

Aide-Memoire: TEC's approach to improving the targeting of learners in foundation funds

To:	Hon Chris Hipkins, Minister of Education
From:	Mike Blanchard, Deputy Chief Executive, Operations
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This briefing outlines our changing approach from 2018 to key foundation funds

1. This briefing advises you of our changing approach to improved targeting of learners for two foundation funds. These funds are Student Achievement Component levels 1 and 2 (SAC levels 1 and 2) and Youth Guarantee.
2. These funds have had limits on prior achievement since 2013. Prior achievement refers to the enrolment of learners that already have a qualification at the same or higher level on the New Zealand Qualifications Framework (NZQF).
3. Prior achievement limits help reduce learners churning through the same levels, rather than progressing to higher levels. However, even with good provider compliance with prior achievement limits, groups of learners can still be re-enrolling rather than progressing.
4. We will continue to educate providers in 2018 on their enrolment practices and fund requirements. But from 2019 onwards, we won't fund provision above the prior achievement limits (assuming funding conditions on prior achievement continue). Funding will be recovered or not paid for prior achievement provision above the limit specified for each fund.
5. We would welcome the opportunity to discuss this approach with you at a meeting with TEC officials in the near future.
6. We recommend you release this advice in full at a future date, following your discussion with officials and after we have updated the sector.

Key foundation funds limit enrolments of learners that already hold a qualification at the same or higher levels

7. SAC levels 1 and 2 (excluding language provision which accounts for around half of the funding¹) and Youth Guarantee target learners with no, or only low level qualifications. Youth Guarantee is specifically targeted to those 19 years and under who have left school without NCEA Level 2. SAC levels 1 and 2 (non-language) provision funds foundation qualifications for

¹ SAC levels 1 and 2 has a large proportion (around 45 percent of 2017 allocations) of language provision, mostly for Te Reo Māori but also for English for speakers of other languages, which is targeted at those who have a need to learn English, and therefore prior qualification limits do not apply.

learners of any age. These funds aim to help learners improve foundation skills, achieve qualifications and progress to further learning and/or employment.

8. The focus on targeting learners without prior qualifications is reflected in specific funding conditions. Both funds limit the enrolment of learners with prior qualifications at the same or higher levels. For SAC levels 1 and 2 the limit is 10 percent of learners with a prior qualification achieved in the previous five years. Youth Guarantee also has a 10 percent limit and also prohibits the enrolment of learners with a level 3 qualification or higher. Additionally Youth Guarantee prioritises Level 3 provision to those who participated in level 1 or 2 Youth Guarantee.
9. Most providers are pretty good at targeting learners for these funds. Youth Guarantee provision is generally very compliant with prior achievement funding conditions at a provider level. SAC levels 1 and 2 provision is less compliant, which largely reflects the different learner group to the majority enrolled in Youth Guarantee. However, at least 80 percent of SAC levels 1 and 2 is well targeted.
10. It is important to note that a provider compliance view differs to one focused on learners. Providers may be compliant with the prior achievement conditions despite having significant proportions of learner cohorts with prior achievement. The Ministry of Education recently advised you that "In 2016, 46% of 18-19 year olds engaged in Level 2 foundation-level education (including Youth Guarantee Fees-Free) already had a prior qualification at Level 2 or higher". A provider with a large share of 16 and 17 year olds without prior qualifications enrolled in Youth Guarantee could still comply despite significant prior achievement among a smaller group of 18 to 19 year old learners.
11. This aide-memoire only covers our monitoring of and approach to provider compliance. The Ministry of Education will be providing you with further advice on the performance of foundation and secondary/tertiary funds as part of their policy work programme.

We have been educating providers as well as adjusting allocations

12. We have mainly used information and education to help providers comply with these conditions. We have reflected providers' compliance with the funding conditions back to them as part of our monitoring activities. We have also held sector workshops and communicated key messages directly to providers and through investment managers.
13. In addition to our educational approach, we have reduced allocations for poor compliance with some conditions, and poor course completion rates. We have also increased allocations for providers with good compliance and performance.
14. Reductions in funding allocations help incentivise individual providers to work harder to target the right learners and improve their compliance in order to get increased funding in future years. However, softer demand across SAC levels 1 and 2, and Youth Guarantee recently means this approach has a more limited impact.

SAC levels 1 and 2 is less compliant than Youth Guarantee provision

15. Our monitoring shows SAC levels 1 and 2 provision is breaching the 10 percent prior achievement limit. Since 2013 the prior qualification limit has been phased in, from 30 percent in 2013, to 10 percent in 2015. In 2016, 23 percent of SAC levels 1 and 2 learners already had an equivalent or higher level qualification. Similar rates were evident in 2015. In 2017 this had dropped to 19 percent (2017 August SDR). The reduction may reflect the introduction of a five-year time limit on measuring prior achievement and/or improved provider compliance.

16. Youth Guarantee provision at a provider level is generally very compliant. Our monitoring shows prior achievement at levels 1 and 2 for Youth Guarantee provision is eight percent for 2016 and 2017. This is below the 10 percent limit.
17. From 2016, learners with a level 3 qualification were ineligible for Youth Guarantee. Our monitoring shows in 2016, three percent of learners had a level 3 qualification, dropping to two percent in 2017.
18. While at a provider level, Youth Guarantee generally complies with prior qualification limits overall, there are still a group of learners enrolling with prior achievement. In particular 18 to 19 year olds have higher levels of prior qualifications when enrolling in Youth Guarantee which suggests this pathway is not optimal for them.
19. Our concern is in ensuring investment best meets the intention of the fund and complies with funding conditions. The funding for learners with prior achievement above the allowable limit over the last two years is set out below in Table 1.

Fund	2016			2017		
	Learners with prior achievement	Allowable limit	Funding over the allowable limit	Learners with prior achievement	Allowable limit	Funding over the allowable limit
SAC levels 1 and 2	23% ²	10%	\$10.9 million	19%	10%	\$6.4 million
Youth Guarantee (learners with prior level 3)	3%	0%	\$3.1 million	2%	0%	\$1.8 million

We don't yet have a clear picture of what is behind poorer compliance in SAC levels 1 and 2

20. Poorer compliance with prior achievement in SAC levels 1 and 2 may reflect a range of factors. These may include:
- SAC level 1-2 learners tend to be older than Youth Guarantee learners, so they have more opportunity to have achieved prior qualifications;
 - learner preference to undertake additional vocational qualifications at the same level as previous foundation qualification or lack of confidence to progress;
 - limited higher level provision of interest to the learner in their provider of choice or local area;
 - financial barriers for some learners to accessing non-fees free provision at level 3 and above (prior to 2018);
 - providers not encouraging learners to progress to a higher level; and
 - reductions in level 1 and 2 qualification credit values affecting provider behaviour (needing more learners per EFTS);

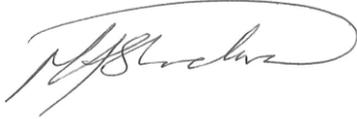
² Prior achievement rates for SAC levels 1 and 2, and Youth Guarantee are drawn from the learner's NZQA Record of Achievement or the SDR of the enrolling tertiary education organisation. Prior achievement limits do not apply to Te Reo Māori and other language enrolments.

21. It is likely different factors come into play for different providers and learner cohorts. Further analysis and/or investigation is needed to understand the main factors contributing to poor compliance. Such information could also help inform whether the limits were set at an appropriate level.
22. However, we do not intend to undertake any additional analysis and/or investigation at this time given:
- the Ministry of Education's policy work programme;
 - the introduction of fees-free from 2018;
 - the improving compliance of the sector; and
 - the amount of funding involved.
23. We believe the approach outlined below for 2019 onwards will significantly improve targeting and compliance with prior achievement funding conditions (should prior achievement limits continue).

From 2019, we won't fund provision above the prior achievement limits

24. We believe the introduction of a more performance-based approach from 2019, signalled early in 2018, will significantly improve targeting and compliance. From 2019, we will recover funding (or not pay in the case of over-delivery) for provision above the prior achievement limits (providing funding conditions on prior achievement are included in the funding determinations approved by you in mid-2018 for 2019).
25. We expect the value of 2019 funding above prior achievement limits in both funds to be significantly less than the values in Table 1. Providers should be more likely to encourage learners to enrol in higher qualifications as that provision will be fees-free for most learners.
26. We will exercise some flexibility in our approach to ensure certain learner cohorts or types of provision are not unduly restricted. One example would be prison-based education, which has a wide range of benefits for both the individual and the management of prisons. However, the requirements of the prison environment mean higher level provision is not offered in many prisons. Other examples might be provision of economic or social importance such as construction or residential care.
27. We will advise the sector of our approach once we have discussed our changing approach with you. We will note that funding conditions are yet to be confirmed for 2019, but if prior achievement limits continue then we will recover above any limits. At this time we will advise providers of their 2017 year-end prior achievement rates. We will continue to give providers information on their compliance with prior achievement conditions after each April and August SDR. Investment managers will also ensure providers are well aware of our approach from 2019.

28. We consider the change in our approach strikes a reasonable balance between supporting providers to enrol the 'hard to reach and hard to teach' and being clear on the improvements expected over time. We believe a harder line before 2019 could be seen as unreasonably punitive given the challenges of the learner cohort and risks providers withdrawing from provision which would limit learner options. The Ministry of Education have been informed of our proposed approach.



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Deputy Chief Executive, Operations,
Tertiary Education Commission

19 February 2018

Hon Chris Hipkins

Minister of Education

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