

Education Report: Unified Funding System: options for funding allocation for the learner success component

To:	Hon Chris Hipkins, Minister of Education		
Date:	28 July 2021	Priority:	High
Security Level:	In Confidence	METIS No:	1263885
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Messaging seen by Communications team:	No	Round Robin:	Yes

Purpose of Report

The purpose of this report is to seek your in-principle agreement to an approach for allocating funding for the learner success component, subject to the results of modelling later this year.

Recommendations

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

- a. **agree in principle**, subject to the results of modelling later this year, to one of the following two options as the basis for allocating most of the learner success component of the unified funding system (UFS) for vocational education and training (VET)

Option 1	funding is a "top up" on...	...funding allocated via the UFS funding category component (i.e. a percentage top-up on funding)	Agree / Disagree
		...all UFS enrolments (i.e. a single rate for all EFTS/STMs ¹)	Agree / Disagree
Option 2	funding is linked to enrolments of learners with low prior achievement (recommended)		Agree / Disagree

- b. **agree in principle**, subject to the results of modelling later this year, to link a portion of learner success component funding to disabled learners, alongside your choice in recommendation a (**recommended**)

Agree / Disagree

¹ Equivalent full-time student (EFTS) places and standard training measure (STM) units.

- c. **agree in principle**, subject to the results of modelling later this year, to one of the following three options for Equity Funding for VET from 2023

i	retain Equity Funding for VET reverting to pre-2022 settings	Agree / Disagree
ii	retain Equity Funding for VET at 2022 settings	Agree / Disagree
iii	discontinue Equity Funding for VET from 2023 onwards	Agree / Disagree

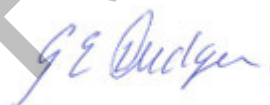
- d. **note** that we will provide you with detailed advice on the performance aspects of the learner success component, 9(2)(f)(iv) [redacted] in late August
- e. **forward** this briefing to the Associate Ministers for Education
- f. **agree** to proactively release this education report within 30 days of Cabinet decisions being made, with any redactions in line with the provisions of the Official Information Act 1982.

Agree / Disagree



Katrina Sutich
Group Manager
Te Ara Kaimanawa Tertiary Policy
Ministry of Education

28/07/2021



Gillian Dudgeon
Deputy Chief Executive – Delivery
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28/07/2021

Hon Chris Hipkins
Minister of Education

_____/_____/_____

Overview of the learner success component

1. We have previously proposed that the learner success component could be 10% of total UFS funding (METIS 1233742 and 1235409 refer), which could be approximately \$82 million.² (This compares to approximately \$22 million for Equity Funding for VET in 2022.)
2. We envisage three elements for the learner success component:
 - a. **funding allocation**: how funding is allocated across the system, and how much funding is available for each provider
 - b. **performance measurement**: expectations on tertiary education organisations (TEOs) for how they support their learners' success
 - c. **performance payments**: how funding is linked to performance.
3. Annex 1 sets out how the elements of the learner success component would be integrated into the Tertiary Education Commission's (TEC) regular investment process.
4. Funding would be allocated to TEOs in a simple mechanistic way up front.³ This would occur as part of the regular Investment Plan process. TEC would retain a portion of the funding that is allocated for each TEO for payment upon completion of milestones or achievements linked to learner success.
5. This combination of up-front funding and funding tied to performance expectations will provide certainty to TEOs about the funding available for them along with direct financial incentives to improve their learners' success.
6. 9(2)(f)(iv)
[Redacted]

This will complement and augment TEC's current tools to drive learner success

7. The learner success component set out in this way will complement and significantly augment existing expectations on TEOs to support their learners' success.
8. TEC already expects TEOs to identify, and demonstrate how they are meeting, their learners' needs. TEC is currently able to shift volume between TEOs to reward strong support for learners (i.e. allocating additional funding for EFTS/STMs to high performing TEOs, but only when demand and funding permits) or penalize poor performance for learners (i.e. limiting volume-based funding to poor performing TEOs).
9. This approach has resulted in an increased focus on learner success in some TEOs. However, shifting volume between TEOs is limited in its capacity to incentivise sustained, system-wide change. The learner success component will provide more direct connections to learner success to complement TEC's ability to shift volume.

² This is based on our estimate as part of Budget 2021 that total UFS funding for 2023 could be approximately \$820 million.

³ We will provide you with advice about how this could align with the discretionary funding proposal you are currently consulting on (METIS 1260163 refers).

Options for allocating learner success component funding

10. We have analysed two options against the principles for the component.
11. **Option 1 is a “top-up” for all VET learners.** This could be a proportional top-up (e.g. 10%) on the funding category component, which makes up the majority of the UFS. Or, this could be a single rate for all UFS EFTS/STMs.
12. **Option 2 involves linking funding to learners with low prior achievement.** TEOs would receive a per-EFTS/STM rate for learners who have not achieved a prior qualification at level 3 or above on the New Zealand Qualifications Framework (NZQF). Learners with lower prior achievement are less likely to achieve VET qualifications (METIS 1257567 refers). This could approximate learner need in each TEO.
13. We have assessed these options against the principles for the learner success component (METIS 1257567 refers) to determine which option is most likely to best support learner success.
14. Our analysis shows that option 2 best aligns with the principles for the component:
 - a. It incentivises improved responsiveness to learners’ needs.
 - b. It recognises that supporting learners with low prior achievement can come at higher costs to TEOs.
 - c. It supports some of the objectives of the Statement of National Education and Learning Priorities (NELP) and the Tertiary Education Strategy (TES), and the Reform of Vocational Education (RoVE).
 - d. It is simple, transparent and predictable.
 - e. There are minimal perverse incentives.
15. Option 1 is simple and predictable, but it is less well aligned with the rest of the principles for the component. It could create an incentive on TEOs to enrol and retain learners who are likely to succeed without additional support, and it does not reflect how learner need can vary by TEO. If you prefer option 1, we believe a top-up on EFTS/STMs is preferable, as it would better incentivise more work-integrated learning.
16. Later in this paper, we set out preliminary findings from our modelling to show how funding could flow differently between subsectors depending on the option.

Both options could be combined with funding linked to disabled learners

17. Linking learner success component funding to enrolments of disabled learners could incentivise TEOs to better support the needs of their disabled learners. Our data on participation of disabled people in VET is limited, but we know they are less likely to participate in work-based training than non-disabled people. Linking funding to disabled learners could contribute to improved employment rates and median earnings for disabled people (METIS 1257567 refers).
18. Either of the two options could be combined with funding linked to disabled learners. TEOs would receive a per-EFTS/STM rate for disabled learners alongside either a “top up” (option 1) or funding linked to learners with low prior achievement (option 2).

19. This would incentivise TEOs to enrol, retain and support disabled learners. It would recognise that supporting disabled learners can come at higher costs to TEOs. It would support the NELP and the TES, and RoVE, along with government strategies for disabled people. However, it would be more complex.
20. We recommend this approach. To support this, we will work to improve our data collection about disabled learners in tertiary education to improve the accuracy of our data and ensure it is fit for funding allocation, monitoring and reporting purposes.

Equity Funding could complement the learner success component

21. As part of Budget 2021, the Government made a substantial investment in equity in VET by increasing both the rates and coverage of Equity Funding for VET for 2022. This was well received by the sector. This was intended to signal the future transformation of the VET funding system, and funding was intended to become part of the UFS from 2023.
22. We need to finalise the approach to transitioning from Equity Funding to the learner success component.
23. You could choose to:
 - a. **retain Equity Funding, reverting to pre-2022 settings and rates⁴**: policy settings could be modified to reflect the joining of provider- and work-based learning (e.g. eligibility could be extended to include work-based learning, rather than just provider-based learning)
 - b. **retain Equity Funding for VET from 2023 onwards at 2022 settings and rates⁵**: modifications could be made to complement the learner success component
 - c. **discontinue Equity Funding for VET from 2023 onwards**, replacing it with the learner success component.
24. All three options could be budget-neutral, which we can provide further advice on.

Modelling the options for the learner success component

25. We have done some preliminary modelling for the learner success component. There are some limitations with this modelling, including that it reflects the current system of separate provider- and work-based learning and does not account for shifts in work-based learning from transitional industry training organisations (ITOs) to providers. This means that the statements in this paragraph are preliminary and subject to change.
26. We have identified three key themes in the preliminary modelling to date.

⁴ \$135 per Māori and Pacific EFTS at NZQF levels 5 and 6, \$325 per Māori and Pacific EFTS at level 7 (non-degree), \$29.06 per EFTS at TEIs to support disabled learners.

⁵ \$329 per Māori and Pacific EFTS/STM at all levels of VET, \$29.41 per EFTS/STM to support disabled learners.

27. If funding is allocated as a percentage top-up on the funding category component, more learner success component funding would be linked to provider-based learning than to work-based learning (but this is dependent on decisions about rates for each mode of provision). If funding is a single rate for EFTS/STMs (either for all EFTS/STMs, or just for low prior achievement EFTS/STMs), a relatively higher proportion of learner success component funding would be linked to work-based learning.
28. Compared to 2021 Equity Funding, all subsectors and TEOs are likely to receive substantially more learner success component funding. This also appears to be the case for most TEOs compared to 2022 Equity Funding.
29. The proportional split of the learner success component by subsector would differ compared to 2022 Equity Funding:
- Wānanga would receive a lower proportion of funding under any option, particularly if funding is a single rate for learners with low prior achievement. It appears that linking funding to disabled learners and/or retaining Equity Funding from 2023 would lessen but not eliminate the differences.
 - Te Pūkenga, for its provider-based provision, would receive a higher proportion of funding if funding is a percentage top-up on the funding category component, and a similar proportion of funding if funding is a single rate for EFTS/STMs (either for all EFTS/STMs, or just for low prior achievement EFTS/STMs).
 - PTEs would receive a higher proportion of funding if funding is a percentage top-up on the funding category component, and a lower proportion of funding if funding is a single rate for EFTS/STMs (either for all EFTS/STMs, or just for low prior achievement EFTS/STMs).
 - Based on transitional ITO data, work-based learners would attract a lower proportion of funding if funding is a percentage top-up on the funding category component, and a higher proportion of funding if funding is a single rate for EFTS/STMs (either for all EFTS/STMs, or just for low prior achievement EFTS/STMs).

9(2)(f)(iv)

Next steps

32. Once we have had your feedback on this paper, we will incorporate your decisions into the model we are building for setting UFS funding rates, both for the funding category component and the learner success component.
33. We are developing options for the performance elements of the learner success component. One of the key issues we are considering is how specific the policy settings should be about performance measurements and consequences versus how much flexibility there could be for TEC and TEOs to agree tailored performance expectations. We will provide you with advice in late August.
34. 9(2)(f)(iv) [REDACTED]

Annexes

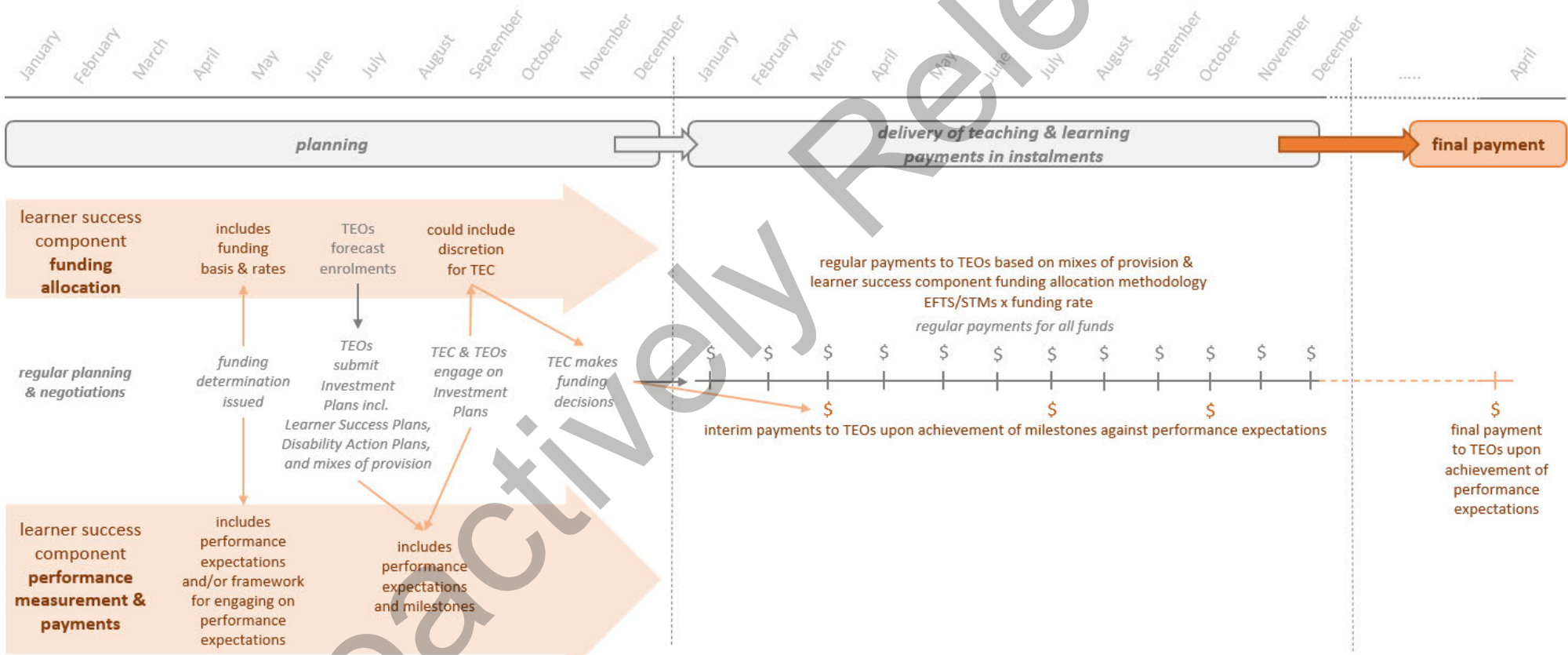
Annex 1: How the UFS learner success component could work

Annex 2: Sequence of key UFS decisions

Annex 1

How the UFS Learner Success Component could work

Key
 Orange = learner success component
 Grey = regular Investment Plan and payments cycle



Productively Released

Annex 2: Sequence of key UFS decisions

Sequence of key UFS decisions

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

