

Education Report: Additional information on the proposed UFS rates for pilot training

To:	Hon Chris Hipkins, Minister of Education		
Date:	26 January 2022	Priority:	High
Security Level:	In Confidence	METIS No:	1280401
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Messaging seen by Communications team:	No	Round Robin:	No

Purpose of report

This paper provides further information that you requested to support a decision on the funding rates for pilot training through the Unified Funding System (UFS).

Summary

In the *Education Report: Updated UFS Modelling* [METIS 1276629 refers] we recommended you agree that funding rates for aviation (and priority engineering) remain at the 'F3' provider-based rate of the UFS. This was to support greater simplicity in the design of the UFS by setting fewer funding rates and avoiding ad hoc exceptions for specific subject areas. You requested further information on the potential funding decreases for pilot training before making this decision.

Current modelling shows that the proposed funding rate change would reduce the provider-based pilot training rate by 31 percent, from \$14,252 per EFTS – M1 in the Student Achievement Component (SAC) rate – to \$9,805. This will result in a significant drop in funding for 11 private training establishments (PTEs), approximately 28 percent of their government funding and 6 percent of their overall revenue per domestic student. This may partially be offset by funding through the Strategic Component and may also be temporarily offset by the Tertiary Education Commission's transition approach for PTEs.

The combined impact of reduced international enrolments, COVID-19 restrictions and lower domestic funding will heighten the viability risk for these PTEs. The proposed reduction in pilot training rates may also reduce the delivery of non-degree pilot training for domestic students and increase demand for Massey University's bachelor's degree level programme which will retain a considerably higher funding rate (\$16,435 per EFTS in 2022). This would increase student loan debt for students in pilot training, given this is a three-year programme.

Alternatively, if you are concerned about the impacts of the proposed rate decrease, we can provide you with further advice on a separate rate for pilot training at approximately 85 percent of the current SAC rate. This would set the rate at approximately \$12,000 per EFTS and cost approximately \$1 million per annum more than the proposed rate of \$9,805, resulting in marginal decreases to other rates. This rate reduction would be more in line with reductions to other provider-based rates from SAC, however, a further category would reduce system simplicity.

Recommendations

The Ministry of Education recommend that you:

- a. **agree** that priority engineering remain at the 'F3' provider-based rate, which is at 75% of current Student Achievement Component rates (as proposed in our earlier advice, METIS 1276629)

Agree / Disagree


- b. **agree** that pilot training remain at the 'F3' provider-based rate, which is at 70% of current Student Achievement Component rates

Agree / Disagree


- c. **note** that if you disagree with recommendation (b), we will provide you with further advice on a separate fifth rate for provider-based pilot training at around 85% of current Student Achievement Component rates (approximately \$12,000 per EFTS)

- d. **agree** to proactively release this education report after the UFS rates have been announced in April 2022, with any redactions in line with the provisions of the Official Information Act 1982.

Agree / Disagree


Katrina Sutich
Group Manager
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Ministry of Education

27/01/2022


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27/01/2022


Hon Chris Hipkins
Minister of Education

1 / 2 / 2022

At a time when these providers are struggling to stay alive due to the international situation I don't want to add to that by significantly reducing their government funding.

9(2)(f)(iv)

Background

1. In the *Education Report: Updated UFS Modelling* [METIS 1276629 refers] we recommended that pilot training and priority engineering remain at the 'F3' rate in the provider-based delivery component of the Unified Funding System (UFS). This was to support greater simplicity in the design of the UFS by setting fewer funding rates and avoiding ad hoc exceptions for specific subject areas.
2. In response you requested further information on the potential funding decreases for aviation through the UFS before deciding on the proposed rate and asked what this would mean for ongoing provision. You did not request additional information on priority engineering (our original advice on this can be found in METIS 1276629).

Impacts on providers and students from the proposed pilot training rates

3. Based on current modelling, setting the provider-based pilot training rate at 'F3' in the UFS would reduce the rate by 31 percent, from \$14,252 per EFTS – M1 in the Student Achievement Component (SAC) rates – to \$9,805. This would impact 11 Private Training Establishments (PTEs) currently funded to deliver level 3-7 non-degree pilot training.¹
4. The table in Annex 1 attached shows the estimated impact on government tuition subsidy revenue for each of these PTEs. The impact on each of these PTEs varies, as some have more pilot training provision than others and some have other EFTS (e.g., theory funded through the arts rate and some engineering provision). However, nine of the 11 PTEs would lose more than 25 percent of their tuition subsidy revenue (this also factors in funding we estimate these providers would receive through the Learner Success Component).
5. This may partially be offset by funding through the Strategic component available to PTEs. The Tertiary Education Commission (TEC) is also developing an approach to transition providers to the new UFS rates. This could temporarily support these providers to adapt to the new rates. However, there is still some uncertainty on the amount of funding available for transitions and the scale of impact on PTEs.

Government tuition subsidy is a small proportion of overall revenue for these PTEs

6. Most of the revenue that these providers receive for funded domestic tertiary students comes from tuition fees, so the drop in funding is proportionately much smaller when this is factored in. We estimate that domestic fee revenue provides approximately 80 percent of these PTEs' revenue per domestic student (an average of \$55,000 per EFTS), with just 20 percent from tuition subsidies.
7. While in 2021 there has been a 66 percent reduction in international student EFTS at these affected PTEs compared to 2020, a significant proportion of their revenue comes from international student fees. Furthermore, a cohort of 400 international students will be able to travel to New Zealand to undertake pilot training in 2022. As shown in the table in Annex 1, six out of 11 of these PTEs have been allocated 195 places for international students following a process run by officials with the sector.² With an average fee of \$80,000 per international student, this could generate up to \$15.6 million in international

¹ A further three PTEs have been unsuccessful in their applications for TEC funding.

² The remaining places have been allocated to PTEs without any funded domestic students in 2021 (192) and to Massey University (13), which is the only New Zealand provider to offer a degree level pilot training programme.

fee revenue. However, some providers may not reach their allocation targets given the uncertainty around the international student market.³

8. 9(2)(b)(ii)

This proposal will likely impact the viability of these PTEs and the delivery of pilot training provision for domestic students

9. There is likely to be a strong reaction from these PTEs and the aviation sector to a significantly reduced funding rate. This would likely impact the ability and willingness of PTEs to continue delivering pilot training provision for domestic students. These PTEs will face difficulties absorbing the decrease in tuition subsidy, given the high compliance costs associated with meeting safety regulations for pilot training and high fixed costs such as fuel and maintenance for aircraft. Most of these PTEs are also sole aviation providers so have less opportunities to cross-subsidise from other areas of provision.
10. The PTEs would not be able to make up the shortfall in funding through domestic student fee increases, given these are limited by the Annual Maximum Fee Movement (AMFM) policy, which is set based on forecast CPI. The cost of any fee increases within what is permitted by AMFM would also be met by students, given that the amount students can borrow for pilot training programmes through the Student Loan Scheme is capped at \$35,000 per EFTS. It is also unlikely that providers would be able or willing to fund the decline in tuition funding from other revenue sources, including from international student fee revenue or commercial activities (such as non-funded flight training, business ventures or recreational flights).
11. Some PTEs may look to shift their focus to international students if permitted by border settings (and if there is demand from the international student market). This may result in a reduction in delivery of non-degree pilot training for domestic students and cause some disruption for current domestic students in pilot training programmes.
12. In the medium-term, the proposed rate decrease may also increase domestic student demand for Massey University's bachelor's degree level programme which will retain a considerably higher funding rate (\$16,435 per EFTS in 2022). This would result in an increase in student loan debt for pilot training students and may slow the pipeline for pilot training, given Massey's Bachelor of Aviation programme is a three-year programme. TEC would need to approve any additional funding for increased volume at Massey University as part of any adjustment to their allocations. TEC will also consider advice from Workforce Development Council's as part of future investment in pilot training.

Alternatively, we can provide further advice on a separate funding rate for pilot training

13. Alternatively, if you are concerned about the impacts of the proposed rate decrease for pilot training, we can provide you with further advice on a separate rate for pilot training at approximately 85 percent of the current SAC rate. This would be in line with reductions to other provider-based rates from SAC, setting the rate at approximately \$12,000 per

³ From 11 February 2022 these places will be reallocated to other aviation providers if there is demand. From 11 March 2022 this will be reallocated across the other cohorts for non-degree and degree level and above study.

EFTS at a cost of approximately \$1 million per annum more than the proposed rate of \$9,805.

14. Creating an additional funding category for pilot training at 85% of the current SAC rate would reduce system simplicity and result in marginal decreases to other rates to make up the \$1 million shortfall. This will have a small impact on other providers and other areas of provision. While you have agreed to retain the current SAC rates for te reo Māori and tikanga, given their national significance and the ongoing reviews on this provision, there is not a strong case to retain the current SAC rates for pilot training when considering broader UFS priorities.
15. Note that aviation students and graduates still tend to have very large student loans that they are slow to repay. This reflects the lack of employment opportunities available to aviation graduates, low starting salaries, and their long route to the possibility of a high paying job. Changes to the funding rates for pilot training are unlikely to alleviate these issues, which would be better addressed through volume changes or greater involvement and investment from employers in training.

Next steps

16. Subject to your agreement to the proposed UFS rates for pilot training, these will be included in the modelling advice in March 2022 seeking your agreement to the final rates.

Table 1: Estimated impact of proposed UFS rates for PTEs funded to deliver Pilot Training

PTE	Est. 2021 EFTS	Est. 2021 govt funding	Est. 2023 govt funding with proposed UFS rates (based on 2021 EFTS)	Funding impact of proposed UFS rates	% change in govt funding	Est. domestic fee revenue 2021	% change in revenue for domestic students (funding and fees)	Current financial viability rating	International student allocations for 2022	Est. potential revenue in 2022 from international fee revenue
Air Hawkes Bay	44	9(2)(b)(ii)							23	9(2)(b)(ii)
Air NZ Academy of Learning	33								0	
Ardmore Flying School	44								39	
Christchurch Helicopters	16								0	
International Aviation Academy of NZ	50								34	
Nelson Aviation College	53								8	
North Shore Helicopter Training	7								0	
NZ International Commercial Pilot Academy	20								90	
Southern Wings	40								0	
Waikato Aero Club	26								0	
Wanaka Helicopters	14								1	
Total	348								\$4,775,578	

Notes

- 2021 EFTS, tuition subsidy funding through SAC3+ and UFS modelling impacts are based on data available in November 2021. Updated data with full-year 2021 enrolments and funding will be used for the final modelling advice in March 2022 after this data becomes available in February 2022.
- The estimated 2023 government funding with the proposed UFS rates, and the estimated impact of the proposed rates, factor includes estimated funding that these PTEs may receive through the Learner Success Component.
- Estimated domestic fee revenue is based on fee data from 2020 full-year data. This is the average fee charged per EFTS in 2020 increased by 1.1 percent in line with the AMFM in 2021 and multiplied by the estimated number of funded EFTS.
- Estimated international fee revenue is based on a sector average of \$80,000 per international student, as reported by Aviation New Zealand in late 2021.

Proactively Released