentives would be fully in place earlier to support the structural reforms and the outcomes the government is seeking from RoVE. By re-balancing existing funding, rather than relying on new money, the transition could be less costly, but with the potential for major disruption to existing providers and provision.

   b. A phased transition to the unified funding system. This approach would take longer, with less emphasis on reallocating funding from the funding category system towards the new strategic and learner-based funding components, and greater reliance on directing new money in future budgets towards priorities. The transition would be more managed, to protect existing providers and provision, but the full effect of the funding changes would take much more time to realise.

102. With any funding system change there will be 'winners' and 'losers' – at both the programme and provider-level. There is a related choice around the extent you wish to prevent funding shocks by using new money to compensate 'losers'. This could, for example, involve 'grandparenting' to prevent major funding shocks.

Recommendations:

103. We recommend that you:

   a. **discuss** with officials your views on potential approaches to transitioning from one funding system to the next

Potential first steps for consideration in the February 2020 RoVE fiscal implications Cabinet paper and implementation in 2021

104. In the short-term, we think there would be value in sending an early signal of the direction of future funding change, and to begin allocating funding towards the new system, rather than propping up the old. This could also help to shift a perception among some stakeholders that

funding reform is primarily about ITP viability, rather than delivering improved outcomes for learners and employers.

105. We have identified two potential options for your consideration in the February 2020 RoVE fiscal implications Cabinet paper for potential implementation from 2021. These are outlined in Table 8. As we develop further advice in 2020, we will look to identify further options for potential early implementation from 2022, prior to the transition to the full unified funding system.

Table 8: Options for potential consideration in the RoVE fiscal implications Cabinet paper

	Description	Allocation approach
Option A: Strategic funding to support the development of new programmes to deliver work-integrated learning	• A new fund of at least $5 million, in the first year, as a first step to support the development of new programmes to deliver work-integrated learning. • It is likely that there would be increasing demand, so the amount of funding may need to increase in out-years. • A new funding pool to specifically support work-integrated learning would align with the Government's RoVE objectives and signal an intent to link future funding to new delivery models. • Such a fund would be scalable both up and down, time-limited and address key challenges of merging provider and work-based approaches.	• This fund could be created as a sub-strand of Joint Ventures and Amalgamation Project (JVAP) or as a stand-alone fund. • The current JVAP portion of the Industry Training Fund is targeted, in part, at funding joint-ventures and supporting best practice in vocational education and training. Any new funding could allow additional projects to those funded through JVAP and require a specific focus on work-integrated development. • In its first phase, the new fund could support a small number of larger projects developing new work-integrated programmes (5-10) or a larger number of smaller projects looking at integrating work and provider based education in existing courses (20-100). • Operational design and implementation would occur in 2020, for allocation of funding from 2021.
Option B: Learner-based funding to support young learners with low prior attainment	• We propose implementing a tuition subsidy top-up from 2021 linked to young learners with low prior education (learners under age 25 who have not achieved a prior qualification at level 3 or above). • The top-up would apply to enrolments of target learners at qualification levels 3-7 (excluding degrees) in both provider-based and work-based learning. • At a minimum, we think this top-up should be $320[3] per EFTS/STM. This could be up to approximately $6.5 million in total funding, depending on how many EFTS/STMs meet the eligibility criteria. • We have taken a conservative approach to identifying an appropriate amount of funding for initial implementation. As the Unified Funding System is developed and rolled out, we would expect the amount of funding allocated to support learners with low prior attainment to increase.	• Implementing a top-up for this learner group is relatively straightforward compared to the approaches for other learner groups. It can be done with minimal data collection changes, and low transaction costs for TEC and TEOs. • If this first step is implemented, it will be important to signal to the sector that this is only the start of rolling out a learner-based funding component, and that over time the sector can expect to see more learner groups targeted and a greater proportion of VET funding allocated to learner-based funding components. • We do not propose linking any of this top-up funding to learner performance metrics during the initial implementation. Links to performance, if any, will take longer to design, so the policy could be adapted to add any links to performance after the initial implementation.

106. There are choices around the allocation approach for these options. A tuition subsidy top-up for learners with low prior attainment provides a transparent, system-wide incentive on providers to engage more effectively with these learners. However, a disadvantage of this approach is that it can

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[3] The figure of $320 per EFTS/STM is the same as the current Equity Funding top-up for Māori and Pacific learners enrolled in degree-level study. Current Equity Funding at qualification levels 3-7 (excluding degrees) is approximately $3 million, so this top-up would increase the total amount of learner-based funding for VET to approximately $9.5 million. It would also increase the number of EFTS/STMs linked to learner-based funding.

spread investment too thinly to be effective, particularly in this case where we propose an early 'signalling' investment. An alternative approach would be to make a similar level of investment through strategic funding, targeted to projects that support young learners with low prior attainment in vocational education at qualification levels 3-7 (excluding degrees).

Recommendations:

107. We recommend that you:

    a. **agree** that officials should develop the following proposals for inclusion in the February 2020 RoVE fiscal implications Cabinet paper, for potential implementation in 2021

        i. Strategic funding of no less than $5 million per annum, as first step to support the development of new programmes to deliver work-integrated learning

<div align="right">AGREE / DISAGREE</div>

<div align="center">AND</div>

        ii. Learner-based funding to support young learners with low prior attainment, through an initial tuition subsidy top-up of at least $320 per EFTS/STM

<div align="right">AGREE / DISAGREE</div>

<div align="center">OR</div>

        iii. Strategic funding of no less than $10 million per annum as a first step to support both the development of new programmes to deliver work-integrated learning, and to fund projects to support young learners with low prior attainment in vocational education.

Further stakeholder communication and engagement in 2020

108. In the first phase of the unified funding system project, officials have worked closely with the FRG, explored the views of targeted learner groups, and undertaken new data collection and analysis. This work has been less visible to stakeholders than many of the other RoVE projects. We think our approach to communication and engagement on the unified funding system will need to change to build stakeholder buy-in, and to support future decisions.

109. Following your feedback on this annotated agenda, from early 2020, we recommend that officials begin to engage more widely with key stakeholders, including sector peak bodies, on the direction of potential future funding changes, and upcoming areas for further work. This should enable us to draw in additional expertise to address upcoming policy and operational challenges – including how best to undertake new data collection, analysis and modelling in 2020-2021. It should also enable for the development of more iterative and well-informed policy advice on detailed policy design options and overall impact assessment.

Recommendations:

110. We recommend that you:

    a. **discuss** with officials our proposal to begin to engage more widely with the sector and key stakeholders on the direction of potential funding changes, from early 2020

Annexes

Annex One: Overview of the current VET funding system

Annex Two: Further analysis of learner groups

Annex Three: Overview A3 to guide discussion at the strategy session

Kōrero
Mātauranga
Me kōrero tātou

Background reading: current VET funding system

Vocational education is…

Education that focuses on preparing learners for the world of work.

It has a special emphasis on the skills, knowledge and attributes required to perform a specific role or to work in a specific industry.

For example, a hairdressing course is vocational, as are accountancy and helicopter pilot training, because they all prepare people for a specific role.

In contrast, sciences or life skills programmes are more broadly applicable, and would not be considered vocational.

It is not always easy to neatly identify a programme as 'vocational'.

RoVE is focussed on:

The key part of vocational education, defined as:

► All industry training (training and apprenticeships people undertake in employment).

► Provider-based education funded via the Student Achievement Component at levels 3 to 7 of the New Zealand Qualifications Framework, **excluding** degree study, te reo and tikanga Maori, English for Speakers of Other Languages, university provision and other non-formal provision.

The proposal to create a single Institute affects all levels of provision in current Institutes of Technology and Polytechnics (i.e. this aspect also affects foundation learning, degrees and post-graduate study at ITPs).

Unified Funding System

The Unified Funding System has a slightly different scope:

➢ work-integrated and provider-based learning at certificate and diploma levels 3-7 (excluding degree study) and all work-based learning

➢ education and training arranged and delivered by the proposed New Zealand Institute of Skills & Technology as well as wānanga, private training establishments and universities.

Compared to the definition applied for the wider RoVE review, this includes 'non-vocational' delivery at levels 3-7, and universities. This is to avoid creating extra boundaries within the funding system.

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Overview of the current VET Funding System

The Government subsidises education delivery and support for work-based learning. The majority of VET funding is through **tuition and training subsidies** paid by the Government directly to tertiary education organisations (TEOs).

There are two major Government funds for VET:

- **The Industry Training Fund (ITF):** subsidises industry training organisations to support work-based learning
- **The Student Achievement Component (SAC):** subsidies education delivery for learners enrolled with a tertiary provider

The Government also **pays Equity Funding** to providers to support Māori learners, Pacific learners and disabled learners in provider-based education.

The Government provides additional financial support for students and trainees engaged in VET through the **Fees Free Policy, Fee regulation, and through interest-free student loans**

Students, trainees and employers contribute to the cost of VET through paying **fees for study or training**.

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Industry Training Fund

Purpose: subsidises industry training organisations (ITOs) to support work-based learning

Features

Accessed by ITOs to support work-based learning for trainees and NZ Apprentices.

The majority of the training must occur on-job.

Employers are expected to meet some of the costs for training (expected to be around 20% to 30%), though some pass this cost on to employees.

Funding does not vary between industries (eg. construction and agriculture apprentices and trainees are funded at the same rate).

Funding Model

Total funding to each ITO is based on the expected *volume of trainees*, a measure of expected *hours of learning required / credit value*, and the funding rate.

Funding is allocated to an ITO by the TEC through an Investment Plan.

Funding Rates

Funding rates vary based on the size of the programme, and are linked to a *standard training measure* (STM).*

ITOs receive one of two funding rates for each trainee or apprentice:

Subsidies to TEOs (per STM):
 - $3,200 per STM for trainees (enrolled in shorter programmes less than 120 credits)

 - $5,200 per STM for NZ Apprenticeships (enrolled in 120 credit programmes at qualification Level 4 and above)

A STM is the amount of training required for a learner to achieve 120 credits in an approved structured training programme.

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Industry Training Fund & Trainees

The Industry Training Fund was allocated **$186 million** for the 2019/2020 financial year.

In 2018, **132,000 learners** participated in industry training, which equates to 43,900 STMs.

The median age of these learners was 28 years old.

Nearly half (45%,19,500) of Industry Training STMs were NZ Apprenticeships (training in higher-level VET).

Construction was more common area for trainees. In 2018 22% (9,800) of all STMs were in Construction.

Joint Ventures and Amalgamation Projects (JVAP)

This funding is part of the Industry Training Fund and can be awarded to ITOs and/or other organisations. The JVAP fund is **capped at $3.5 million** per calendar year.

The purpose of JVAP is to:

- support best practice in vocational education and training

- support projects that enhance the efficiency and effective of ITOs, and

- facilitate structural change and joint ventures in the industry training sector.

Funding for JVAP is allocated via an application process.

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SAC 3+ (levels 3-7 non-degree) tuition subsidies

Purpose: subsidises education delivery for learners enrolled with a tertiary provider

Features

Accessed by TEOs: ITPs, wānanga, Private Training Establishments (PTEs) and universities.

Funding rates attach to courses and vary across subjects and disciplines. There are 10 different SAC funding categories at qualification levels 3-7, excluding degrees.

Broad differences in funding rates are intended to roughly align with variation in delivery costs. (e.g. business studies receives a lower funding rate than trades courses).

Funding Model

Funding is allocated to providers by the TEC through Investment Plans.

It is a bulk funding system, and cross-subsidisation is expected.

Total SAC funding to each provider is based on the expected number of *equivalent full-time students* (EFTS)*, the *credit value* of programmes to be delivered, and the *funding rate*.

SAC-funded courses are subject to fee regulation, which restricts the amount by which TEOs can increase fees to students each year – currently 2%.

Funding Rates

The value of delivery is calculated per EFTS* by the funding rate.

Funding rates at Levels 3-7 (non-degree range from $6,408 for arts and business to $19,501 for foreign-going nautical.

Equivalent Full-Time Student; as with an STM, a student would also be expected to achieve 120 credits (or points) in one-year of full-time study, or 1,200 hours.

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SAC funding system for provider-based VET

Government funding for SAC at qualification level 3-7 (excluding degrees) was worth **$529** million in 2018.

There were **126,100 SAC-funded learners** enrolled at qualification level 3-7 (excluding degrees) in 2018. This is 65,700 equivalent full-time students.

These totals includes **$31 million for te reo Māori** delivery. 5,000 of total EFTS were studying te reo Māori.

TEOs may also receive tuition subsidy funding for foundation level education (qualification levels 1-2) and programmes at degree-level and above.

EFTS by Subsector	Te Reo Levels 3-7 (non-degree)	Other Levels 3-7 (non-degree)	Total Levels 3-7 (non-degree)
ITP	345	30,515	30,865
PTEs	105	16,105	16,205
Wānanga	4,495	11,065	15,560
Universities	20	3,050	3,070

SAC funding rates (at levels 3-7, non-degree)

Almost **60% of all SAC EFTS at Levels 3-7** (excluding degrees) are **funded at lowest funding rate ($6,408 in 2020)**

Over **96%** of all funding is allocated on the basis of **six funding rates.**

Funding Category	2020 Rate	2018 EFTS levels 3-7 (non-degree)	Value of delivery ($m)	Value of delivery (%)
A/J Arts, social sciences, general, vocational training for industry, business	$6,408	39,200	243	46
P Trades	$10,589	10,500	113	21
B Computer science, health-related professions, fine arts/design, music and performing arts	$9,803	6,400	61	12
V Science	$11,461	3,100	35	6.7
L Agriculture & horticulture (sub-degree), nursing, osteopathy, acupuncture	$11,015	3,000	33	6.3
C Engineering technology, health sciences	$11,785	2,100	24	4.6
N Priority engineering	$13,076	800	11	2.0
M Pilot training	$14,028	200	3	<1
S Foreign-Going Nautical	$19,501	200	3	<1
I Teaching	$9,732	100	1	<1
H Agriculture and horticulture (Level 7)	$21,252	30	1	<1
Total		65,700	529	

Equity Funding

Purpose: provides a small amount of additional funding to providers to support Māori learners, Pacific learners, and learners with disabilities.

Features

Only available to tertiary education providers that receive SAC3+ funding (not available to ITOs).

Provides a small tuition subsidy top up based on enrolments. The disabilities top up is not available to PTEs.

The total amount of funding available is less than **$3 million per year** (less than 1% of the total SAC 3-7 non-degree appropriation)

Funding Model

The disability top up is not based on actual enrolments of disabled learners.

A tuition subsidy top up to support learners with disabilities is calculated based on the estimated number of total EFTS that SAC-funded public providers will deliver.

All SAC-funded providers, including PTEs, receive a tuition subsidy top up based on Māori and Pacific EFTS at qualification Level 5 and above.

Funding Rates

Equity funding rates vary based on the learner group and the qualification level of study.

All SAC-funded public providers receive a tuition subsidy top up of $28.60 per total EFTS to support learners with disabilities.

All SAC-funded providers receive a tuition subsidy top up per Māori and Pacific EFTS at qualification Level 5 and above.

The rates per EFTS for Māori learners and Pacific learners top ups are:
- $133.33 for EFTS at Level 5-6
- $320 per EFTS at Level 7.

Annex 2: Further analysis of learner groups we considered for learner-based funding[1]

Learner group	Definition and data source	Participation in 2018, unless noted	Achievement	Qualitative findings
Young learners with low prior education	We have determined that young learners with low prior education are best defined as learners under age 25 who have not previously achieved a qualification at NZQF level 3 or above. Data source: SDR/ITR (Single Data Return and Industry Training Register, the two key tertiary education databases) and NZQA Records of Achievement	Approximately 15% of all VET learners are young learners with low prior education.	Across all VET, **young learners with low prior education have <u>much lower completion rates</u> compared to young learners with higher prior education** (level 3 or above): • Of learners who began their VET qualifications in either 2012 or 2013, 58% of young learners with low prior education completed their qualifications within five years, compared to 72% of young learners with higher prior education.	We have not undertaken qualitative research specifically about this group of learners. Funding Reference Group members indicated that their experiences are that young learners in VET need significant support.
Māori learners	Ethnicity data as self-reported by learners. Data source: SDR/ITR and IDI	Approximately 22% of VET learners identify as Māori. Māori are over-represented in VET compared to the general population, but are under-represented at higher qualification levels and in work-based learning. **Māori learners enrol in industry training and in apprenticeships[2] at <u>lower rates</u> than New Zealand European learners:** • 45% of Māori learners in VET are in industry training, compared to 56% of New Zealand European learners. • 35% of Māori learners in VET are in apprenticeships, compared to 45% of New Zealand European learners.	Across all VET, Māori learners have similar qualification completion rates as New Zealand European learners. However, **Māori learners have <u>lower completion rates</u> in industry training and apprenticeships compared to New Zealand European learners:** • Of learners who began their industry training qualifications in 2014, 57% of Māori learners completed their qualifications within five years, compared to 60% of New Zealand European learners. • Of learners who began their apprenticeships in 2014, 51% of Māori learners completed their qualifications within five years, compared to 54% of New Zealand European learners. **Māori VET graduates are <u>less likely to be in employment</u> four years after completing their VET qualification** compared to NZ European learners. The gap is greater for learners at providers, where Māori are more likely to enrol. For example: • Of learners who complete a smaller, lower-level qualification[3] at a provider, 35% of Māori learners are in employment after four years, compared to 55% of New Zealand European learners. • Of learners who complete an apprenticeship in industry training, 68% of Māori learners are in employment after four years, compared to 75% of New Zealand European learners. Māori VET graduates are more likely to be in further study or other destinations (including on benefit) four years after completing their VET qualification compared to NZ European learners. Across most VET qualifications, **Māori graduates who are in employment have <u>lower median earnings</u> in each of the first four years after finishing their qualification compared to New Zealand European graduates.**[4] But, for Māori learners who undertook an apprenticeship-equivalent qualification at a provider, their earnings are higher than New Zealand European graduates across the first four years after finishing their qualification.	Māori learners have told us that they want to see teaching and learning that better reflect and fosters their identity, language, culture, and values as well as cultural competency in TEOs to be able to understand and respond to their needs.
		Note: This table presents some key high-level messages from our analysis of system performance for Māori learners. When other variables are considered (e.g. age, field of study, subsector and provider), we see further differences in patterns of participation, achievement and outcomes for Māori learners compared to New Zealand European learners. The complexity of these patterns is a key reason why we propose linking funding for Māori learners to strategic commitments rather than to formulaic calculations of enrolments and performance.		

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[1] Figures in this table generally exclude te reo and tikanga Māori qualifications. While the Unified Funding System will apply to these qualifications, patterns of participation and achievement in these fields of study can vary significantly from other VET.

[2] All figures that refer to apprenticeships include both formal apprenticeships in industry training, and qualifications at providers that are equivalent to apprenticeships in level and size: qualifications at NZQF level 4 or above that are 120 credits or more.

[3] Smaller qualifications at providers refers to all qualifications at NZQF level 3 and to qualifications at NZQF levels 4 to 7 (non-degree) that are under 120 credits.

[4] This is based on an analysis of post-study earnings for graduates in a cross-section of VET fields of study (not all VET fields of study). Post-study earnings patterns can reflect differences in field-of-study preferences between ethnic groups, as well as any labour-market effects. For example, when comparing earnings for graduates of Building and Construction qualifications, the pattern of lower median earnings for Māori compared to New Zealand European graduates holds, but this may not apply equally to all VET fields of study.

Learner group	Definition and data source	Participation in 2018, unless noted	Achievement	Qualitative findings
Pacific learners	Ethnicity data as self-reported by learners. Data source: SDR/ITR and IDI	Approximately 10% of VET learners identify as Pacific. Pacific people are over-represented in VET compared to the general population, but are under-represented at higher qualification levels and in work-based learning. **Pacific learners enrol in industry training and in apprenticeships[5] at <u>lower rates</u> than New Zealand European learners:** • 46% of Pacific learners in VET are in industry training, compared to 56% of New Zealand European learners. • 34% of Pacific learners in VET are in apprenticeships, compared to 45% of New Zealand European learners.	Across all VET, Pacific learners have slightly higher qualification completion rates than New Zealand European learners, however, completion rates vary across different types of provision. Pacific learners have higher completion rates in industry training and lower completion rates in apprenticeships compared to New Zealand European learners: • Of learners who began their industry training qualifications in 2014, 64% of Pacific learners completed their qualifications within five years, compared to 60% of New Zealand European learners. • Of learners who began their apprenticeships in 2014, 52% of Pacific learners completed their qualifications within five years, compared to 54% of New Zealand European learners. **Pacific learners are <u>less likely to be in employment</u> four years after completing their VET qualification compared to NZ European learners.** The gap is greater for learners at providers, where Pacific are more likely to enrol. For example: • Of learners who complete a smaller, lower-level qualification[6] at a provider, 42% of Pacific learners are in employment after four years, compared to 55% of New Zealand European learners. • Of learners who complete an apprenticeship in industry training, 66% of Pacific learners are in employment after four years, compared to 75% of New Zealand European learners. Pacific learners are more likely to be in further study, overseas or other destinations (including on benefit) four years after completing their VET qualification compared to NZ European learners. **For Pacific graduates who are in employment following the completion of their VET qualification, <u>median earnings vary</u> in comparison to New Zealand European graduates:** • For apprenticeships, median earnings for Pacific graduates are higher in the first four years[7] after completing their qualification compared to New Zealand European learners. • For smaller, lower-level qualifications, median earnings for Pacific graduates are lower in the first three years after completing their qualification compared to New Zealand European learners, but earnings are on a par with, or exceed, New Zealand European learners in the fourth year after completing their qualification.	Pacific learners have told us that they want to see their faith-based value and Pacific languages, practices, histories and stories including in their learning, and more flexible learning options that allow them to work and earn at the same time.
		Note: This table presents some key high-level messages from our analysis of system performance for Pacific learners. When other variables are considered (e.g. age, field of study, subsector and provider), we see further differences in patterns of participation, achievement and outcomes for Pacific learners compared to New Zealand European learners. The complexity of these patterns is a key reason why we propose linking funding for Pacific learners to strategic commitments rather than to formulaic calculations of enrolments and performance.		

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[5] All figures that refer to apprenticeships include both formal apprenticeships in industry training, and qualifications at providers that are equivalent to apprenticeships in level and size: qualifications at NZQF level 4 or above that are 120 credits or more.

[6] Smaller qualifications at providers refers to all qualifications at NZQF level 3 and to qualifications at NZQF levels 4 to 7 (non-degree) that are under 120 credits.

[7] This is based on an analysis of post-study earnings for graduates in a cross-section of VET fields of study (not all VET fields of study). Post-study earnings patterns can reflect differences in field-of-study preferences between ethnic groups, as well as any labour-market effects. The patterns noted in the table may not apply equally to all VET fields of study.

Learner group	Definition and data source	Participation in 2018, unless noted	Achievement	Qualitative findings
Disabled learners	The 2013 Disability Survey defines disability as an impairment that has a long-term, limiting effect on a person's ability to carry out day-to-day activities. 'Long-term' is defined as six months or longer. 'Limiting effect' means a restriction or lack of ability to perform. Data source: IDI (Integrated Data Infrastructure), which makes use of the 2013 Disability Survey The 2013 Disability Survey included a sample of around 1,300 disabled people who had an enrolment in VET. The small size of this sample limits the amount of detail that can be explored. The small size and age of the Survey means our data may not accurately reflect participation and achievement of disabled learners in VET.	Approximately 22% of VET learners in 2013 were disabled. Disabled people had the same level of participation in VET compared to the general population, however: • **disabled learners under age 40 were <u>more likely to enrol in provider-based VET than in industry training</u>** • **disabled learners under age 40 with higher support needs were <u>less likely to enrol in industry training</u> than learners with lower support needs.** Disabled learners age 40 and older have similar participation patterns as non-disabled people.	To understand achievement in VET for disabled learners, we are only able to analyse course completion rates for learners enrolled in provider-based VET from 2011-2015. This shows that **disabled learners under age 40 have <u>lower course completion rates</u> than non-disabled learners**: • 58% of disabled learners under age 40 successfully completed at least 85% of their courses, compared to 71% of non-disabled learners.	Many disabled learners require individualised, and sometimes higher-cost, learning and pastoral support. Disabled learners have told us that they need more services and teaching staff who are better able to support their needs. They also want to be more work-ready after completing qualifications.
Isolated learners	We have determined that a learner is isolated based on whether the learner's address prior to start date is estimated to be above the isolation threshold in the revised school and ECE isolation index that is currently in development. Data source: IDI and the revised school and ECE isolation index	Approximately 9% of VET learners are living in isolated areas.	Unsurprisingly, learner or provider isolation does not appear to be a key risk factor for success in VET. However, TEOs tell us that supporting learners in isolated areas can involve higher costs and greater tailoring of education delivery and support.	We have not undertaken qualitative research specifically about this group of learners.

Commentary on other learner groups

1. Our analysis showed that there is a large overlap between learners with low prior education and **low literacy and numeracy skills**, and showed mixed results as to whether low literacy and numeracy or low prior education are stronger predictors of success. However, our analysis suggests that funding is better linked to low prior education for three reasons:

   a. Our analysis of literacy and numeracy skills was not representative of all VET learners due to data limitations.

   b. It would be more difficult to assess literacy and numeracy skills than low prior education for the purposes of learner-based funding.

   c. The large overlap between learners with low literacy and numeracy and low prior education means that linking funding to low prior education would capture a large portion of learners who also have low literacy and numeracy skills.

2. The Funding Reference Group questioned whether our data was accurate in suggesting that **low socio-economic background** is not a useful predictor for success in VET, as members felt this was not aligned with their experience with their learners. Our challenge is that it is difficult to identify learners' actual socio-economic background. We have to rely on imperfect proxies, like the level of deprivation associated with learners' last known addresses prior to enrolment in VET, or whether learners qualify for the highest amount of student allowance. Use of alternative indicators of socio-economic status would either rely on IDI data (which would not be available to TEOs at the time of enrolment), or requiring TEOs to collect new, complex personal information from learners at the time of enrolment. Neither of these options align with the principles for this work.

3. As part of our analysis, we examined the performance of the system for **older learners** (age 25 and older). Lifelong learning is becoming increasingly important as the changing world of work means that many older learners will need to retrain due to factors like technological change. We do not see significant discrepancies in the participation or completion rates for older people in VET. Across VET, older learners participate at high rates compared to younger learners, and have the same or higher completion rates. Compared to other OECD countries, New Zealand has relatively high participation in VET across all age groups.

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 (<1%)

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 Ammalgamation Projects (JVAP)
$3.4m pa for collaboration on innovative projects

Possible future state (for discussion)

Unified Funding System

Learner-based component (5-20%)

Category component (70-90%) Will subsidise education delivery, and support to work-based learners

Strategic component (5-10%)

New learner-based component will:
- Recognise **different learner needs,**
- Improve **performance** for **underserved learners,**
- Encourage **equity of access, achievemeant, and outcomes.**

Design Options
Which groups should a learner-based component support?
- Young learners with low prior education
- Māori learners
- Pacific leaners
- Disabled learners
- Isolated learners

There are choices about how to design and allocate funding to support each group of learners.

New category component will set funding rates for different types of provision to:
- Support **quality and relevance,**
- Support **growth of work-integrated learning,**
- Be **simple and transparent.**

Design Options
How should categories be determined?

A: Field of study only

B: Modes of delivery

C: Mix of both

New strategic component will:
- Support **strategically important delivery** and **national priorities,**
- Increase responsiveness to **labour market demand.**

Design Options
What should strategic investment support?

A1
A2
B

A: Some combination of:
1 Skills matching
2 Promoting innovation

B: Long-term provider capability development

Equivalent full-time student (EFTS) and standard training measure (STM) are measures of education and training delivery, equivalent to one year of full-time study in provider-based education and industry training respectively.

Strategic choices

Approach to transition
There are choices around how quickly to transition from one funding system to the next. A swift transition which is entirely reliant on re-balancing funding could cost less, but carries a higher risk of disruption.

Certainty vs responsiveness
There is an inherent tension between a) leveraging funding to incentivise responsiveness to learner and stakeholder need, and b) ensuring financial certainty for TEOs.

Composition of components
The relative size of each of the three components will have a major impact on where tertiary providers focus their energy and resources.