

## Education Report: Applying performance expectations for the UFS learner component to PTEs

<b>To:</b>	Hon Jan Tinetti, Minister of Education		
<b>Date:</b>	7 March 2023	<b>Priority:</b>	Medium
<b>Security Level:</b>	In Confidence	<b>METIS No:</b>	1305735
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<b>Messaging seen by Communications team:</b>	No	<b>Round Robin:</b>	No

### Purpose of Report

This paper advises you on applying performance expectations for the Unified Funding System (UFS) learner component to private training establishments (PTEs) with relatively few UFS-funded learners from 2024.

### Summary

The UFS funds provider-based and work-based education at levels 3 to 7 (non-degree). Most of this provision is delivered by Te Pūkenga and private training establishments (PTEs). The learner component (LC) of the UFS recognises that there are higher costs involved in meeting learners' unique needs. Twenty per cent of each TEO's learner component funding will form an incentive payment, which the TEC will pay to each TEO upon achieving the performance expectations.

Most PTEs that receive UFS funding have relatively few learners and will receive less than \$50,000 in LC funding (with an incentive payment of no more than \$10,000). The administrative costs for these PTEs, and for the TEC, relative to the funding at stake may mean it is not worth their while to agree and report on performance requirements.

We propose the TEC applies the LC performance element to PTEs in proportion to the amount of funding at stake and the administration costs for TEOs and the TEC. This would mirror how the TEC already takes compliance requirements for small PTEs into account in its investment plan requirements (such as by exempting smaller PTEs from submitting investment plans).

This proposal would see 99 PTEs covering about 2% of LC learners receiving their full allocation of LC funding without specific accountability for it. These providers would continue to be accountable for learner outcomes through whole-of-TEO performance and quality assurance processes.

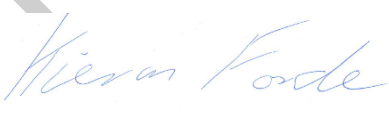
In addition, this paper proposes a clarification to the TEC's requirement to engage with Māori and iwi when developing performance expectations and monitoring arrangements for the LC from 2025.

## Recommended Actions

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The Ministry of Education recommends you:

- a. **agree** that the TEC applies the UFS learner component (LC) performance element by setting performance commitments through Learner Success Plans (LSPs) for TEOs that are required to submit them (i.e. that receive more than \$5m in total TEC funding)
- Agree** Disagree
- b. **agree** that for PTEs that are exempt from LSPs and receive more than \$50,000 in LC funding, the TEC set LC performance element commitments:
- i. through Investment Plans for PTEs that are required to submit them
  - ii. using a “lighter touch” approach for plan-exempt PTEs, subject to TEC discretion in the application of the \$50,000 threshold
- Agree** Disagree
- c. **note** that under the approach in recommendation b, PTEs that receive less than \$50,000 in LC funding would continue to be subject to whole-of-TEO performance and quality assurance processes required by the TEC and the NZQA
- Noted**
- d. **note** that we will advise you on the impact of the learner component allocation formula on PTEs with relatively few UFS learners as part of reporting back to you in due course on the effectiveness of the performance element
- Noted**
- e. **agree** that the TEC be required to engage with Māori and iwi on its proposed principles or underlying approach for developing performance expectations and monitoring arrangements for the LC from the 2025 funding year
- Agree** / Disagree
- f. **agree** that the Ministry of Education release this briefing once it has been considered by you and the TEC has informed affected providers, with any redactions in line with the Official Information Act 1982.
- Agree** Disagree

  
Kieran Forde  
Acting Senior Policy Manager  
Tertiary Education  
07/03/2023

  
Hon Jan Tinetti  
Minister of Education  
11/03/2023

## Background

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- 1 The Unified Funding System (UFS) for Vocational Education and Training (VET) funds provider-based and work-based education at levels 3 to 7 (non-degree). Most of this provision is delivered by Te Pūkenga and private training establishments (PTEs). UFS funding includes three components:
  - the delivery component – around 84% of UFS funding
  - the learner component – around 8% of UFS funding
  - the strategic component – around 8% of UFS funding.
- 2 The learner component (LC) recognises that there are higher costs involved in adapting education delivery and support to meet learners' unique needs.
- 3 A provider's allocation of LC is based on enrolments of four learner groups:
  - learners with low prior achievement (no prior qualification at NZQF L3 or above)
  - disabled learners
  - Māori learners
  - Pacific learners.
- 4 These groups serve as a *proxy* for learners who need additional support to be successful in VET – a way to allocate funding across the VET system in a reasonably straightforward way. This does not mean that providers should only use their LC funding for learners in these four groups. Instead, providers are expected to identify the unique needs of *all* their learners, make decisions about how best to support them, and allocate funding accordingly.
- 5 The TEC will set performance expectations for how TEOs support their learners, that build on the TEC's other tools that drive learner success. Twenty per cent of each TEO's learner component funding will form an incentive payment, which the TEC will pay to each TEO upon achieving the performance expectations.
- 6 This year, learner component incentive payments are being implemented through a targeted approach with nine TEOs. These TEOs are currently delivering a significant amount of vocational education.
- 7 Last year we advised your predecessor that we would provide advice in 2023 on how to apply the learner component to PTEs with very low numbers of UFS learners from 2024, once allocations for 2023 were known [METIS 1281224 refers]. He also noted that the TEC would consider "lighter touch" (i.e. lower compliance) approaches to setting performance expectations for smaller PTEs.

### ***Most UFS-funded PTEs will receive small amounts of learner component funding***

- 8 Most PTEs that receive UFS funding have a relatively small number of learners. Based on 2023 allocations, 150 of 156 PTEs will receive less than \$500,000 of LC funding. Of these, 102 PTEs (61% of all TEOs in receipt of UFS funding) will receive less than \$50,000 in LC funding (with no more than \$10,000 subject to the performance element). Annex 1 gives further detail of PTEs' learner-component allocations.

- 9 There are two key questions in considering how the LC is applied to PTEs with very low numbers of UFS learners:
- How should the performance element be applied to PTEs with small allocations of LC funding?
  - Should the formula-driven allocation of LC funding be supplemented with a more proportional approach for smaller providers?

### Applying the LC performance element to PTEs with low LC allocations

- 10 For PTEs that receive relatively small amounts of LC funding, the associated administrative costs relative to the amount of funding at stake may mean it is not worth their while to agree and report on performance requirements.
- 11 Setting and monitoring performance expectations on a TEO-by-TEO basis for these PTEs would also have high administrative costs for the TEC. It would be at the expense of higher value activities. The TEC's process for 2023 allocations required a significant amount of resource and would not be scalable to all TEOs.
- 12 We propose the TEC applies the LC performance element to PTEs in a way that it is proportional to the amount of funding at stake and the administration costs for TEOs and the TEC, and mirrors how the TEC already takes compliance requirements for small PTEs into account in its investment plan requirements. For example, PTEs are not required to submit Learner success Plans<sup>1</sup> or Disability Action Plans<sup>2</sup> if they receive less than \$5m in total on-plan funding.
- 13 For PTEs that receive more than \$5m in total funding, TEC would use LSPs to set performance expectations at an organisational level. We also propose this approach for universities, which receive relatively small amounts of UFS funding (for bridging programmes and non-degree provision at Level 7).
- 14 For PTEs that are exempt from LSPs and receive more than \$50,000 in LC funding, we propose that
- those required to submit Investment Plans would have performance expectations set through the plan process in a way that aligns with LC policy and each TEO's wider performance commitments
  - those that are plan-exempt should be subject to a "lighter touch" approach to the performance element. Based on 2023 allocations, there would be 26 PTEs in this category, covering around \$3m of LC funding and 3% of LC learners between them.
- 15 For those subject to the proposed "lighter touch" approach, the TEC would set generic performance measures with high-level reporting, with follow-up engagement with poorer performing providers. This would reduce compliance and signal the TEC's key areas of focus, but consequences would be targeted to significantly poor performance.

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<sup>1</sup> A TEO's learner Success Plan sets out how it will implement a learner-centric operating model to ensure equity of participation and achievement for all their learners.

<sup>2</sup> A Disability Action Plan (DAP) is a strategy for changing those practices TEOs that might result in discrimination (intentional or unintentional) against disabled people and to improve outcomes for disabled learners.

- 16 We consider that \$50,000 in LC funding is a reasonable threshold for a TEO to have the performance element applied, since no more than \$10,000 would be at stake for providers receiving less than this. Some PTEs who receive less than \$50,000 in LC funding are required to submit Investment Plans, but they only cover 0.3% of LC learners. Most of these PTEs are required to submit plans due to a poor External Evaluation and Review result (NZQA's evaluation of educational performance) or financial viability concerns and receive less than \$20,000 in LC funding (so would have no more than \$4,000 in LC funding at stake).
- 17 We also propose that the TEC have some discretion in the application of the threshold. This would allow for fluctuations from year to year for any PTE that happened to be around the \$50,000 threshold. It would also allow the TEC to apply the performance element to PTEs below the threshold should it wish to drive some specific activities in any poorer performing PTEs.
- 18 Table 1 summarises the proposed approach and shows how many PTEs would have performance expectations agreed through Investment Plans or LSPs, and how many would be subject to the "lighter touch" approach (not withstanding TEC discretion). (This is based on November 2022 data and is used for comparative purposes).

*Table 1: proposed approach to setting learner component performance expectations for PTEs, by Investment-Plan status and total LC funding, based on 2023 allocations (as at Nov 2022)*

		<\$20k	\$20k-\$50k	\$50k-\$100k	\$100-\$500k	>\$500k	Total
Investment Plan required	Number of PTEs	13	5	8	14	6	46
	Mechanism	LSP, if submitting	LSP, if submitting	Plan or LSP	Plan or LSP	Plan or LSP	-
Investment Plan exempt	Number of PTEs	49	35	18	8	-	110
	Mechanism	-	-	Lighter touch	Lighter touch	-	-

Note: Three PTEs that receive LC funding of less than \$50,000 are required to submit LSPs (due to their total funding being over \$5 million).

- 19 PTEs that were not required to agree performance commitments for the learner component would receive their full allocation of LC funding to support their learners, but they would face no specific accountability for LC funding. For these providers (of which there are 99 based on 2023 figures, covering about 2% of LC learners), accountability for learner outcomes would continue through whole-of-TEO performance and quality assurance processes required by the TEC and the NZQA.
- 20 TEC, for example, includes TEO performance in relation to learner equity in its decisions throughout the investment cycle. Outcomes can then be influenced via funding allocations, including reductions in funding and access to additional funding.
- 21 We do not propose that PTEs' Educational Performance Indicator Commitments are used as performance indicators for the LC performance element. TEOs set their own commitments against these indicators, so this would be open to gaming, and small-number effects at small PTEs would make results more subject to fluctuation outside of the TEOs' control. In addition, the learner component performance element has been designed to avoid the concerns TEOs had with the previous Performance-Linked Funding policy (which was based on relative performance against Educational Performance Indicators).

## Methodology for allocating LC funding to PTEs with very low numbers of UFS learners

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- 22 There are some shortcomings with applying the learner-component allocation formula to providers with very few learners. The very small amounts of learner component funding that some PTEs will receive will have a marginal effect on their ability to support learners' needs. Furthermore, smaller PTEs' enrolments can fluctuate significantly from year-to-year, giving these providers less certainty about their resourcing from year to year.
- 23 However, it is not clear that alternative approaches to allocating LC funding to providers with few UFS learners would be preferable to applying the funding formula to all TEOs. For example, a guaranteed minimum amount of LC funding would address economies of scale and fluctuations in funding from year to year due to small-number effects. However, it could also create perverse incentives for small providers to not increase enrolments or not to seek to enrol learners who would benefit from additional support, since those learners would not generate additional funding.
- 24 In our advice on the design of the performance element of the LC, we noted we would closely monitor the implementation and impacts of incentive payments as a mitigation strategy against any possible unintended consequences of performance payments [METIS 1281224 refers]. As part of reporting back to you in due course on the effectiveness of the performance element, we will advise on the impact of LC allocations on PTEs with relatively few UFS learners.

## Requirements for the TEC to engage with Māori and Iwi on LC performance expectations and monitoring arrangements

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- 25 Currently, the TEC is required to engage with Māori and iwi when developing performance expectations and when developing monitoring arrangements for the LC [METIS 1281224 refers]. This is to ensure the implementation of the performance element is aligned with the relevant objectives for the RoVE – the prioritisation of traditionally underserved learners in particular – and with Te Tiriti o Waitangi.
- 26 We propose to clarify this requirement so the TEC must engage with Māori and iwi on its proposed principles or underlying approach for developing performance expectations and monitoring arrangements. This is to avoid any expectation that the TEC must engage on the specific performance expectations and monitoring arrangements for each TEO. We consider that engagement at a higher-level would be more appropriate and efficient for all parties.
- 27 Due to the timelines involved in meaningful engagement, we propose this requirement apply from the 2025 funding year.

## Next Steps

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- 28 Subject to your decisions, the TEC will develop communications and guidance for TEOs on the performance element, which they expect to distribute in March.
- 29 We will amend the funding determinations for 2024 for the components of the UFS to reflect your decisions in response to this briefing. We expect to provide proposed funding determinations for 2024 to you for approval by then end of July.

Annex 1: Summary of learner component allocations for plan-exempt and smaller plan-required PTEs

- 1 Table 2 shows the breakdown of plan-exempt and the smaller plan-required PTEs by LC funding, EFTS and learners, and shows their total on-plan funding.
- 2 22 of the 40 plan-required PTEs have this status for reasons other than the quantum of funding<sup>3</sup> they receive from the TEC, e.g. EER rating and financial viability concerns.

Table 2: PTEs allocated less than \$500,000 of LC funding in 2023 (plan status is to be confirmed)

Type	Number of TEOs	%age of UFS TEOs	Estimated on-plan total (\$M)	2023 LC Total	LCPE (20%)	2021 LC EFTS	2021 LC learners	%age of LC learners
<b>PTEs that are Plan Required (to be confirmed) in 2023 or 2024</b>								
PTEs with LC \$100-\$500K	14	8.3%	\$88.1	\$3,268,472	\$653,694	3,515	14,835	7.8%
PTEs with LC \$50-\$100K	8	4.8%	\$13.8	\$483,813	\$96,763	508	1,934	1.0%
PTEs with LC \$20-\$50K	5	3.0%	\$8.1	\$143,534	\$28,707	168	458	0.2%
PTEs with LC <\$20K	13	7.7%	\$20.7	\$103,588	\$20,718	117	229	0.1%
<b>PTEs that are Plan Exempt (to be confirmed) in 2023</b>								
PTEs with LC \$100K-\$500K	8	4.8%	\$21.0	\$1,754,378	\$350,876	1,625	2,996	1.6%
PTEs with LC \$50-\$100K	18	10.7%	\$26.1	\$1,252,522	\$250,504	1,351	2,516	1.3%
PTEs with LC \$20-\$50K	35	20.8%	\$32.9	\$1,065,446	\$213,089	1,393	2,670	1.4%
PTEs with LC <\$20K	49	29.2%	\$21.6	\$430,729	\$86,146	489	1,156	0.6%
<b>Totals</b>	<b>150</b>	<b>89.3%</b>	<b>\$232.2</b>	<b>\$8,502,481</b>	<b>\$1,700,496</b>	<b>9,167</b>	<b>26,794</b>	<b>14.1%</b>
<b>%age of all UFS</b>	<b>89.3%</b>		<b>7.6%</b>	<b>12.0%</b>	<b>12.0%</b>	<b>11.9%</b>	<b>14.1%</b>	

<sup>3</sup> Some of the 40 are plan-required due to being new, or being receivers of transitional ITO provision.