



Education Report: Further advice on additional discretion for the Tertiary Education Commission

To:	Hon Chris Hipkins, Minister of Education		
Date:	15 June 2021	Priority:	High
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Purpose

This report provides further advice on the proposal to give the Tertiary Education Commission (TEC) additional discretion over a small portion of existing funding, to enable it to effectively support the Government's strategic goals for tertiary education.

Summary

The tertiary education funding system is a volume-based system. However, long-term funding system reform envisages encouraging more innovation and responsiveness to national priorities. The Productivity Commission, the TEC, and the sector have all proposed different methods of achieving this goal.

In August 2020, you agreed-in-principle to give the TEC greater discretion over existing funding by enabling the TEC to allocate a small proportion of funding outside of the current enrolment formula [METIS 1235187 refers]. You agreed to take this proposal to Cabinet post-election. This report provides recommendations on the detailed policy settings of the proposal and next steps.

This proposal would allow TEC to make better investment decisions to give effect to the Government's strategic goals, as outlined in the Tertiary Education Strategy and Ka Hikitia. The TEC is likely to focus initially on areas such as supporting the continued uptake of Te Ōritetanga, building sector capability and strengthening the quality of teaching in areas such as work-integrated learning, te reo Māori and mātauranga Māori.

We recommend that from 2022 up to one percent of total funding in the Student Achievement Component for qualification level three and above (SAC3+) be available for the TEC to allocate outside of the volume-based formula. In the current high-volume environment this would mean that the TEC would have to make trade-offs between equivalent full-time student (EFTS) places and discretionary projects.

The trade-off between EFTS places and projects creates a useful tension, and supports the evolution of the TEC's investment system to one that makes more explicit choices about what

not to invest in. Our expectation is that trade-offs would not be made unless a project met a robust, high standard that clearly justifies the corresponding reduction in funded EFTS places.

We recommend the organisational eligibility of discretionary funding be aligned with the settings for SAC3+. The successes and failures of these projects would be shared by the organisations themselves, as well as collated and published by the TEC.

There are some key similarities between the proposed design of the strategic component of the unified funding system for vocational education and training (the UFS) and this proposal. You will receive further advice on the design of the strategic component of the UFS and how it interacts with this proposal by July.

Section 423 of the Education and Training Act 2020 requires you to consult with all affected organisations before varying any funding mechanism already in place. We recommend that this consultation take place before seeking Cabinet approval for the policy change. We would then report back to you in late July on the outcomes of consultation, providing you with a draft Cabinet paper for Ministerial consultation in advance of seeking Cabinet decisions in late August.

Recommendations

The Ministry of Education recommends that you:

- a. **note** that in August 2020 you agreed-in-principle, subject to further work, to give the TEC greater discretion over existing funding by enabling the TEC to allocate a small proportion of funding outside of an enrolment formula [METIS 1235187 refers]
 - b. **note** that under section 423 of the Education and Training Act 2020, you are required to consult with all affected organisations before varying a funding determination
 - c. **agree** to the Ministry undertaking targeted consultation with affected organisations on:
 - i. giving the TEC greater discretion in relation to up to one percent of the Student Achievement Component at levels three and above from 2022, in order to support the Government's long-term strategic goals, as outlined in the Tertiary Education Strategy and Ka Hikitia
 - ii. organisational eligibility for discretionary funding being aligned with the Student Achievement Component at levels three and above, with exceptions managed on a case by case basis by the TEC
- Agree / Disagree**
- d. **note** that there is cross-over between this proposal and the strategic component of the UFS, and that we will provide you with further advice on this interaction in July alongside further advice on the strategic component
 - e. **note** that following consultation we will provide you with further advice on the outcomes of consultation and a draft Cabinet paper for Ministerial consultation, seeking approval of the policy change

- f. **agree** this paper will be proactively released after consultation is completed and Cabinet decisions have been made, in accordance with the provisions of the Official Information Act 1982.

Agree / Disagree



Shelley Roberston
**Acting Group Manager,
Te Ara Kaimanawa**



Chris Hipkins
Minister of Education

15/06/2021

28/6/21

I'd like to take a short noting paper to Cab before consultation starts with a full Cab paper setting out the proposed changes post-consultation.

This should be framed as an interim step in the VE space as we head towards the UFS and a pilot in the degree level space.

CH

Background

1. The tertiary education funding system is primarily volume-based, with around 86 percent of funding allocated based on EFTS enrolments or standard training measures (STMs). An additional 12 percent is allocated for research-related activities.
2. During the response to COVID-19, the TEC was authorised to spend some funding outside of an enrolment-based formula to enable them to quickly respond to the needs of the sector. Long-term funding system reform envisages greater adaptability to national and regional priorities, as reflected in the proposed strategic component of the UFS.
3. The Productivity Commission, the TEC, and the sector, have all proposed different methods of encouraging innovation within the volume-based funding system.
4. In August 2020, you agreed-in-principle to give the TEC greater discretion over existing funding by enabling the TEC to allocate a small proportion of funding outside of an enrolment-based formula [METIS 1235187 refers].
5. You agreed to take this proposal to Cabinet post-election, subject to future work on the design and scope of the discretion.

This funding will enable the TEC to drive the strategic goals of government more effectively

The TEC has an important leadership role in giving effect to the TES and Ka Hikitia...

6. Ka Hikitia, the Māori Education Strategy, was released in July 2020. The Tertiary Education Strategy (TES) and the National Education and Learning Priorities (NELP), were agreed by Cabinet in August 2020 [CAB-20-MIN-0376] and publicly released on 13 November 2020.
7. The TES and Ka Hikitia have clear objectives, priorities, outcome domains, and actions, for government agencies and the wider sector. These include specific actions for the TEC, as well as actions for tertiary education organisations (TEOs). These objectives are intended to address economic, social, and environmental goals, and the development aspirations of Māori and other population groups.
8. The TEC leads the Government's relationship with the tertiary education sector in New Zealand. It plays a key role in supporting and developing a high-quality and sustainable tertiary education system. It does this by providing sound, evidence-based investment in tertiary education.

...but there remains little room for the TEC to directly support innovation and strategic priorities within the tertiary system

9. The TEC must give effect to the TES when performing its core functions, as required under section 408 of the Education and Training Act 2020 and does so primarily through its investment decisions. However, price mechanisms like volume are limited in their ability to promote innovation and support institutional change. Currently, most of TEC's investment decisions are tied to decisions about funding the delivery of EFTS places.
10. TEC cannot directly support activities such as learning support services or programme development, even when investment in these activities would likely benefit the wider tertiary sector, because these activities are not tied to the delivery of EFTS places.
11. Within their government funding, providers have discretion to support these types of activities which are not direct teaching and learning. Some of this activity is also supported by other revenue gathered by providers, such as student fees. However, providers make these decisions on an individual basis and the TEC has limited levers to incentivise these activities system-wide.

12. This proposal is a step towards supporting the systemisation of funding for long term objectives like equity.

Discretionary funding will allow TEC to make better investment decisions to give effect to the government's strategic goals

13. We recommend that any discretionary funding be closely tied to achieving the objectives of the TES and Ka Hikitia. This will ensure decisions are closely tied to the government's strategic objectives. It will also allow the TEC to consider a wider range of options when investing funding.
14. Being able to invest in trial projects, such as innovative delivery models and learning support methods, could result in better outcomes for learners. Without this, tertiary delivery will likely evolve more slowly and less efficiently.
15. This discretion would also be constrained by the scope of the SAC category within the Tertiary Tuition and Training Multi-Category appropriation, which is limited to teaching and learning services for enrolled students in approved courses at tertiary education organisations to achieve recognised tertiary qualifications.
16. The TEC is likely to focus initially on areas such as:
 - a. Supporting the continued uptake of Te Ōritetanga – Learner Success Framework. This is in line with the objective of placing learners at the centre (objective one of the TES) and Te Tuakiritanga (one of the outcome domains of Ka Hikitia). This is intended to increase the achievement and wellbeing of all learners through improvements to teaching and learning services, including retention.
 - b. Building sector capability and strengthening the quality of teaching in areas such as work-integrated learning, te reo Māori and mātauranga Māori, not only in vocational education but in higher education, in line with objective four of the TES. This could include collaborating more with whānau, employers, industry, and communities to improve teaching and learning services.
17. Over time the TEC could broaden the focus of this funding, within the objectives of the TES and Ka Hikitia and the appropriation scope, to areas such as:
 - a. strengthening sector teaching and learning services to ensure that places of learning are safe and inclusive and free from racism, discrimination, and bullying
 - b. improving the accessibility of learning pathways in tertiary from the schooling system
 - c. increasing the sector's ability to deliver quality and accessible teaching and learning services in other languages, specifically Pacific languages
 - d. enhancing the contribution of mātauranga Māori to the design and delivery of teaching and learning
 - e. developing innovative approaches to embedding foundation skills, including language, literacy and numeracy within teaching and learning activities, such as co-requisite and self-directed learning approaches
 - f. supporting collaboration with industries and employers to design and deliver teaching and learning activities, such as new qualifications, to ensure learners/ ākonga have the skills, knowledge and pathways to succeed in work.

We have developed recommendations on the detailed policy settings

18. In August 2020, you noted that we would provide with further advice on the design of discretionary funding, including:
 - a. which funds would benefit from the TEC having further discretion

- b. the proportion of each fund that could be allocated outside of its enrolment-based formula
 - c. the accountability measures that should be placed on the funding.
19. This section provides our recommendations on these issues.

We recommend enabling discretionary funding within one volume-based fund in the first instance

20. We recommend that from 2022 up to one percent of total funding in the Student Achievement Component levels three and above (SAC3+) be available for the TEC to allocate outside of the volume-based formula.
21. The current baseline for SAC3+ in 2022 is \$2,265 million. If a full one percent of funding budgeted for SAC3+ in 2022 (around \$23 million) was allocated outside of an enrolment-based formula, this would reduce the number of EFTS places able to be funded by around 2,300 EFTS.
22. We consider one percent to be enough to enable the TEC to fund multiple projects effectively, while also managing the impact on volume-based funding. This investment could still have a large effect on the quality of delivery supported by the other 99 percent of the fund.
23. We do not recommend a discretionary element in other volume-based funds at this time, e.g. Literacy and Numeracy, or SAC levels 1 and 2. These are much smaller funds, with more specific purposes. Trialling discretionary funding within one volume-based fund allows TEC to figure out the best way to invest in projects to improve delivery, without too much additional management. This approach could in future be expanded across other funds.

The TEC would have to make significant trade-offs in high-volume environments

24. The system is moving into a high-volume environment, where there will be more EFTS places than can be funded from SAC3+ baselines. The TEC already has to make decisions about which provision to prioritise. The TEC would also manage the trade-off between EFTS places and funding discretionary projects.
25. The trade-off between EFTS places and projects creates a useful tension, and supports the evolution of the TEC's investment system to one that makes more explicit choices about what to invest in.
26. Our expectation is that trade-offs would not be made unless a project met a robust, high standard that clearly justifies the corresponding reduction in funding for EFTS places. This may result in the TEC not using the full one percent available.
27. The TEC has advised that reduced allocations would focus on:
- a. minimum educational performance
 - b. relevance of the provision in terms of economic, community or social need
 - c. poor post-study outcomes and clear outliers
 - d. duplication of provision in regions
 - e. over-supply compared to likely labour market demand.
28. This is expected to result in some reduced allocations and a decline in approvals for additional funding when in a high-volume environment. While EFTS places will be reduced, it will only affect those of least quality in terms of pathways and employment outcomes. However, this would result in either an increase in unfunded places at providers or some learners being displaced over at least the next two years and may come in an environment where the TEC is already declining EFTS allocations due to pressures on SAC3+ baselines.

29. An alternative approach would be to minimise the prospect of any trade-offs by only permitting the TEC to exercise discretion where forecast EFTS enrolments can be met within SAC3+ baselines. However, current forecasts suggest that there is unlikely be a SAC3+ underspend for at least two years, meaning that it would not be worth progressing such a change at this time. Other options, such as reducing the amount available to be used, would reduce any potential trade-offs but would equally limit the ability of the TEC to support the Government's strategic objectives using this discretion.
30. We are providing you with separate advice on Vote Tertiary Education 2020/21 expenditure and demand pressures [METIS 1258874 refers]. Current enrolment trends are likely to reduce the balance sheet going into 2022. In the absence of a sufficient balance sheet, we would ordinarily expect the TEC to adopt a more conservative approach to its 2022 allocations in order to that it can meet the 102% funding commitment. This may result in a particularly constrained funding environment for the 2022 calendar year, sharpening the trade-offs the TEC would have to make. Our recommendation remains to provide TEC with the option to make this trade off, if proposals meet the high, robust standard.
31. Further advice on tertiary education demand pressures in 2022 and 2023 will be provided in early July 2021.

Funding would be aligned with the settings for SAC3+, and supported by sharing successes and failures

32. We recommend aligning the eligibility of organisations with the SAC3+ eligibility, meaning that it would be available to all tertiary education institutions, private training establishments and rural education activities programme providers. We also recommend that the TEC would have discretion to allow partnerships or other organisations to participate on a case-by-case basis. This could include iwi or employer-led projects.
33. Funding would be focused on supporting innovative projects, rather than ongoing initiatives, capital expenditure, or delivery that could already be funded through established funds.
34. The successes and failures of these projects would be shared by the organisations themselves, as well as collated and shared by the TEC. Providers would be expected to publish reports on the progress and outcomes of any funded project, and share lessons across the sector through publications, testimonials, and established sector meetings.
35. We would expect all milestone reports as well as final evaluations to be published online by the TEC, as well as an overall assessment of the fund in the TEC's annual report. The TEC would also be expected to share useful information with organisations who could benefit. This could include championing projects from smaller providers, who otherwise may not have a large voice in the sector. The TEC will design reporting and engagement frameworks appropriate to the nature and scale of projects funded.
36. These reporting requirements would include regular reports to the Ministry and to the Minister on the decisions made on the trade-offs between projects and EFTS places, and on the progress of the projects.

The strategic component of the unified funding system has similarities to this proposal

37. There are some key similarities between the proposed design of the strategic component of the unified funding system for vocational education and this proposal. It is possible that the strategic component of the UFS could undertake a similar function to this funding in the vocational education space once the UFS is implemented from 2023.
38. You will receive further advice on the design of the strategic component by July. Alongside this advice, we will provide advice on whether discretionary funding would be useful in the vocational education space from 2023.

39. However, regardless of the implementation of the UFS, we recommend that the discretionary element continue beyond 2022 in relation to higher education. We would expect to review the performance of the discretionary funding element after approximately three years.

Financial implications

40. There are no additional fiscal costs resulting from this proposal. The intention is for TEC to have greater delegation over how it invests a small proportion of existing funding, within the scope of existing appropriations. However, as noted above, the proposal involves an opportunity cost because of the trade-off between funding EFTS places or discretionary initiatives, particularly if demand is expected to exceed the level able to be funded.

Next steps

We recommend undertaking targeted consultation in advance of seeking Cabinet approval

41. You agreed-in-principle in August 2020 to seek Cabinet approval for this proposal. Cabinet approval is appropriate given that the proposal is a deviation from the 'strategic framework' underpinning the tertiary education funding system, and a substantial change to Cabinet's previous decisions about how funding should be allocated (i.e. in a volume-based formula).
42. Section 423 of the Education and Training Act 2020 requires you to consult with all affected organisations before varying any funding mechanism already in place. We recommend that this consultation take place before seeking Cabinet approval for the policy change. This will provide the sector with the opportunity to inform the design and scope of the proposed discretion.
43. We propose to work with the TEC to undertake targeted consultation with all providers who receive SAC3+ funding (around 180 organisations), as well as relevant peak bodies. Using existing TEC channels, we would seek feedback on the proposal, including the design and scope of the TEC's discretion. We expect to allow three weeks for TEOs to provide comment on the proposal.
44. We would then report back to you in late July on the outcomes of consultation, providing you with a draft Cabinet paper for Ministerial consultation in advance of seeking Cabinet decisions in late August (as outlined in Annex one).
45. Alternatively, you could consult after taking the proposal to Cabinet. Cabinet's decision would be contingent on the result of consultation, with delegation for you to finalise the proposal after considering submissions.
46. We recommend proactively releasing this education report after consultation is completed and Cabinet decisions have been made, in accordance with the provisions of the Official Information Act 1982.

Annex One – Implementation Timetable

Action	Date
Consultation with sector and agencies	Three weeks from late June
Ministerial consultation	Early August
Cabinet	Late August
Funding determination approved	By the end of September
Discretion enabled	1 January 2022