



## Education Report: Additional advice on the Budget bid: Ensuring the viability of vocational education and training

<b>To:</b>	Hon Chris Hipkins, Minister of Education		
<b>Date:</b>	11 March 2021	<b>Priority:</b>	High
<b>Security Level:</b>	Budget Sensitive	<b>METIS No:</b>	1252844
<b>Drafter:</b>	Nicole Rennie	<b>DDI:</b>	044637740
<b>Key Contact:</b>	Hayley Robertson	<b>DDI:</b>	044638584
<b>Messaging seen by Communications team:</b>	No	<b>Round Robin:</b>	No

### Purpose of Report

The purpose of this report is to seek your decisions on options for any new funding appropriated to support the vocational education and training (VET) sector in 2022.

### Executive Summary

1. You are seeking funding in Budget 2021 to address the viability of vocational education and training and implement the unified funding system. If successful, around \$36 million will be available to be spent in 2022. This paper seeks your decisions on how to prioritise this funding.
2. This funding needs to balance supporting the ongoing viability of the VET system with incentivising the changes needed to fully implement the Reform of Vocational Education. We have assessed the options against four criteria to analyse how the options would support changes and signal the long-term policy design of the unified funding system, while minimising major redistributions of funding in 2023 and additional compliance for providers and the Tertiary Education Commission.
3. We have identified six possible options to support system changes. We recommend a combination of three options for 2022:
  - a. Option 1: Extend current Equity Funding to all Māori and Pacific learners in VET and extend Equity Funding to young learners with low prior achievement
  - b. Option 2: Extend the current Equity Funding top up for disabled learners to all VET learners
  - c. Option 3: Increase rates for industry training-funded VET.
4. We recommend this combination of options because together they would support the key changes we wish to see in the system and send strong signals about the direction of the system, for example, a particular emphasis on equity, a learner centric system and work-integrated learning. They will also support ongoing viability of the sector.

## Recommendations

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

- a. **note** that, if successful, the Budget bid *Ensuring the viability of vocational education and training* would make funding available in 2022
- b. **note** that the full implementation of the unified funding system is due to occur from 2023, but the priorities and incentives in the new vocational education and training system can be signalled in 2022
- c. **indicate** which options you would like to implement in 2022, if funding is available:

Option	Description	Decision
1	Extend current Equity Funding to all Māori and Pacific learners in vocational education and training ( <b>recommended</b> )	<input checked="" type="checkbox"/> Yes / <input type="checkbox"/> No
	Extend Equity Funding to young learners with low prior qualifications in vocational education and training ( <b>recommended</b> )	<input checked="" type="checkbox"/> Yes / <input type="checkbox"/> No
2	Extend the current Equity Funding top up for disabled learners to all vocational education and training ( <b>recommended</b> )	<input checked="" type="checkbox"/> Yes / <input type="checkbox"/> No
3	Increase rates for industry training-funded vocational education and training ( <b>recommended</b> )	<input checked="" type="checkbox"/> Yes / <input type="checkbox"/> No
4	Introduce a small, contestable, time-limited, flexible fund for short-term projects ( <b>not recommended</b> )	Yes / <input checked="" type="checkbox"/> No
5	Support a network of regional provision across New Zealand ( <b>not recommended</b> )	Yes / <input checked="" type="checkbox"/> No
6	Increase all Student Achievement Component (SAC) levels 3-7 (non-degree) and all industry training rates by 5% ( <b>not recommended</b> )	Yes / <input checked="" type="checkbox"/> No

- d. **note** that we would need feedback by 18 March to enable decisions to be included in Budget advice to Cabinet

- e. **agree** to proactively release this education report once Budget 2021 decisions, and decisions on the unified funding system for vocational education and training, have been taken by Cabinet

**Agree /** Disagree



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

11/03/2021



**Gillian Dudgeon**  
Deputy Chief Executive - Delivery  
Tertiary Education Commission

11/03//2021



**Hon Chris Hipkins**  
Minister of Education

14/3/21

## Background

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### **You are seeking funding in Budget 2021 to address the viability of vocational education and training**

1. In November 2020, you agreed to seek funding through Budget 2021 to ensure the viability of vocational education and training (VET). You agreed that this funding would also be used to support the sector to shift their behaviours to adapt to the Reform of Vocational Education (RoVE) changes, particularly the implementation of the unified funding system for vocational education from 2023 [METIS 1244781 refers].
2. The current bid is calculated as a 5% increase to total government funding estimated to be spent on VET in the 2022 calendar year, and a further 8% increase in 2023. VET is defined as provision within scope of the unified funding system, i.e. Student Achievement Component (SAC)-funded provision at levels 3 to 7 (non-degree) and all industry training. If successful, around \$36 million will be available to be spent in 2022.
3. This paper presents a combination of options to support the ongoing viability of the vocational education and training system, while supporting some of the changes of RoVE, to prepare the sector for the implementation of the unified funding system from 2023.
4. Treasury have indicated that they would prefer that the decisions be included in advice to Cabinet. We agree with this approach.

### **Approach to assessing options**

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#### **We need to balance supporting the ongoing viability of the vocational education system with incentivising the changes needed to fully implement the Reform of Vocational Education**

5. Funding for 2022 can be used to signal the key changes we want to see the system make to respond to learner, employer and community needs as well as supporting the growth of work-integrated learning.
6. This needs to be balanced with addressing the long-standing viability issues facing the sector and contributing to the outcomes of the unified funding system in the longer term.

#### **We have identified four criteria for assessing options for 2022**

7. We have developed four criteria to assess options against:
  - a. Does the option support one of the following key changes we are seeking for the system in the longer term? These are:
    - growing work-integrated learning in the sector
    - focusing on learners' needs and recognising that some learners need more support in the system
    - building a strong regional network of provision across New Zealand
    - addressing national and regional skill priorities.
  - b. Is the option designed in a way that reflects the intention of long-term policy design of the new system, including the unified funding system?
  - c. Does the option signal the direction of upcoming funding shifts (i.e. from 2023), and is the option unlikely to result in major redistribution of funding or cuts to funding in 2023? This supports the ongoing viability of the system.

- d. Does the option minimise compliance and administration for tertiary education organisations (TEOs) and the Tertiary Education Commission (TEC) wherever possible?

## Options for 2022

### We have identified six possible options to support the changes needed to fully implement RoVE

8. We have described the six options below (see Table 1 and the following subsections). Based on the above criteria, we recommend a combination of three options for funding in 2022:
  - a. Option 1: Extend current Equity Funding to all Māori and Pacific learners in VET and consider extending this to young learners with low prior qualifications
  - b. Option 2: Extend the current Equity Funding top up for disabled learners to all VET
  - c. Option 3: Increase rates for industry training-funded VET.
9. We recommend this combination of options because together they would support the key changes we wish to see in the system, send strong signals about the direction of the unified funding system, and support ongoing viability of the sector.
10. We are considering how to set expectations for providers who receive any new funding via funding conditions or other accountability mechanisms.

**Table 1: Analysing options against the assessment criteria**

Options		Assessment criteria				Potential funding range
		Support a key change we are seeking for the system	Reflect the long-term design of the system	Signal the direction of upcoming shifts	Minimise compliance & administration for TEOs & TEC	
1	Extend current Equity Funding to all Māori and Pacific learners in VET and extend this to young learners with low prior qualifications in VET	✓	~	✓	✓	Up to \$20 million See Appendix One for details
2	Extend the current Equity Funding top up for disabled learners to all VET	✓	~	✓	✓	Starting at \$2 million depending on rate See Appendix One for details
3	Increase rates for industry training-funded VET	✓	✗	✓	✓	Around \$10 million See appendix Three for details
4	Introduce a small, contestable, time-limited, flexible fund for short-term projects	✓	~	~	✗	At least \$5 million

Options		Assessment criteria				Potential funding range
		Support a key change we are seeking for the system	Reflect the long-term design of the system	Signal the direction of upcoming shifts	Minimise compliance & admin-istration for TEOs & TEC	
5	Support a network of regional provision across New Zealand	✓	~	✗	✓	At least \$5 million
6	Increase all SAC levels 3-7 (non-degree) and all industry training rates by 5%	✗	✗	✗	✓	\$36 million

Key: ✓ = meets criteria    ~ = may meet criteria    ✗ = does not meet criteria

**Option 1 (recommended): Extend current Equity Funding to all Māori and Pacific learners in VET and extend this to young learners with low prior qualifications in VET**

11. Current Equity Funding for Māori and Pacific learners provides \$135 per equivalent full-time student (EFTS) enrolled at levels 5 and 6, and \$325 per EFTS enrolled at level 7.<sup>1</sup> Equity Funding is not currently available for SAC-funded provision at levels 1-4, for industry training, or for young learners with low prior qualifications.
12. We can signal the increased focus on learner need by expanding existing Equity Funding as follows:
  - a. increasing the rate for Māori and Pacific learners at levels 5 and 6
  - b. expanding funding to SAC-funded Māori and Pacific learners at levels 3 and 4
  - c. expanding funding to Māori and Pacific learners in industry training at all levels
13. We would also recommend expanding funding to young learners with low prior qualifications (that is learners under age 25 who have not previously achieved a qualification on the New Zealand Qualification Framework at level 3 or above) at all levels in industry training and at levels 3-7 (non-degree) for SAC-funded provision.
14. This is because across all VET, young learners with low prior education have much lower completion rates compared to young learners with higher prior education (level 3 or above). Of learners who began their VET qualifications in either 2012 or 2013, 58% of young learners with low prior education completed their qualifications within five years, compared to 72% of young learners with higher prior education.
15. Our analysis found that this combination of variables – youth and low prior education – is the strongest predictor of not completing a VET qualification.
16. We estimate that if you agreed to this option funding would be linked to around 108,000 Māori learners, Pacific learners, and young learners with low prior qualifications (53,000 EFTS/STMs), based on enrolments in VET in 2019.
17. This option signals the strong focus the new system will have on learners. The mechanics of this option should be relatively straightforward to implement.
18. The modelling in Appendix One shows the cost of introducing new equity funding at the same funding rate as the current Equity Funding rate for level 7. Appendix Two provides a distribution breakdown by sub-sector and provider of funding for this option. This shows that Te Pūkenga would receive around 28% of any new funding, wānanga around 18%, universities around 4%, Private Training Establishments (PTEs) around

<sup>1</sup> These funding rates are for 2021. Rates for 2022 will be \$137 and \$329 if the Budget 2021 bid for a general rates increase of 1.2% is successful.

17% and transitional Industry Training Organisations (ITOs) around 34%. Transitional ITOs will be moving their arranging training functions to providers and any new funding will follow them.

19. The estimated costs are based on the current forecast volume of delivery for 2022. A range of costs is provided based on the margin of error of these forecasts. These forecasts will be revised to take account of actual enrolments in 2020 and 2021. The current forecasts do not take into account the ongoing effects of additional funding for apprenticeships. We expect that once the forecasts are revised, the cost could be closer to, or higher than, the maximum figures provided in Appendix 1.
20. We expect to review any funding targeted at equity as we implement the unified funding system for 2023. This may see an increase in the proportion of funding linked to learners. Details of this will be worked through with you as part of the learner success component of the unified funding system.
21. This option is targeted at Levels 3-7 so would not extend to Māori and Pacific learners, and young learners with low prior qualifications at levels 1 and 2 or young learners with low prior qualifications at degree level.

**Option 2 (recommended): Extend the current Equity Funding top up for disabled learners to all VET**

22. Current Equity Funding provides \$29.06<sup>2</sup> per SAC-funded EFTS to all tertiary education institutions (TEIs).<sup>3</sup> Current funding for each TEI is calculated based on *all* EFTS but is intended to support disabled learners.
23. This option would extend the rate to vocational education provision at PTEs and across industry training. This would be a small top up on every EFTS/STM in VET, rather than just disabled learners, in keeping with the current approach to allocating Equity Funding to support disabled learners. This option could also involve a rate increase.
24. This option signals an ongoing focus on disabled learners as described in the Tertiary Education Strategy. 9(2)(f)(iv)  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]
25. 9(2)(f)(iv)  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]
26. The modelling in Appendix One is based on the current Equity Funding rate but you could consider raising this for vocational education. Appendix Two provides a distribution breakdown by sub-sector and provider of funding for this option. This shows that PTEs would receive around 30% of new funding and ITOs would receive around 70%.
27. We will also provide you with further advice on how this funding could best be provided to TEOs with small numbers of learners to support them to use this funding well and to minimise their compliance costs.
28. Expanding Equity Funding for disabled learners to levels 3 to 7 (non-degree) at PTEs would mean that EFTS at PTEs at levels 1, 2, and 7 and above would remain ineligible for this funding. If the rate for vocational education is increased, this would make it higher than the rate for SAC levels 1, 2 and 7 and above at all providers. There is a

<sup>2</sup> This funding rate is for 2021. The rate for 2022 will be \$29.41 if the Budget 2021 bid for a general rates increase of 1.2% is successful.

<sup>3</sup> TEIs are public tertiary education institutions (universities, wānanga and Te Pūkenga).



risk that some tertiary education sector stakeholders may question why changes to Equity Funding that supports disabled learners would only apply to VET. We will manage this through Budget communications and target engagements as required.

**Option 3 (recommended): Increase rates for priority, industry training-funded vocational education**

29. This could apply to:
- all industry training rates
  - only apprenticeship rates
  - only funding rates for trainees
  - provision that is a skills priority.
30. This option addresses the ongoing viability of the sector while targeting funding increases to areas of skills priority that are delivered in workplace settings. We would expect greater support for learners and employers in these areas. It could also support providers as transitional industry training organisations' arranging training function transfers to them, and could be used to develop new brokerage services for learners.
31. We are working through the pros and cons of each sub-option outlined above, including how sub-option "d" could be implemented. Modelling in Appendix Three shows the cost of a flat 5% increase across all of industry training, and increases in apprenticeship rates and trainee rates separately. Transitional ITOs will be moving their arranging training functions to providers and any new funding will follow them.
32. If you support this option, we will provide you with further advice comparing each sub-option. We will also provide further advice, based on modelling, on rates and the types of behaviour we would expect to see driven by the funding. The mechanics of implementing this approach are likely to be relatively straightforward for providers to understand and agencies to implement.

**Option 4 (not recommended): Introduce a small, contestable, time-limited, flexible fund for short-term projects**

33. This would be targeted at building capability and capacity to:
- deliver work-integrated learning
  - build the brokerage function at providers.
34. This option could help build capability across the sector and support providers to meet the incentives of the unified funding system in 2023 for more work-integrated learning.
35. This option supports the shifts we are seeking and is easily scalable. But it is complex for providers to respond to in the available time. It also has a less direct effect on frontline delivery than the other options.

**Option 5 (not recommended): Support a network of regional provision across New Zealand**

36. 9(2)(f)(iv) [REDACTED]  
[REDACTED]  
[REDACTED]
37. While this option is easily scalable, it 9(2)(f)(iv) [REDACTED] and has limited signalling of the longer-term shifts required. We do not recommend this option because we think prioritising shifts in the learner success and work-integrated areas are of more significant value in 2022.



**Option 6 (not recommended): Increase all SAC levels 3-7 (non-degree) and all industry training rates by 5%**

- 38. This option would be consistent with the current method of calculating the increase in funding and address the historical lack of funding rate increases.
- 39. However, it would not adequately reflect the changes we want from the new system. This is because it would funnel more funding into the current funding structures, rather than signalling the behaviour changes we are seeking through RoVE and the unified funding system. It would also increase some rates above current degree-level rates. This option would not reflect the shape of the system from 2023 as funding may be significantly redistributed as we confirm the final form.

### Next steps

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- 40. We will develop your preferred options further, including further modelling to confirm rate setting. We will also provide thorough advice on communications and messaging to the sector.
- 41. You may need to discuss your approach to spending funding in 2022 at your bilateral with the Minister of Finance on 17 March. We can provide talking points to support that meeting.
- 42. For inclusion in the Budget Cabinet paper we would need decisions on your preferred options by 18 March. The alternative is asking Cabinet to create a contingency to allow you to work through the options.

## Appendix One: Estimated total costs of extending current Equity Funding

### 1. Extend current Equity Funding to all Māori and Pacific learners in Vocational Education and Training

*a. Increase the current Level 5-6 equity funding rate for Māori and Pacific learners to the degree level equity funding rate of \$325*

	2019 actual	2022 min	2022 forecast	2022 max
Māori/Pacific EFTS Level 5-6 at providers	7,187	7,865	8,290	8,714
Current top up	\$970,245	\$1,061,735	\$1,119,089	\$1,176,444
Proposed top up	\$2,364,523	\$2,587,488	\$2,727,262	\$2,867,037
Additional cost (unrounded)		\$1,525,753	\$1,608,173	\$1,690,593
<b>Additional cost (rounded)</b>		<b>\$1,526,000</b>	<b>\$1,608,000</b>	<b>\$1,691,000</b>

*b. Extend the increased rate of \$325 to Māori and Pacific learners at Levels 3 and 4*

	2019 actual	2022 min	2022 forecast	2022 max
Māori/Pacific EFTS Level 3-4 at providers	20,183	21,342	23,059	24,777
Current top up	\$0	\$0	\$0	\$0
Proposed top up	\$6,640,207	\$7,021,562	\$7,586,570	\$8,151,577
Additional cost (unrounded)		\$7,021,562	\$7,586,570	\$8,151,577
<b>Additional cost (rounded)</b>		<b>\$7,022,000</b>	<b>\$7,587,000</b>	<b>\$8,152,000</b>

*c. Extend the increased rate of \$325 for all industry training for Māori and Pacific learners*

	2019 actual	2022 min	2022 forecast	2022 max
Māori/Pacific STMS in Industry Training	11,253	10,545	11,140	11,734
Current top up	\$0	\$0	\$0	\$0
Proposed top up	\$3,702,237	\$3,469,445	\$3,664,942	\$3,860,440
Additional cost (unrounded)		\$3,469,445	\$3,664,942	\$3,860,440
<b>Additional cost (rounded)</b>		<b>\$3,469,000</b>	<b>\$3,665,000</b>	<b>\$3,860,000</b>

## 2. Extend current Equity Funding to young learners with low prior qualifications

### d. Extend the increased rate of \$325 to young learners with low prior qualifications.

Assumes Māori and Pacific learners under 25 with low prior qualifications only get the Māori/Pacific rate, rather than both

Assumes this in addition to extending the Māori and Pacific rates as above

	2019 actual	2022 min	2022 forecast	2022 max
Young learners with low prior qualifications - providers	6,406	6,853	7,342	7,832
Current top up	\$0	\$0	\$0	\$0
Proposed top up	\$2,107,574	\$2,254,571	\$2,415,579	\$2,576,586
Additional cost (unrounded)		\$2,254,571	\$2,415,579	\$2,576,586
<b>Additional cost (rounded)</b>		<b>\$2,255,000</b>	<b>\$2,416,000</b>	<b>\$2,577,000</b>

	2019 actual	2022 min	2022 forecast	2022 max
Young learners with low prior qualifications - industry training	6,903	6,469	6,833	7,198
Current top up	\$0	\$0	\$0	\$0
Proposed top up	\$2,271,087	\$2,128,284	\$2,248,209	\$2,368,135
Additional cost (unrounded)		\$2,128,284	\$2,248,209	\$2,368,135
<b>Additional cost (rounded)</b>		<b>\$2,128,000</b>	<b>\$2,248,000</b>	<b>\$2,368,000</b>

**Total cost of (a) to (d)**

**\$16,400,000**

**\$17,524,000**

**\$18,648,000**

### 3. Extend the current equity funding top up for learners with disability to all VET i.e. to PTEs and industry training

	2019 actual	2022 min	2022 forecast	2022 max
Total EFTS in PTEs in VET	16,721	17,887	19,165	20,442
Current top up	\$0	\$0	\$0	\$0
Proposed top up	\$485,912	\$519,803	\$556,924	\$594,045
Additional cost (unrounded)		\$519,803	\$556,924	\$594,045
<b>Additional cost (rounded)</b>		<b>\$520,000</b>	<b>\$557,000</b>	<b>\$594,000</b>

	2019 actual	2022 min	2022 forecast	2022 max
Total STMs in industry training	44,976	42,148	44,523	46,898
Current top up	\$0	\$0	\$0	\$0
Proposed top up	\$1,307,003	\$1,224,820	\$1,293,836	\$1,362,853
Additional cost (unrounded)		\$1,224,820	\$1,293,836	\$1,362,853
<b>Additional cost (rounded)</b>		<b>\$1,225,000</b>	<b>\$1,294,000</b>	<b>\$1,363,000</b>

#### Notes:

The forecast volumes (EFTS and STMs) are based on 2020 forecasts for 2022. These forecasts are likely to be revised to take account of full year actual enrolments in 2020 and initial enrolment trends in 2021.

The minimum and maximum values indicate the margin of error for the forecasts and provide a range of estimated costs.

### Appendix Three: Estimated cost of a 5% Industry Training Fund rate increase

	Estimated baseline with no further increase to funding rates			Cost of 5% increase		
	2022 min	2022 forecast	2022 max	2022 min	2022 expected	2022 max
All Industry training funding	\$ 182,664,459	\$ 192,957,309	\$ 203,250,159	<b>\$ 9,133,000</b>	<b>\$ 9,648,000</b>	<b>\$10,163,000</b>
Apprenticeship funding	\$107,819,071	\$113,894,504	\$119,969,936	<b>\$ 5,391,000</b>	<b>\$ 5,695,000</b>	<b>\$ 5,998,000</b>
Trainee only funding	\$74,845,388	\$79,062,805	\$83,280,223	<b>\$3,742,000</b>	<b>\$3,953,000</b>	<b>\$ 4,164,000</b>

#### Notes:

The forecast funding are based on 2020 volume forecasts for 2022. These forecasts are likely to be revised to take account of full year actual enrolments in 2020 and initial enrolment trends in 2021.

The minimum and maximum values indicate the margin of error for the forecasts and provide a range of estimated costs.