Education Report: Unified Funding System: options for performance expectations and incentive payments for the learner success component

To:	Hon Chris Hipkins, Minister of Education		
Date:	17 September 2021	**Priority:**	High
Security Level:	In Confidence	**METIS No:**	1268057
Drafter:	Kiri Heel	**DDI:**	044632541
Key Contact:	Vic Johns	**DDI:**	044638078 9(2)(a)
Messaging seen by Communications team:	No	**Round Robin:**	Yes

Purpose of Report

The purpose of this report is to seek your agreement to an approach for performance expectations and incentive payments for the learner success component of the unified funding system (UFS).

Recommendations

The Ministry of Education (MoE) and the Tertiary Education Commission (TEC) recommend that you:

a. **agree** that:

   a. TEC will identify and set performance expectations for tertiary education organisations (TEOs) via the learner success component for how they support their learners' success

   b. the performance expectations should be relevant and tailored to TEOs and the needs of their learner populations

   c. you will set parameters for how TEC should identify appropriate measures

   d. MoE and TEC will work together to develop advice to you about what the parameters could be

   Agree / Disagree

b. **agree** that a portion of each TEO's learner success component funding will be paid to each TEO upon achieving the performance expectations set by TEC

   Agree / Disagree

c. **note** that we envision that you would set a minimum and a maximum amount of funding that is to be linked to performance expectations, with parameters about when to apply the minimum or maximum

d. **agree** that MoE and TEC will work together and consider the results of UFS modelling to develop more detailed advice to you on this

Agree / Disagree

e. **forward** this briefing to the Associate Ministers for Education
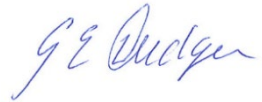
f. **agree** to proactively release this education report within 30 days of Cabinet decisions being made, with any redactions in line with the provisions of the Official Information Act 1982.

Agree / Disagree

Vic Johns
Policy Director
Te Ara Kaimanawa Tertiary Policy
Ministry of Education

17/09/2021

Gillian Dudgeon
Deputy Chief Executive – Delivery
Tertiary Education Commission

17/09/2021

Hon Chris Hipkins
Minister of Education

8 /11/ 2021

Background

1. In our previous Education Report about funding allocation for the learner success component (METIS 1263885 refers), we set out its three main elements:

    a. **funding allocation**: how funding is allocated across the system, and how much funding is available for each provider

    b. **performance expectation**: expectations on tertiary education organisations (TEOs) for how they support their learners' success

    c. **incentive payments**: how funding is linked to performance.

2. Annex 1 outlines how these elements would be integrated into the Tertiary Education Commission's (TEC) regular investment process.

3. This paper focuses on performance expectations and incentive payments: it begins by discussing performance across vocational education and training (VET) and the UFS, then sets out some proposals for the learner success component.

Driving performance improvements across the VET system

4. The two key drivers for the UFS are to encourage high-quality work-integrated learning, which has good outcomes for learners and employers, and to actively drive improvements for learners through the learner success component.

5. Achieving this depends on several factors. A key focus for us right now is using modelling to set funding rates in such a way that, among other things, they incentivise TEOs to adjust their provision towards more high-quality work-integrated learning that has good outcomes for learners and employers. Another focus, as set out in the rest of this paper, is setting specific performance expectations on learner success component funding.

6. The third central tool to driving performance improvements across the VET system is TEC's investment decisions. TEC will need to make volume-based investments that align with the objectives of RoVE (the Reform of Vocational Education), the Statement of National Education and Learning Priorities (NELP) and the Tertiary Education Strategy (TES), the principles of the UFS, and advice from Workforce Development Councils and Regional Skills Leadership Groups (and, of course, reflect the unique roles of individual TEOs). TEC will need to monitor whether TEOs' provision reflects the changes we want to see in the VET system, altering future investment decisions accordingly.

7. TEC already monitors TEOs' provision with regards to NELP and TES priorities. TEC will need to augment this type of monitoring based on the outcomes we are seeking from the UFS. In addition, TEC will continue to build on its tools to drive learner success such as Learner Success Plans which now form a key part of the Investment Planning process.

8. We consider that driving performance improvement in the VET system will take time as the sector adjusts and adapts to the new funding system. In developing the UFS performance measures framework, TEC will work with the sector to refine a range of measures (qualitative and quantitative) that support its investment objectives, building on what works currently (such as progression, completion and equity measures), as

we learn more about TEO behaviour in the new funding system. This will enable TEC, in time, to use the network and mix of provision, actual delivery, educational performance, advice from WDCs and RSLGs, and other considerations, to make investment decisions that complement funding incentives and learner success component performance elements to drive improvements in the VET system.

9.   Recognising the long lead-in times to seeing change in a number of key performance areas, we expect that initial incentive payments for the learner success component could be linked to tangible deliverables such as evidence of capability building to support improved learner success.

Options for performance expectations for the learner success component

10.   The performance elements of the learner success component will complement and augment the broader VET and UFS performance framework. The learner success component aligns with the aims of the NELP and the TES, along with RoVE objectives, and can strengthen the likelihood of achieving them.

11.   Performance levers are particularly important in the learner success component to ensure learner success component funding reaches *all* learners who need additional support to be successful in VET, not just learner groups who determine TEOs' learner success component funding. (TEOs' funding will be calculated based on enrolments of select learner groups, but TEOs will be expected to identify and support the needs of *all* their learners and allocate their funding accordingly.)

12.   The performance elements of the learner success component are intended to set strong performance expectations and rewards to shift TEO behaviour and improve outcomes for learners. Performance expectations should focus on the learner groups directly targeted through funding allocation, plus others who need to be better supported by the VET system (for example, women in traditional trades). There is a choice about how the direction for performance expectations is set.

13.   You could choose to set the direction for performance expectations yourself (**option 1**), by setting parameters for how TEC should identify appropriate performance measures. These parameters would be set out in a funding determination. TEC would then develop a suite of measures that align with the parameters. From this suite, TEC would select specific performance expectations that are relevant and tailored to each TEO and the needs of their learner populations.

14.   This would set a clear framework for performance expectations while allowing TEC to tailor performance measures to TEOs and their learners. You could ensure the parameters align with NELP and TES priorities and RoVE objectives.

15.   We (MoE and TEC) would work together to develop advice to you about what the parameters could be. We envision that the parameters would enable TEC to shape performance expectations to the roles and provision of individual TEOs and their learner populations. For example, the parameters could be as broad as a requirement on TEC to clearly articulate performance expectations for TEOs (in line with the TES) and review them regularly. We do not envision that the parameters would prescribe the performance measures or be overly prescriptive about specific performance expectations.

16.   Another option is that you could choose to direct TEC to determine *both* the parameters for establishing performance expectations *and* the expectations themselves (**option 2**). Less detail would be included in the funding determination. Instead, TEC would

publish the parameters and expectations through Investment Plan Guidance. This approach would maximise flexibility, because the performance expectations framework could change more quickly in response to the needs of learners and engagement with TEOs, learners, Māori/iwi, employers, etc.

17. Both options would support performance expectations that:

   a. are learner-based performance indicators (i.e. KPIs)

   b. focus on organisational capability-building, which is important for achieving sustained, embedded improvements in learner success

   c. enable milestone incentive payments, which could recognise that improving learner success can involve a lengthy, complex process, including lags in reporting

   d. enable Māori learner success and uphold Te Tiriti o Waitangi.

18. Both options would require continued building of capability and capacity shifts at TEC to support TEOs and to embed learner-centred performance frameworks in its relationship and investment management. As part of the Investment Planning process, TEC has already strengthened its focus on learners by developing its Ōritetanga Learner Success Framework, implementing Learner Success Plans and Disability Action Plans, and linking progress towards improved outcomes to funding decisions. MoE will support TEC to ensure it is well positioned to deliver the policy and oversee TEC's implementation of this policy as part of regular Crown Entity monitoring activities.

19. **We recommend option 1**, enabling the Minister to provide some framing for performance expectations and TEC to develop the measures and tailor them to TEOs and their learners.

Incentive payments for the learner success component

20. Incentive payments will incentivise TEOs to achieve the expectations that TEC sets. TEC would retain a portion of funding for payment upon completion of milestones or achievements linked to learner success, as shown:

total learner success component funding available per TEO → *regular payments*: portion paid monthly alongside regular payments for all funds

→ *incentive payments*: portion paid intermittently upon achievement of performance expectations

21. For now, similarly to performance expectation, the key choice is the extent to which you versus the TEC determine how much learner success component funding is paid upon achievement of performance expectations.

22. For the purposes of transparency, we propose setting a minimum and a maximum amount of funding that is to be linked to performance expectations, with parameters for when to apply the minimum or maximum.

23. You could choose to set the minimum and maximum amounts and set parameters for when TEC should apply the minimum or maximum (**option 1**). This would balance transparency with flexibility, by setting a clear framework for incentive payments while still allowing TEC to tailor performance expectations to individual TEOs.

24. Or, you could choose to require TEC to set the minimum and maximum amount and set parameters for when it should apply the minimum or maximum (**option 2**). This would maximise flexibility, because TEC would be enabled to tailor all aspects of performance expectations to individual TEOs and their learners.

25. As with the options above for performance expectations, both options for incentive payments would support capability building and milestone payments, which will be particularly important in the first few years after the introduction of the UFS to enable long-term, sustained improvements for learners.

26. **We recommend option 1**, enabling the Minister to provide some framing for incentive payments and TEC to tailor incentive payments to TEOs and their learners.

Lessons to learn from previous Performance-Linked Funding (PLF)

27. PLF, in place until 2018, was intended to encourage TEOs to reach an acceptable standard of educational performance. A proportion of funding could be "clawed back" by TEC if a TEO had lower performance relative to other TEOs.

28. PLF was introduced to address patches of significantly poor performance in the tertiary education system, and it succeeded in doing this relatively quickly. But it was a blunt instrument and after the initial benefits were realised, it started to have negative effects. The one-size-fits-all and competitive aspects of the design of PLF rewarded TEOs who enrolled learners who were likely to succeed in their study, and penalised TEOs who deliberately engaged with learners who were more likely to need support to succeed. In this way, it did not account for learners' starting points in measuring TEOs' performance. For this and other reasons, PLF was unpopular with TEOs.

29. We have identified three ways in which the performance elements of the learner success component could be designed to improve on PLF. We have developed our advice to reflect these lessons.

30. Performance expectations should be tailored to individual TEOs and their learner populations (rather than being the same for all TEOs). For example:

    a. Strong learner success at Te Pūkenga and Te Wānanga o Aotearoa will be crucial to achieving the system-wide objectives we have for VET learners. TEC will need to take a comprehensive approach to monitoring how these TEOs perform for learners across the breadth of their provision, including all regions, fields of study, modes of provision, etc. TEC will also expect these TEOs share their effective approaches to learner success with other TEOs.

    b. For wānanga, the performance elements of the learner success component should uphold and enhance their unique characteristics and their unique relationships with the Crown under Te Tiriti o Waitangi.

    c. For providers who offer small amounts of VET, it will be important for TEC to promote learner success while also minimising transaction costs.

31. For the purposes of learner success component performance incentive payments, each TEO's eligibility to receive an incentive payment should be based on their own achievements (rather than being compared to each other, which means each TEO is not in control of their performance). (It is important to clarify that this would not impact TEC's general volume-based investment decisions, as discussed earlier in this paper,

where TEC rightly compares TEO performance across many dimensions to determine how to direct its investment across the system.)

32. A proportion of funding should be paid to TEOs upon successful achievement of milestones or expectations (rather than a proportion of funding being clawed back from TEOs for low performance, as this is seen as overly punitive).

Next steps

33. Subject to your agreement, we will work together to prepare further advice about what the parameters for performance expectations and incentive payments could be. TEC will also develop a process for engaging with TEOs on the operational design and implementation of the performance elements.

34. We are preparing an analysis of UFS proposals against Te Tiriti o Waitangi and will provide this to you as part of the advice on the first draft of the upcoming paper to Cabinet about the UFS.
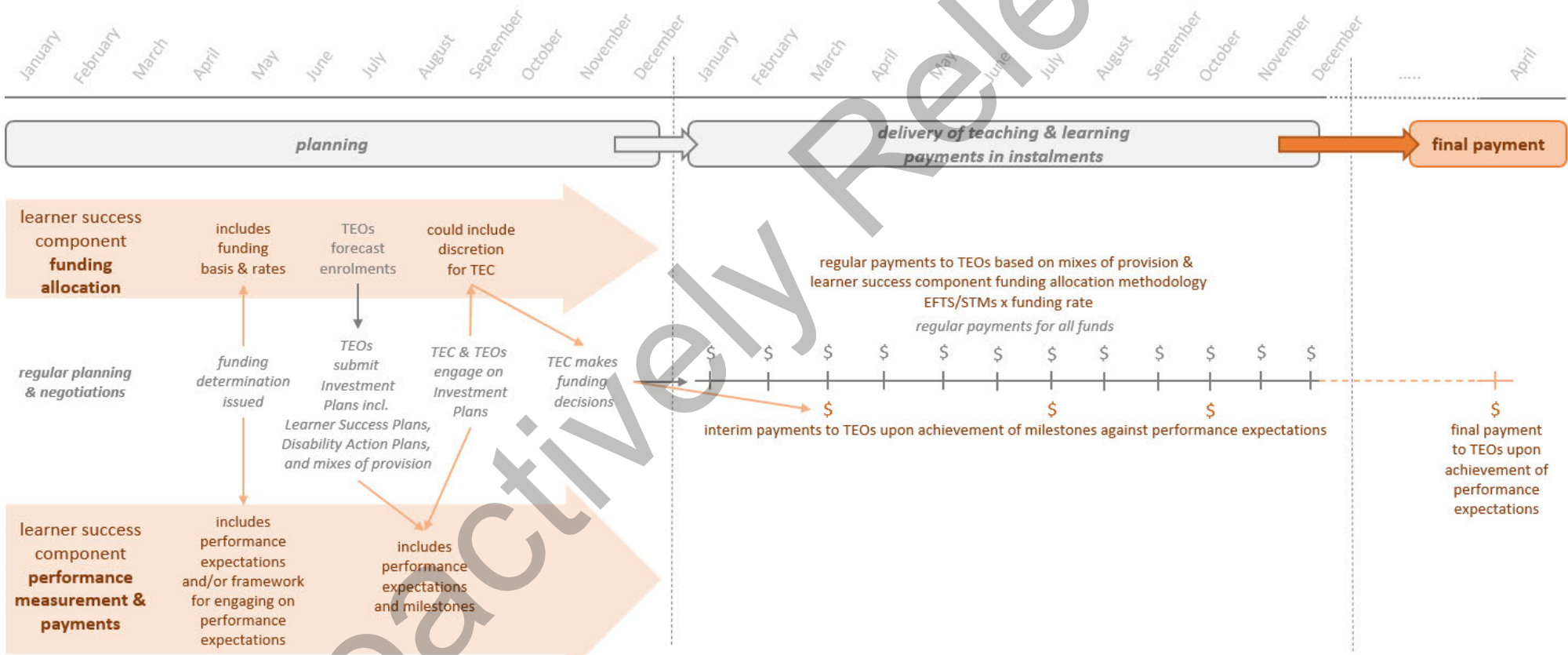
Annexes

Annex 1: How the UFS learner success component could work

Annex 2: Sequence of key UFS decisions

How the UFS Learner Success Component could work

Key

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

January February March April May June July August September October November December | January February March April May June July August September October November December | ..... April

planning | **delivery of teaching & learning payments in instalments** | **final payment**

learner success component funding allocation

includes funding basis & rates

TEOs forecast enrolments

could include discretion for TEC

regular payments to TEOs based on mixes of provision & learner success component funding allocation methodology
EFTS/STMs x funding rate
regular payments for all funds

regular planning & negotiations

funding determination issued

TEOs submit Investment Plans incl. Learner Success Plans, Disability Action Plans, and mixes of provision

TEC & TEOs engage on Investment Plans

TEC makes funding decisions

interim payments to TEOs upon achievement of milestones against performance expectations

final payment to TEOs upon achievement of performance expectations

learner success component performance measurement & payments

includes performance expectations and/or framework for engaging on performance expectations

includes performance expectations and milestones

8

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.

July

Key Decision:
base design
Strategic Component Advice
Late July

Key Decision:
funding allocation methodology
Learner Component Advice
Late July

August

Key Decisions:
performance measurements and consequences, 9(2)(f)(iv)
Learner Component Advice
Early September

Key decisions:
eligibility, modes and multipliers, subject groupings, limits, miscellaneous issues
Funding Category Advice
Late August

September

Modelling

October

Key decisions on shape, impacts, rates, and transition approach
Late September
Iterative advice, as we present options and provide more detailed modelling of impacts as a result of your decisions

November

Cabinet agreement to the detailed design of the unified funding system
Late November
Will inform TEC's Investment Guidance to the sector for 2023, released in December

March 2022

Key Decision: Setting the final funding rates for 2023
March 2022