

## Education Report: Unified Funding System Update

To:	Hon Chris Hipkins, Minister of Education		
Date:	3 March 2020	Priority:	High
Security Level:	In Confidence	METIS No:	1218255
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Messaging seen by Communications team:	No	Round robin:	No

### Purpose of report

This report seeks your feedback on the proposed approach to phasing work to design and implement the unified funding system (UFS). It also responds to your request for further advice on the learner and strategic components of the UFS.

### Summary

#### Proposed phasing of upcoming work to design and implement the UFS

- Following the December strategy session, officials have focused on planning for the next stages of work to deliver the UFS. The activities and milestones set out in this paper reflect our initial best advice about the earliest timeframe for final policy decisions to support implementation of the UFS from 1 January 2023.
- The draft timeline is ambitious given the scale of proposed change. Our immediate priority is to progress work to design a new funding category system based on fields of study and delivery modes (e.g. online, work-integrated, campus-based). This work is critical to support the shifts to work-integrated delivery that the Reform of Vocational Education changes are designed to achieve. Work on the learner and strategic components will continue in parallel with this, along with broader questions such as how the UFS supports performance.
- We propose initial work in 2020 with sector experts to define new funding categories based on delivery modes, prior to preparing for and undertaking sector-wide data collection and monitoring in 2021. To mitigate risks of poor quality or incomplete data to inform future analysis and advice, clear operational definitions and ongoing support for tertiary education organisations to meet the new reporting requirements will be important throughout 2021.
- From August 2021, using newly collected data, we can begin modelling funding rate options and potential impacts on the distribution of funding across tertiary education organisations. Full year 2021 data will become available in early 2022. We propose providing you with advice on final policy decisions in March 2022, to inform an April 2022 Cabinet paper, and full or phased roll out of the UFS from January 2023.

5. Early sector communication and engagement on the direction of change is important to build buy-in, provide sufficient lead in time for any new data collection and reporting, and to inform upcoming design and implementation decisions. We seek your agreement to discuss the high-level direction for the UFS, and likely data collection changes in 2021, with sector stakeholders, including tertiary education peak bodies, over the next few months.
6. We will report back to you in June 2020 with further advice on the overall design of the UFS, each of the three components of the UFS, and next steps.

#### **Further advice on the learner component, to respond to the strategy session feedback**

7. There is a significant overlap between learners with low literacy and numeracy and the other population groups we recommend targeting through the learner component. There are also challenges in identifying and targeting funding to these learners. Therefore, we do not recommend linking funding to learners with low literacy and numeracy through the learner-based funding component of the UFS at this time.
8. New work to design funding to support disabled learners and people with additional learning support needs will require substantial engagement and design work with both the tertiary and the disability sectors. One of the three approaches identified relies on new data collection, which we propose to undertake in 2022. This would mean any related funding changes based on this data would need to be phased in later than the other two approaches, from 1 January 2024.

#### **Further advice on the strategic component, to respond to the strategy session feedback**

9. We recommend proceeding with work to design a new fund to support innovation and address national and regional skills priorities (Option A). This fund would be open to all UFS-affected tertiary education organisations, and would provide time-limited funding which shifts in response to performance and need. We recommend delaying a decision on whether an additional mission-led funding approach (Option B) is required until after we have completed modelling of the system as a whole. If you do wish to proceed with both options, we recommend that any mission-led funding is directed to NZIST only.

#### **Recommended actions**

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

#### **Proposed phasing of upcoming work to design and implement the UFS**

- a. **discuss** the draft key dates and major milestones for work to design the unified funding system (Table 1) with officials
- b. **note** that officials are planning workshops with technical experts in March-April, to inform June 2020 advice on the design of new mode-based funding category classifications, and sector-wide data collection and reporting in 2021

**Noted**

- c. **agree** that officials begin engagement with key sector stakeholders, including tertiary education peak bodies, as soon as possible, to discuss:
  - i. the high-level direction for the unified funding system (including the three components set out in the A3 discussed at the December strategy session)
  - ii. the expectation of new sector-wide data collection and reporting requirements on delivery modes, in 2021 to inform further policy advice
  - iii. potential implementation of the three components of the unified funding system from 2023

**Agree / Disagree**

**Further advice on the learner component, to respond to strategy session feedback**

- d. **note** that you requested further advice on including learners with low literacy and numeracy in the learner component of the UFS

**Noted**

- e. **note** there are significant challenges in identifying and targeting funding to learners with low literacy and numeracy, and a high proportion of learners with low literacy and numeracy are included in three of the other population groups we recommend targeting through the learner component

**Noted**

- f. **agree** that the learner component of the UFS introduced from 2023 will not target funding directly on the basis of low literacy and numeracy at this time

**Agree / Disagree**

- g. **note** that funding design work to better support disabled learners and people with additional learning support needs will require significant engagement with the tertiary and disabled sectors

**Noted**

- h. **note** that one of the three approaches we have identified to support disabled learners and learners with additional learning support needs requires tertiary education organisations to collect new data, and that we recommend this occurs in 2022

**Noted**

- i. **agree** that any funding changes to support disabled learners that rely on new data collection will be phased in after other components of learner-based funding, from 1 January 2024

**Agree / Disagree**

**Further advice on the strategic component, to respond to strategy session feedback**

- j. **note** that you requested further advice on both of the options for strategic funding discussed at the December strategy session

**Noted**

- k. **agree** that further work to design strategic funding should focus on supporting innovation and addressing national and regional skills priorities through time limited funding, which shifts across the sector in response to need (Option A)

**Agree / Disagree**

- l. **agree** that a decision on whether or not strategic funding should also include an element of mission-led core funding (Option B) is delayed until after further modelling of the overall unified funding system has been completed

**Agree / Disagree**

- m. **agree** to proactively release this paper after key policy decisions have been taken.

**Agree / Disagree**



**Grant Klinkum**  
Deputy Secretary, Graduate Achievement,  
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Ministry of Education

03/03/2020



**Gillian Dudgeon**  
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03/03/2020

**Hon Chris Hipkins**  
Minister of Education



## Background

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1. In December 2019, you met with officials to discuss the high-level direction of the unified funding system (UFS) workstream of the Reform of Vocational Education (RoVE). You provided further feedback on the annotated agenda prepared for this meeting in January 2020 [METIS 1210568 refers].
2. You have previously signalled your intent to implement the UFS from 1 January 2023. The first section of this report sets out draft milestones and timelines for work to design and deliver the UFS in line with these expectations. The second section of this report responds to your request for further advice on the learner and strategic components of the UFS.
3. You have also agreed to two first step options for 2021 to send an early signal of the direction of future funding change to the sector. We are seeking the necessary policy approvals in the Cabinet paper on the fiscal implications of the RoVE [METIS 1218371 refers]. Pending Cabinet approval, we will work to:
  - a. establish a new strategic fund to support the design and development of new work-integrated delivery models; and
  - b. introduce a new learner-based funding premium for tertiary education organisations (TEOs) to support young learners with low prior attainment who enrol in qualifications at levels 3-7 (excluding degrees).

## Proposed timing and phasing of work to design and implement the UFS

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4. Following the December strategy session, officials have focused on planning the next stages of work to deliver the UFS. Table 1 provides the earliest possible draft timeline to enable the implementation of the UFS from 1 January 2023. We expect these draft dates and milestones to be adjusted over time, in response to regular sector engagement and future policy decisions.

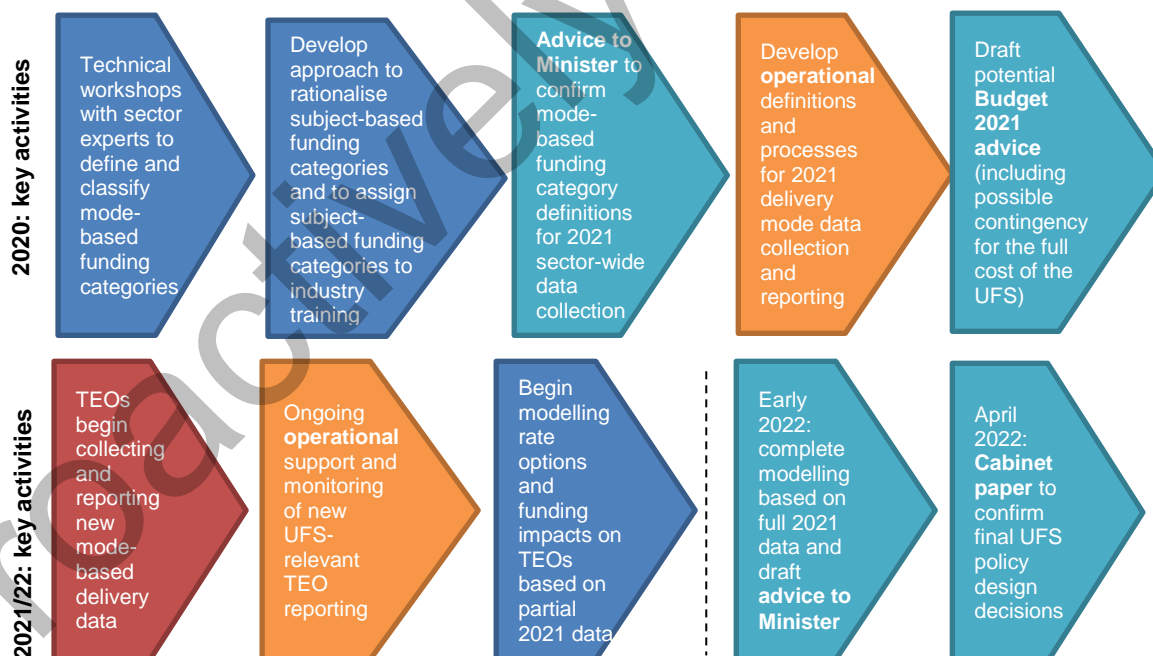
*Table 1: Draft key dates and major UFS policy milestones*

<b>June 2020</b>	Education report to Minister with further advice on overall UFS design, each of the three components of the UFS, and next steps. The report will include proposed new funding category classifications for sector-wide collection of delivery mode information from TEOs in 2021.
<b>July 2020</b>	Potential noting Cabinet paper on the timing and content of the work programme to design and implement the UFS.
<b>Oct – Dec 2020</b>	Budget 2021 advice, including advice on a possible contingency for UFS implementation from 2023.
<b>Jan-Dec 2021</b>	Sector-wide changes to improve data quality and collection of new data from TEOs to inform final advice. Data collection will include: <ul style="list-style-type: none"><li>• TEO classification and reporting of new data on delivery mode, for all education delivery, and support for work-based learners</li><li>• Other potential refinements to data collected from TEOs, such as data on learners in isolated areas.</li></ul> This data will provide a basis for modelling the impacts of different policy design and funding rate options for TEO funding.
<b>Nov-Dec 2021</b>	Update report to Minister. Communicate to the sector a high-level implementation plan with an outline of a transitional approach to funding for 2023.
<b>March 2022</b>	Full-year 2021 data becomes available to inform final modelling on the impacts of the overall reform package on funding to TEOs, and detailed design options for all three components of the UFS.

	Education report to Minister seeking decisions on the UFS funding policy changes, for potential implementation from 2023.
<b>April 2022</b>	Cabinet paper seeking agreement to the structure of the UFS, the overall quantum of funding, the design of individual components, and further detail on implementation and phasing.
<b>June 2022</b>	Communicate final package of UFS funding changes to TEOs.
<b>January 2023</b>	Begin UFS roll out (including funding category changes).
<b>2023-2025</b>	Refine any policy and operational parameters in response to new data and monitoring.

5. The proposed timeline and milestones are driven largely by the underlying work required to design and implement a new funding category system that combines a mix of field of study and delivery modes (e.g. online, work-integrated, campus-based). We see this as a fundamental system change which is critical to support the shifts to work-integrated learning that the RoVE changes are designed to achieve.
6. In developing this advice, we have sought to balance the need for timely funding changes to accompany the RoVE structural changes with:
  - a. the need for new data to inform policy design, cost modelling, and the assessment of potential impacts on TEO funding; and
  - b. sector capacity and capability to support UFS policy and operational design, and to respond to and implement UFS-related changes at speed.
7. Whilst work will proceed on all aspects of the UFS design, the most complex is the design of funding categories, which are outlined in Diagram 1 below:

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



8. We also considered options for earlier implementation of the new funding category system with final policy decisions in 2021, and implementation from 2022 instead of 2023. In our view, the risks of poor quality data to inform policy decisions and significant implementation challenges would outweigh the benefits. However, we will continue to assess the potential for earlier change as each stage of the work develops. It will also be important to signal the intent and broad design of the stages of the UFS early to the sector, especially as wider reforms bed in.

## **The draft timeframe outlined is ambitious given the scale of proposed change**

9. The activities and milestones set out above reflect our initial best advice about the *earliest* timeframe for final policy decisions and implementation of the UFS.

### *January 2021 is the earliest we can collect new sector-wide data on delivery modes*

10. Addressing data quality and availability challenges to inform the design of the new funding category system is a major priority for 2020 and 2021. As noted earlier, TEOs do not hold consistent or robust information about delivery modes (or their associated costs). Nor do government agencies collect data about delivery modes. This data is essential for designing a system that supports work-integrated learning.
11. Prior to any new sector-wide data collection and reporting, we will need to develop and test potential definitions for new mode-based funding categories. We plan to hold technical workshops with sector experts in March and April, to inform policy advice provided to you in June. Once initial policy decisions have been taken, the Tertiary Education Commission (TEC) will complete work with the sector to develop detailed operational guidance, and to confirm interim data collection processes for 2021.
12. It usually takes around 12-18 months to implement these types of data collection and reporting changes to IT systems and processes. Implementing data collection changes in 2021 is therefore likely to require TEOs to report any new data requirements outside of usual TEO and TEC's data collection and reporting processes.
13. As we have discussed with our Funding Reference Group (FRG), there are two main alternatives to sector-wide data collection and reporting changes in 2021. Either, policy decisions and implementation could be delayed to enable a longer-lead in time, or policy decisions on funding categories and rates could be made without a clear understanding of the potential impacts on TEO funding across the sector. The FRG supported our proposed approach.

### *We need to mitigate the risk of poor quality data to inform timely policy decisions in 2021*

14. The first year of new data reporting from TEOs tends to result in lower quality, less complete, and/or later data returns than in subsequent years. In part, this can be mitigated during 2021 through clear operational definitions and advisory support to TEOs. A significant monitoring regime will also be needed to complement new data collection, to ensure high-quality data is reported on time, and to mitigate any risks of misreporting or gaming by TEOs.
15. Full-year 2021 data will not be available until early 2022. However, we plan to begin initial modelling of funding rate options for the new funding category system using partial year data from August 2021. This will enable us to report to you on any data quality issues in late 2021, with advice on how this should inform funding policy decisions and our approach to either full or phased implementation of the UFS from 2023. We propose to provide you with advice on final policy decisions, including funding categories and rates, in March 2022, to inform April 2022 Cabinet decisions.

### *Early communication and sector engagement is critical to support future implementation*

16. We consider there is significant capability within the sector to support UFS design and implementation work. However, over the next two years, we need to manage the risks of overstressing sector resources to meet any new data and information requests, engage with officials to inform funding advice, and to implement and respond to funding changes, particularly alongside the other major RoVE reforms.

17. We propose to discuss the high-level direction for the UFS with tertiary education sector peak bodies and TEOs over the next few months. This will help build understanding of the rationale for upcoming changes and provide greater clarity of the sector's ability and capacity to support and implement a new UFS from 2023.
18. It is important that TEOs have as much advance notice as possible of upcoming changes, including new data collection and reporting requirements. We seek your approval to begin signalling likely 2021 data collection changes now, and to announce specific changes to mode of delivery reporting following our June 2020 advice.

### **You have choices about the speed of and approach to implementation from 2023**

19. Officials recommend that initial sector communication about the UFS refer to implementation *from* 2023. This leaves open the prospect of full implementation or a more phased roll out. A phased roll out of all three components of the new UFS in 2023 could involve introducing changes to learner and strategic funding, as well as applying new funding category and rate changes in a phased way.
20. We know from international examples that phasing in major funding system reforms can help to ensure sector capability and capacity to respond to change. It can also avoid significant funding shocks for TEOs with flow on impacts for learners and industry. For example, Tennessee has undertaken one of the most significant tertiary education funding reforms in recent years. Tennessee's shift from entirely enrolment-based funding for public colleges to a new formula-based funding model which takes into account outputs and outcomes, was phased in over three years (six years from policy development to full implementation in 2013/14). Through this transition period, funding to colleges was adjusted in line with previous funding levels, an approach officials have told us was critical to successful implementation.
21. Implementation of the UFS from 2023 will have very significant implications on the Investment Plan process for TEOs. Investment rounds usually begin up to 18 months prior to the affected funding year, with initial allocations informed by historic funding levels. This means the TEC will need to consider and develop revisions to its wider Investment Plan approach.
22. TEOs will want clarity on the baseline funding they can expect to receive in 2023 (subject to amendments based on actual delivery) and how this will be affected by the UFS. Early signalling to the sector of how this process will be managed prior to final policy decisions in April 2022 would help to provide TEOs with a level of funding certainty in the transition from one system to the next. With this in mind, you may wish to seek early Cabinet agreement to a high-level approach and associated contingency for the full costs of the UFS as part of Budget 2021.
23. We will provide you with more detailed advice on phasing and roll out options following upcoming engagement with sector experts, and future modelling based on 2021 data.

### **Further advice as requested on learner and strategic components of the UFS**

#### **Further advice on the learner component**

24. This section responds to your request for further advice on the potential inclusion of learners with low literacy and numeracy in the learner-based funding component. We also provide further advice on a proposed approach to work on learners with disabilities and additional support needs.

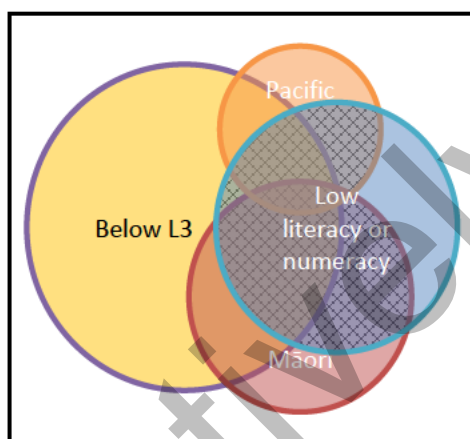


25. Any interventions to address low literacy and numeracy levels for learners within the vocational education system sit alongside the key interventions taken through schools and foundation tertiary education.

*Proposed target groups for learner-based funding include a high proportion of learners with low literacy and numeracy*

26. We have analysed a range of factors to best identify learner groups most at risk of not achieving a vocational education and training (VET) qualification. Our analysis found that the effect of low literacy and numeracy on qualification completion rates was similar to the effect of having prior attainment below Level 3. As with low prior attainment, low literacy and numeracy was significantly more predictive of not completing for those under 25 year than for those 25 years and older.<sup>1</sup>
27. The analysis indicates that targeting funding to *older learners* with low literacy and numeracy may not be efficient.
28. Diagram 2 shows there is a high level of overlap between the population of *young people* with low literacy and numeracy and the other population groups we propose to target through the learner component.

Diagram 2: Overlap between young people aged 18-24 years with low literacy and numeracy and other target population groups



Around 80 per cent of the population aged 18-24 years with low literacy and numeracy is captured by three of the other learner groups proposed for inclusion in learner-based funding (young people with low prior qualifications, Māori, and Pacific people).

*Note disabled learners and learners in isolated areas are not depicted in Diagram 2*

*There are also challenges in identifying and targeting funding to learners with low literacy and numeracy*

29. We have identified two potential ways to identify and target funding to learners with low literacy and numeracy through the UFS.
30. Firstly, we could identify young learners who have achieved some NCEA credits, but not met the NCEA literacy and numeracy requirements. However, the recent NCEA Review raised a number of questions about the reliability of literacy and numeracy assessments towards NCEA, and further work is underway to strengthen literacy and numeracy requirements. The new NCEA literacy and numeracy standards are not expected to be implemented in schools (or TEOs) until 2023.

<sup>1</sup> The difference in five year qualification complete rates was greater for under 25 year olds (57% for those with low LNAAT scores compared with 68% for those with higher scores) than those aged 25 and over (65% compared with 71%).

31. Secondly, we could identify and target funding to support VET learners with low literacy and numeracy based on the results of the Literacy and Numeracy for Adults Assessment Tool (LNAAT). The LNAAT is currently used by some TEOs to identify and track the progress of learners' literacy and numeracy levels, especially during foundation qualifications.
32. Use of the LNAAT results for funding purposes would rely on much wider use of the tool by TEOs to assess learners at qualification levels 3-7 (excluding degrees). Officials have concerns that this approach could shift TEOs from a focus on assessment to inform teaching and learning, towards a focus on funding. This could lead to unnecessary assessment with little or no education benefit for some learners. It may also create perverse behavioural incentives for TEOs around how they administer the tool because they would receive higher funding when learners performed poorly.
33. There are significant challenges to accurately identifying VET learners with low literacy and numeracy for funding purposes. There is also a significant overlap between learners with low literacy and numeracy and the other targeted population groups we have recommended. Therefore, officials do not recommend linking funding to low literacy and numeracy through the learner-based funding component of the UFS at this time.

*Phasing of future advice to support disabled learners and people with additional learning support needs in VET*

34. We discussed with you three potential funding design approaches to better meet the needs of disabled learners and people with additional learning support needs in VET. 9(2)(f)(iv) the second would support joined up services across multiple TEOs, and the third would bulk fund TEOs based on their enrolments of disabled learners. These approaches represent a significant level of change requiring substantial engagement with both the tertiary and the disability sectors.
35. The third approach is reliant on new data collection since neither TEOs nor Government agencies hold consistent or robust information about these learners in the tertiary education system. Addressing this major data gap will be a complex process that needs to balance collecting accurate information, with protecting privacy and avoiding stigmatisation. We recommend that the third approach, which is reliant on new data, be phased in later than the rest of the learner-based funding component. This recognises the need to work closely with stakeholders to ensure an appropriate design and change process, and will help to avoid overloading TEOs with another new data reporting requirement in 2021.
36. We propose beginning any new data collection from TEOs on disabled learners and learners with additional learning support needs from 2022 at the earliest, which means new funding based on this data collection would not be in place before 2024. The other two approaches which do not require new data collection would progress alongside the rest of the learner component, for implementation from 2023.

**Further advice on the strategic component**

37. You asked for further advice on Option A (time-limited funding that shifts to support innovation and meeting national and regional skills priorities) and Option B (a mission-led core funding approach) for the strategic funding component of the UFS.

38. These options seek to balance two key design principles: funding flexibility to increase responsiveness to industry and employer skill needs, and greater funding stability to allow TEOs to invest in innovation and growth. In this context, stability refers to providing funding predictability for TEOs. TEOs should be able to understand, from year to year, what their likely allocation will be. Flexibility refers to the ability to move funding around to respond to skill needs and encourage innovative programme design and delivery.
39. Table 2 provides a high-level description of each potential approach for strategic funding and an assessment of the options against the two strategic component design principles (stability and flexibility) and the four UFS design principles. It also considers how each of the options supports innovation and performance.

*We propose further design work focuses on supporting innovation and meeting national and regional skills priorities by shifting funding in response to changing needs (Option A)*

40. Option A would directly target funding to support responsiveness and innovation and be open to all UFS-funded providers. We think this approach is best placed to support the direction of the wider RoVE changes. Funding stability for TEOs would be provided through the structural aspects of the reforms as well as the funding category and learner components of the UFS, rather than through additional core funding.

*If you wish to consider a mission-led funding approach in addition to Option A, we recommend a focus on NZIST (Option B)*

41. Option B would provide mission-led funding, in line with strategic commitments. We recommend that if implemented, this approach is used to support the NZIST only. The NZIST will play a major role in delivering on the Government's objectives for vocational education. If set at a sufficiently high percentage, Option B could provide some additional stability for NZIST. However, it needs to be considered in the context of the other two components of the UFS.
42. Private Training Establishments (PTEs) are not Crown-owned and have a variety of drivers for the activities they undertake. It seems unlikely that working with all UFS-funded PTEs to agree new strategic commitments would be as effective as working closely with NZIST to shape the system to respond to overarching RoVE aims. Negotiating additional individual strategic commitments with each PTE would also likely prove compliance and transaction heavy for both PTEs and the TEC.
43. There are other funding arrangements already in place, or in development to recognise the mission-led roles of the other Crown-owned TEOs. Work is currently underway to support the wānanga's unique roles and functions, including supporting the development and dissemination of mātauranga Māori. The Universities receive the majority of funding to reward and encourage research excellence through the Performance-Based Research Fund, and supply a very small proportion of vocational education delivery at levels 3-7 (excluding degrees).
44. Alternatively, if you do not want to focus solely on NZIST, another model could be expanding the role of the CoVEs and their direct influence over provision in response to industry need. In contrast to Option A, this funding would be stable over time and would be built around proposals to use existing expertise to develop consortia focused on national excellence.

Table 2: Options for the Strategic Component and Assessment of Options

	Basis for funding	Innovation	Flexibility	Performance	Stability	High quality delivery that meets the needs of users	Access to work-based and work integrated learning	Meets strategic needs	Simple, transparent funding
<p><b>Option A</b> Promoting innovation and matching skills supply more closely with skills demand by linking funding to national and regional skill needs.</p> <p>Could include: - addressing supply in areas of current/expected demand; -addressing major regional cost mismatches.</p>	<p>5-10% of overall UFS funding</p> <p>Open to all providers at levels 3-7 (non-degree)</p> <p>Price increases: -targeted at tuition subsidy top-ups and/or related metrics. -time-limited project funding to support specific projects and initiatives.</p>	<p>√√ Supports innovative approaches to matching skill supply and demand and programme design and delivery.</p> <p>Industry, national and regional priorities directly incentivised.</p>	<p>√√ Funding can be moved in response to need. Allows support of 'risky' approaches as early exit points can be agreed if project does not succeed.</p>	<p>√√ 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.</p>	<p>~ Stability provided by other parts of UFS.</p>	<p>√ This is an explicit basis for funding in this option.</p> <p>Communities, Workforce Development Councils (WDCs) and Regional Skills Leadership Groups (RSLGs) likely to have a strong role in identifying priorities.</p>	<p>√√ This is an explicit basis for funding in this option.</p> <p>Provides direct support to new models.</p>	<p>√√ This is an explicit basis for funding in this option.</p> <p>WDCs and RSLG's would likely have a strong role in identifying priorities.</p>	<p>~ Dependent on funding criteria. Individual projects or programmes would have clear information on accountability and funding amounts.</p>
<p><b>Option B</b> Supporting NZIST to invest in longer-term capability development, quality, and outcomes to support its' new mission.</p>	<p>25-35% of NZIST funding.</p> <p>Bulk funding paid on an annual basis with a core level of funding confirmed for 3 to 5 years.</p>	<p>√ May support NZIST to invest in longer-term capability, in line with their mission.</p>	<p>~ Limited or no funding would likely shift within a 3-5 year funding period.</p>	<p>√ Bulk funding with strategic commitments tied to performance over 3-5 years. (Could be staggered based on performance).</p>	<p>√√ For NZIST only</p>	<p>√ Industry, national and regional priorities could be agreed through NZIST strategic commitments.</p>	<p>√ Could be included in NZIST strategic commitments.</p>	<p>√ Could be included in NZIST strategic commitments.</p>	<p>~ Upfront clarity regarding high-level expectations and funding amount.</p>

*...we recommend you delay a final decision on whether or not an additional mission-led funding approach is required, subject to future modelling*

45. Progressing both Option A and Option B would add complexity to the funding system and potentially dilute the incentives for the NZIST to invest in new services or delivery models, or to respond quickly to national and regional priorities.
46. The TEC's ability to invest in specific activities or to shift funding in response to performance would likely be more limited if a priority is placed on using strategic funding to increase funding stability for the NZIST. If the other components of the system work as designed, the NZIST should be appropriately resourced to meet their requirements out of baseline.
47. We recommend delaying a decision on whether or not a mission-led funding approach (Option B) is required in addition to Option A, until after we have completed modelling of the system as a whole.

### Related policy work programmes

48. The UFS is one of a number of reforms to support improved outcomes for employers and learners and a shift towards work-integrated delivery. These changes include the other RoVE changes, other tertiary funding reviews, and increased vocational opportunities for secondary students.
49. Implementation of the UFS from 1 January 2023 fits well with the completion of transition arrangements for the other RoVE reforms, including:
  - a. The shift of arranging training functions from ITOs to providers over the next two years.
  - b. The establishment of six new WDCs over the next year, becoming fully operational by the end of 2022, with new roles and functions designed to strengthen standard setting and assessment, employer brokerage and funding advice
  - c. the integration of all ITP subsidiaries into NZIST, due to be completed by the end of 2022.
50. Funding to support the core functions of WDCs and NZIST is being provided through the Cabinet paper on the fiscal implications of the RoVE.
51. To realise the vision of the RoVE across the wider education system, we also need to strengthen vocational education for secondary school students. This requires increasing access to, and the quality of, vocational learning for school students, and improving school-employer connections and education-to-employment pathways. This will include addressing funding disincentives and inequities for schools and TEOs in the current secondary-tertiary funding arrangements, including Trades Academies and Gateway.
52. 9(2)(f)(iv)  
[Redacted text]

53. Once they are established, we expect the WDCs to work with schools to develop industry-relevant packages of learning for secondary school students that are directly connected with post-school vocational education. We will also work with Subject Expert Groups as part of the Review of Achievement Standards to ensure that new standards and associated resources support more vocationally orientated programmes. The development of a Vocational Entrance award will also help strengthen learning packages in schools and build stronger pathways for learners into vocational education.
54. There are a number of wider tertiary funding reviews underway which complement the RoVE changes, and include:
- a. the review of te reo Māori funding rates, which will be taken into account while work on the funding category component progresses, especially the work to rationalise SAC categories.
  - b. the review of mātauranga Māori and wānanga research. Officials will work on co-designing solutions with the wānanga to ensure the tertiary education funding system reflects and supports the kaupapa Māori approach of these providers.
  - c. the work progressing on fee regulation. Any interim or long term work on fee regulation settings will need to support the incentives that the UFS is looking to drive, and create a balance between new funding rates, learners' contributions, and employer incentives.
  - d. the review of foundation education, which will work to support learners on the path to vocational education. Any interventions to address low prior attainment within the vocational education system sit alongside the key interventions taken through foundational learning.
55. There are also links to questions about degree-level delivery. These focus on the role of work-based learning and whether funding should be differentiated by modes of delivery in the future. We are engaged with Universities New Zealand's work-based learning group. We are also listening to the insights from FRG members involved in degree-level provision on how the UFS could impact on this delivery. These wider funding system questions should be addressed following key UFS design decisions.

## Next Steps

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56. We propose to report back to you in June 2020 with further advice on the overall design of the UFS, each of the three components of the UFS, and next steps. This will be informed by our upcoming technical workshops with sector experts to design new mode-based funding categories.
57. As discussed earlier in this paper, subject to your agreement, we will also begin engagement with key sector stakeholders, including tertiary education peak bodies, as soon as possible to discuss:
- a. the high-level direction for the unified funding system (including the three components set out in the A3 discussed at the December strategy session)
  - b. the expectation of new sector-wide data collection and reporting requirements on delivery modes in 2021, to inform further policy advice
  - c. potential implementation of the three components of the unified funding system from 2023.