



## Education Report: Confirming key design aspects of the targeted training and apprenticeships fund

<b>To:</b>	Hon Chris Hipkins, Minister of Education		
<b>Date:</b>	13 May 2020	<b>Priority:</b>	High
<b>Security Level:</b>	Budget Sensitive	<b>METIS No:</b>	1228253
<b>Drafter:</b>	Francis Powley Julia Cronin	<b>DDI:</b>	9(2)(a)
<b>Key Contact:</b>	Shelley Robertson	<b>DDI:</b>	04 463 7530
<b>Messaging seen by Communications team:</b>	N/A	<b>Round Robin:</b>	No

### Purpose

This paper seeks your agreement to key design aspects of the *targeted training and apprenticeships fund*, and sets out how the establishment of the Fund could be accelerated to start from 1 July 2020.

Cabinet would need to confirm these design aspects of the initiative, such as the targeted industry areas. If you wished make these announcements in Budget 2020 this Thursday, this detail would be agreed to by Cabinet after high-level announcements on the Fund are made.

### Summary

Through the Budget 2020 process, \$320 million in operational funding for Vote Tertiary Education has been secured to establish a new *targeted training and apprenticeships fund* (the Fund)

The aim of this Fund is to encourage more learners of all ages to undertake vocational education and training, and by targeting this support towards particular types of vocational training, we can encourage these learners into areas of study that will give them the best chance of employment, as New Zealand recovers from COVID-19.

The intention had been for the Fund to be up and running from 1 January 2021. However, accelerating the implementing of this initiative could support a more rapid economic response and recovery, and ensure that study in targeted areas is not deferred until 2021.

The Tertiary Education Commission (TEC) advises that the Fund could be set up faster to support learners into vocational programmes that start from 1 July 2020. However, this comes with a range of risks due to the restricted timeframes for planning and preparation, for Tertiary Education Organisations (TEOs), the Ministry of Social Development (MSD), and the TEC.

Accelerating implementation of the Fund so that it runs from 1 July 2020 would require a simplified funding approach and a shortened process for confirming the areas of vocational learning that would be targeted by the Fund.

This paper seeks your agreement to:

- The key policy settings for the Fund, including duration and scope of targeted programmes
- A simplified funding approach for 2020, where TEC uses its regular reporting, funding and payment processes, as far as this is possible, to pay providers and transitional industry training organisations (TITOs) for the targeted vocational programmes, rather than fees being charged to learners (or, in the case of some situations, to employers), and
- A shortened process for confirming the initial areas of vocational learning to target, where these are included in the setting for Cabinet to agree for 2020 year, based on existing information from agencies, rather than wider stakeholder involvement.

Further work would be undertaken later in 2020 to confirm how the Fund should operate from 1 January 2021, where longer implementation time permits broader options. This work will consider whether any changes are required to the funding approach, and the areas or specific programmes covered by the Fund, drawing on the expertise of Workforce Development Councils, Regional Skills Leadership Groups, and other industry bodies.

Bringing forward the start date for the Fund to 1 July 2020 would mean that additional funding may be needed over the full time span of the initiative as it had originally been costed to cover two full years of study (2021 and 2022), but would now need to cover an extra 6 months of study in 2020. This may need to be considered in Budget 2021.

## Recommended actions

The Ministry of Education recommends you:

- a. **note** that it would be possible to accelerate the start date of the targeted training and apprenticeships fund (the Fund) to 1 July 2020
- b. **agree** to confirm the date for establishing the *targeted training and apprenticeships fund* (the Fund) as either:
  - i. start date from 1 January 2021,
  - OR
  - ii. accelerated start date from 1 July 2020.

Agree ☒ Disagree

☒ Agree Disagree

### *Confirming key policy settings for the targeted training and apprenticeships fund*

- c. **agree** that the Fund will:
  - i. target tertiary education and training fees-free from the date agreed to in recommendation (b) above until the end of 2022,
  - ii. cover sub-degree provision delivered at providers or in the workplace towards qualifications or micro-credentials at Levels 3 to 7,
  - iii. support all learners enrolling in eligible programmes, regardless of prior study, and
  - iv. be additional to existing Fees Free policy entitlements.

☒ Agree Disagree

- d. **note** that the following recommendations are based on a decision to accelerate the start date of the Fund to 1 July 2020 (i.e. recommendation b(ii) above)
- e. **agree** to a simplified funding approach for 2020, where the TEC uses its regular funding and payment processes, as far as this is possible, to pay providers and transitional industry training organisations (TITOs) for the targeted vocational programmes

**Agree** Disagree

- f. **note** that this accelerated and simplified approach would come with a range of risks, including that:
- i. there would be significant complexities to work through for TEOs, especially where learners have already paid fees for programmes that continue through or start after 1 July,
  - ii. there may also be impacts on the student loan system, with some loan payments for fees reversed, if fees met through targeted training and apprenticeship initiative, and
  - iii. changes would need to be made to the current Fees Free policy settings, and that this may create some confusion in the short-term about learner entitlements.

*Confirming the vocational learning areas to target with the Fund*

- g. **agree** that the Fund target the following set of industry and community vocational programmes in 2020:
- i. agriculture, horticulture and forestry,
  - ii. construction including building, plumbing, and civil engineering;
  - iii. manufacturing and mechanical engineering and technology,
  - iv. electrical engineering, and
  - v. community support, including counselling and youth work.

**Agree** Disagree


*Next steps*

- h. **agree** to take a paper to Cabinet shortly after Budget 2020 seeking confirmation to the policy decisions outlined in this paper, including on programme eligibility and the industry areas to be targeted for 2020.

**Agree** Disagree

- i. **note** that we would aim to provide you with a draft Cabinet paper by close of play Monday 18 May, for a brief ministerial consultation and lodgement by 21 May.

  
Katrina Sutich  
**Group Manager**  
**Graduate Achievement, Vocations**  
**and Careers**

  
Hon Chris Hipkins  
**Minister of Education**

13/05/2020

14/5/2020

## Background to the targeted training and apprenticeships fund

---

1. Through the Budget 2020 process, \$320 million in operational funding for Vote Tertiary Education has been secured to establish a new *targeted training and apprenticeships fund* (the Fund<sup>1</sup>).
2. The aim of this Fund is to encourage and support more learners of all ages to undertake vocational education and training. The Fund will make a range of training and apprenticeship programmes free for learners, and it will be targeted towards particular areas of vocational learning where demand from employers (including those in the community services sector) is particularly strong or expected to grow over the coming years.
3. This targeted approach will encourage new learners, including those workers displaced by COVID-19 who want to reskill or upskills, to undertake study in areas that will give them better employment options. This will also help to ensure that our businesses have the skills they need to grow as our economy recovers from COVID-19.
4. The intention had been for the Fund to run from 1 January 2021 till the end of 2022. However, accelerating the implementing of this initiative could support a more rapid economic response and recovery, and ensure that study in targeted areas is not deferred until 2021.
5. The paper below outlines how this Fund could be set up faster to support learners into vocational programmes that start from 1 July 2020, by using a simplified funding approach and a shortened process for confirming the areas of vocational learning that would be targeted by the Fund. Key risks involved in this accelerated approach are also detailed below.

## Confirming key policy settings for the Fund

---

6. A number of settings for how the Fund would work were being agreed through the Budget 2020 process, and were also outlined in previous advice on options for expanding Fees Free [METIS 1215685 refers].
7. We therefore seek your confirmation to these settings, specifically that the Fund will:
  - a. support provision from 1 July 2020 (or from 1 January 2021) until the end of 2022,
  - b. be targeted at the programme level (for TEC-funded programmes), rather than at the learner level as an individual entitlement,
  - c. cover sub-degree provision delivered at providers or in the workplace towards qualifications or micro-credentials at Levels 3 to 7,
  - d. support all learners enrolling in eligible programmes, regardless of prior study, and
  - e. be additional to existing Fees Free policy entitlements.

---

<sup>1</sup> Formally called *Fees Free support for vocational education and training*

## Simplified funding approach for 2020

---

*The Fund could be established by 1 July 2020 using TEC's existing funding and payment processes ...*

8. The Tertiary Education Commission (TEC) advises that the Fund could be set up faster to support learners into vocational programmes that start from 1 July 2020.
9. TEC would be able to use its regular funding and payment processes to pay providers and transitional industry training organisations (TITOs) for the targeted vocational programmes, rather than these costs being charged to learners (or, in some situations, to employers).
10. Accelerating the establishment of the Fund with a July 2020 start date would create a range of complexities and risks due to the restricted timeframes for planning and preparation for Tertiary Education Organisations (TEOs), the Ministry of Social Development (MSD), and the TEC.

*To implement this approach, we would use existing funding conditions on TEOs related to Fees Free payments...*

11. To require TEOs to not charge learners in the training and apprenticeships programmes targeted by this Fund, and have these met instead by the TEC, we would need to use the existing funding conditions on TEOs related to Fees Free payments.
12. Using these existing funding conditions would enable a mid-year implementation – i.e. 1 July 2020. Alternative approaches, such as change funding conditions or fee regulation for SAC courses mid-year, would be unfeasible for a July start date given the consultation and potential lead in times needed.
13. We would therefore look to add an additional 'programme-based entitlement' to the Fees Free delegation, to ensure that TEOs could not charge fees to the student or trainee for the targeted vocational areas.
14. While we would use the existing Fees Free policy framework (such as a revised delegation), the administration of the payments would not be like the existing Fees Free approach, as a programme-based policy would be easier to administer than learner entitlements.
15. Payments from the TEC to meet the fees students or trainees would otherwise be charged by TEOs could be calculated and payments made to TEOs using information TEOs already report to the TEC (as detailed above).

*TEC would base initial payments to TEOs on estimated volume and relevant fees, and then reconcile these payments later in 2020...*

16. TEC would estimate the payment amounts using TEO delivery volumes and the learner fee information. TEC would pay these amounts to each provider and TITO in advance of receiving data on the actual enrolments for the 2020 period.
17. TEC would then reconcile these initial payments against actual enrolments following the August and December SDRs and Industry Training data, and either pay more to providers and TITOs where enrolments exceed funding paid, or seek recoveries where enrolments were below expectation.

18. If the provider is paid in excess of their actual enrolments, TEC would need to recover any excess funding paid, to avoid inequitable windfalls to some providers. Careful

communication will be required here as we have previously stated that there will be no recoveries in relation to 2020 funding, including fees-free related payments made to TEOs.

### Further challenges to implementing the Fund by 1 July 2020

*Accelerating the establishment would create complexities for TEOs, and may impact on the student loan system...*

19. Work would need to be undertaken to identify where learners and employers have already paid fees for programmes targeted by the Fund (i.e. programmes that run through 1 July 2020).
20. In these circumstances, the fees will need to be refunded by the provider or TITO to the learner or employer. This will be a challenge for providers and TITOs, particularly for private training establishments where fees are held in trusts. However, only a small amount of the targeted training involves PTEs.
21. There may also be some impacts on student loans, with TEOs needing to seek loan reversals for provision from July 2020 that was already paid through student loans for fees prior to 1 July 2020.

*Changes would need to be made to the current fees-free system, and this may create some confusion in the short-term about learner entitlements...*

22. Changes would also need to be made to the current Fees Free systems to ensure that the use of this Fund does not consume learners' existing Fees Free entitlements for study that is occurring after 1 July 2020..
23. Work to give effect to these changes will take several months, which could create some confusion for learners who enquire about their existing Fees Free entitlements. This will need to be managed carefully through targeted communications to learners. The learners affected by system changes will be those accessing the targeted programmes free in 2020. Therefore, they will still have access to free study in 2020.

### Shortened process for confirming the initial target areas of vocational learning

*We propose that, if implemented from 1 July 2020, the Fund should target an initial set of broad industry areas...*

24. As there is a very short timeframe to implement this initiative from 1 July 2020, a shortened process is required for confirming the priority industry areas that the Fund should target.
25. This prioritisation can be informed by economic information across government. However, developing a highly targeted set of priority areas, with wider consultation and involvement of industry, is not be feasible within the timeframes (i.e. Workforce Development Councils (WDCs) and Regional Skills Leadership Groups (RSLGs) are not yet established).
26. We therefore propose that the Fund is targeted, for the 2020 year, at the following vocational areas and roles that support industry skill needs and workforce needs for community services:
  - a. agriculture, horticulture and forestry,
  - b. construction including, building, plumbing and civil engineering manufacturing and mechanical engineering and technology,
  - c. electrical engineering, and

- d. community support, including youth work, care for elderly, care for people with disabilities, counselling, interpreting and community health.
- 27. **Appendix one** provides further information on these broad industries and how they translate to training areas within tertiary providers and industry training. It also shows how the vast majority of the targeted provider-based provision is delivered by ITPs.
- 28. These industries and associated workforce needs are expected to be less affected by the economic downturn than other areas, and are seen as a critical part of New Zealand's economic recovery.
- 29. This list aligns with advice from the Ministry of Business, Innovation and Employment which highlighted that primary industries, construction, and manufacturing are likely to be key to supporting the national recovery. The aged care sector was also identified as area with ongoing workforce skill needs.

*Further clarification may be needed around scope of industry training coverage...*

- 30. For the target areas outlined above, it is clear that provider-based provision at Levels 3 to 7 (non-degree), and within industry training apprenticeships, will be covered by the Fund. However, for industry training that does not lead to an apprenticeship, we may need to develop additional criteria in terms of the type of learning or support for fees when costs are met directly by the employer.

*This set of initial priorities would be refined from 1 January 2021...*

- 31. Across government there is a range of work underway to better understand how industries workforce needs are being impacted by COVID-19 and the economic downturn, and what skills are going to be needed to support our national recovery. Furthermore, groups such as WDCs and RSLGs are being accelerated to provide a stronger industry and regional voice on workforce-skill needs.
- 32. Therefore, we propose that the initial targeted areas outlined above are reconsidered and refined later in 2020, drawing on updated labour market information and input from key industry groups, such as WDCs and RSLGs. This updated set of targeted areas would guide the Fund from 1 January 2021.
- 33. We would not expect there to be significant changes in terms of whole areas no longer being recommended to be targeted, but would likely be more refined targeting. For example, we may be able to target particular skill needs within an industry, or potentially a specific qualification (rather than targeting the industry area as a whole).

## Impacts on funding

- 34. Through the Budget 2020 process, \$320 million in operational funding for Vote Tertiary Education has been secured to provide fees-free support for vocational education and training. This funding runs across three financial years, from the 2020/21 to 2022/23.
- 35. There is significant uncertainty around the costings given uncertainty from COVID-19, the expected scale of the economic downturn, both of which affect enrolments, and uncertainty around fee payment data. Different providers charge variable fees across the targeted vocational areas, and so the fee payments needed will depend on how enrolments spread over programmes with different fees charged. From 2021, where there are more implementation options due to the longer time-frame, we could consider the option of flat fee-top-up, or fee payments up to a particular amount.

*An implementation date of 1 July 2020 means that six months additional funding may be required...*

36. If implementation is brought forward to 1 July 2020, then an additional six months of provision is to be funded free, potentially around a 25 percent increase in funding needed. Therefore, more funding will likely be needed for this proposal than was provided for in Budget 2020. However, the funding that is appropriated in the Budget can be re-phased and brought forward to meet the immediate funding needs in 2020.
37. If economic conditions in New Zealand over 2020-2022 are more positive than the Treasury forecasted in the Budget Economic and Fiscal Update, there could be opportunities within Vote Tertiary Education for funding to be reprioritised to meet a potential funding short-fall in the 2022 calendar year for this initiative.
38. Bringing forward the start date, and keeping the duration of the Fund to 2 years (i.e. running it from 1 July 2020 till 1 July 2022) would not be a practical way of keeping the total cost at \$320m as there would be significant complexities with running the Fund across two different half years of study.

*There is also considerable uncertainty around volumes and future fee setting practices*

39. Additional funding for this initiative for the 2021 and 2022 years could also be required given the considerable uncertainty about tertiary education volumes over the coming years. There is also uncertainty around the future fee setting practices of providers, especially across the subsidiaries of the New Zealand Institute of Skills and Technology (NZIST).
40. We will assess the cost of the Fund based on actual enrolments and take up of targeted training and apprenticeships in 2020, which can inform Budget 2021 funding options.

## Next steps

41. If you agree to a 1 July 2020 start date, you would need to take a paper to Cabinet shortly after Budget to confirm the settings for implementation in 2020. We would aim to provide you with a draft Cabinet paper by close of play Monday 18 May, for a brief ministerial consultation and lodgement by 21 May.
42. When the key settings for the Fund, including the initial targeted areas, are confirmed, the Ministry will provide you with an updated delegation to fund Fees Free tertiary education and training in 2020, reflecting the new programme-based targeted training and apprenticeship initiative.
43. Further work would also need to be undertaken later in 2020 to confirm how the Fund should operate from 1 January 2021. This work would consider whether any changes are required to the funding approach, and whether the Fund should be narrowly focused, drawing on the expertise of WDCs, RSLGs, and other industry bodies.
44. Lastly, a significant proportion of provision is likely to be delivered by the NZIST and its subsidiaries, particularly when TITOs' support for workplace-based learning transitions to the NZIST (and to other providers). Therefore, it will be critical to discuss the proposed accelerated start date for the Fund with the NZIST as soon as possible, and seek their support and input for longer-term design work for 2021.



**Appendix one:** Industry areas and Community services for targeted training and apprentices, and indicative cost estimates

Industry area	Tertiary field of study	Provider-based EFTS (2019)	Industry training STMs (2019)	<u>Provisional</u> estimated annual cost (this includes estimated volume increase from 2019 EFTS with provider-based study increasing)
Agriculture, horticulture and forestry	Agriculture, Environmental and Related Studies Example: NZC in Apiculture (Level 3); NZC in Horticulture (Level 3); NZC - Dairy Farming (Level 4)	EFTS: 2,850 58% ITP; 20% PTE; 18% wananga	Apprenticeships: 1,350 other industry training provision also targeted	\$27m
Building and plumbing	Building, Plumbing, Gasfitting and Drainlaying Example: NZC in Carpentry (Level 4); NZC in Plumbing (Level 4); NZ Diploma in Architectural Technology (Level 6)	EFTS: 5,600 90% ITP; 10% PTE	Apprenticeships: 7,950 Minimal other industry training provision also targeted	\$74m
Construction-civil engineering	Civil Engineering Example: NZ Diploma in Engineering (Civil); NZA in Civil Infrastructure Trades	EFTS: 297 100% ITP	Apprenticeships: 250 other industry training provision also targeted	\$4m
Manufacturing and mechanical engineering and technology	Manufacturing, Mechanical Engineering, Boiler-making and Welding, Metal Fitting, Turning and Machining, Process and Resources Engineering Example: NZC in Mechanical Engineering (Level 3); NZA in Mechanical Engineering	EFTS: 1,100 EFTS 100% ITP	Apprenticeships: 1,800 Significant other industry training provision also targeted	\$18m
Electrical	Electrical and Electronic Engineering and Technology Example: NZC in Electrical Engineering Theory (Level 3); NZC in Electrical Engineering (Electrician for Registration)	EFTS: 1,650 80% ITP; 20% PTE	Apprenticeships: 3,600 Minimal other industry training provision also targeted	\$32m
Community support	Youth Work; Support for the Older Person Care for People with Disabilities; Counselling; Interpreting; Community health Example: NZC in Health and Wellbeing (Level 3 and Level 4); NZ Certificate in Youth Work (Level 4); NZA in Mental Health and Addiction Support	EFTS: 2,300	Apprenticeships: 1,100 Significant other industry training provision also targeted	\$22m
Total cost estimate		Approx 25% Level 3-7 EFTS	Approx 50% STMs	\$182m
Net-cost estimate after existing Fees Free adjustments				\$155m

Note that net-costs costings for additional funding included a Fees Free offset, for the proportion of learners likely to have been eligible for first year fees-free. For example, around 10% of apprenticeships are already funded free, and 16% of those in provider-based building qualifications; Funding needs for 2020 are likely to be lower than the half year costs of the full-year estimates above for 2021-2022. The full-impact of the economic downturn on tertiary enrolments is unlikely to occur until 2021, and any signalling impact of the extra support for these areas on enrolments would likely not be immediate.