

Education Report: Draft Cabinet paper on high level decisions on the unified funding system

To:	Hon Chris Hipkins, Minister of Education		
Date:	10 February 2021	Priority:	High
Security Level:	Budget Sensitive	METIS No:	1248682
Drafter:	Nicole Rennie	DDI:	044637740
Key Contact:	Andy Jackson	DDI:	044638633 9(2)(a)
Messaging seen by Communications team:	No	Round Robin:	No

Purpose of Report

The purpose of this report is to seek your feedback on a draft Cabinet paper seeking Cabinet's decisions on the high level design of the unified funding system for vocational education. We seek your feedback on the draft Cabinet paper by Monday, 15 February.

Recommendations

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

- a. **note** that you have already made decisions on the high level design of the unified funding system, and that these decisions have been reflected in the Cabinet paper [METIS 1210568, 1233742, and 1235409 refer]
- b. **indicate** whether you want to seek delegation from Cabinet to confirm any in principle decisions on the unified funding system
- Yes / No**
- c. **agree** that the Cabinet paper indicates that further work is being undertaken in relation to developing a distance or online mode of delivery
- Agree / Disagree**
- d. **agree** that the Cabinet paper
- a. EITHER seeks delegation to the Minister of Education on the design of the transition approach to the unified funding system
- Agree / Disagree**
- b. OR seeks delegation to the Minister of Education and the Minister of Finance on the design of the transition approach to the unified funding system
- Agree / Disagree**
- e. **provide feedback** on the attached draft Cabinet paper before 15 February
- f. **agree** to proactively release this education report within 30 days of Cabinet decisions being made with any redactions in line with the provisions of the Official Information Act 1982.
- Agree / Disagree**



Andy Jackson
Deputy Secretary, Graduate Achievement,
Vocations and Careers
Ministry of Education

10/02/2021



Tim Fowler
Chief Executive
Tertiary Education Commission

10/02/2021

Hon Chris Hipkins
Minister of Education

___/___/___

Background

1. In November 2020, you agreed to take a paper to Cabinet on the design of the unified funding system for vocational education [METIS 1244781 refers]. Cabinet has not received advice on the unified funding system since agreeing to the Reform of Vocational Education (RoVE) proposals in July 2019 [CAB-19-MIN-0354 refers].

Contents of Cabinet paper

2. This Cabinet paper is intended to get Cabinet's approval of the high level design of the unified funding system. This will allow us to clearly communicate the shape of the system from 2023 to the sector.
3. It will also support the Budget bid: *Ensuring the viability of vocational education and training*.
4. The draft Cabinet paper mainly contains content that you have already made decisions on, in December 2019 and July 2020 [METIS 1210568, 1233742, and 1235409 refer]. Any feedback you provided to us on those papers has been incorporated.
5. This rest of this education report outlines some further detailed points we have not previously covered with you, or clarifies how we have responded to your feedback.
6. The recommendations in the Cabinet paper seek some in principle decisions, subject to further work or engagement. You could seek Cabinet's agreement to delegate final decisions on these issues to you, as Minister of Education. This would reduce the amount of detail required in further Cabinet papers.

Distance or online mode of delivery

7. You asked us to carry out more work on the funding of distance or online learning as part of the unified funding system [METIS 1233742 refers]. Work is required to identify the scope of distance and online delivery and, if necessary, to develop a funding approach to differentiate this delivery from other modes of delivery.
8. We are currently referring to this mode broadly by using the term 'distance delivery'. Work is underway to test whether the mode should cover all distance delivery or only online delivery.
9. We have considered the limited international evidence in this space and have identified three options for the form a distance mode may take.
 1. **Option 1: status quo** – continue to fund distance learning at the same rate as face-to-face learning.
 2. **Option 2: set a lower rate for distance learning** – continue to fund on a per full-time learner rate, but set the rate lower to reflect the lower cost of delivery.
 3. **Option 3: fund programme development and ongoing delivery separately** – to reflect the relatively high up-front programme development costs and low costs per learner. This pattern of costs is also true for face-to-face delivery, but it is more extreme for distance, and particularly online, programmes. This approach would represent a more fundamental reform, and would need to extend to considering the centralisation of some functions (e.g. a programme design function for Te Pūkenga built off one of their existing subsidiaries with online delivery expertise). For this reason, it would require more time to carry out a full review of the opportunities (and to explore international models in more depth).

10. Option 2 appears to best balance the incentives in the system. This is because:
 1. while the evidence is still evolving, the weight of it points towards a lower cost to offer distance learning, especially as the use of online delivery matures.
 2. retaining a rate per full-time learner is consistent with the approach proposed for other modes of delivery, making it easier for providers to combine across modes to maximise flexibility for learners and employers.
 3. separating funding for programme development and delivery (as in option 3) would distort the way the 'input' costs of delivery are managed, either encouraging over-supply of programme design (if we fund per-programme), or under-supply (if we pay a fixed price across all programmes). It could also reduce responsiveness to learners and employers (because the funding would not be as strongly driven by enrolments).
11. We want to further test this with the sector to identify the feasibility and potential impacts of differentiating funding on this basis. Our early discussions with the sector indicate that careful definition work will be required to allow a full understanding of any proposed mode. We are working to understand if this creates any new data gathering activities.
12. We will provide you with further advice on any proposed mode and its parameters following sector discussions.
13. The draft Cabinet paper indicates that further work is being undertaken in relation to developing a distance or online mode of delivery and that you will confirm the design of any mode when you return to them for final decisions on the overall design of the unified funding system.

Learner success component

14. The draft paper seeks Cabinet's agreement that most of the learner success component funding be based on enrolments of those learners who have traditionally been underserved by the vocational and education training (VET) system (ie Māori learners, Pacific learners, young learners with low prior qualifications, and disabled learners (see paragraph 46 and recommendation 10)). We had previously indicated to you that improved data collection would be needed to inform the inclusion of disabled learners in enrolment-based funding [METIS 1235409 refers]. We are working through some options to identify the best way to improve our data about disabled learners and to identify the best proxy for disabled learners for funding purposes. We have identified options and discussed this issue with tertiary and disability sector experts. We expect to identify a way forward soon.
15. As part of the learner success component, 9(2)(f)(iv) [redacted]
[redacted]
[redacted]
 - a. [redacted]
 - b. 9(2)(f)(iv) [redacted]
 - c. 9(2)(f)(iv) [redacted][redacted]
[redacted]
[redacted]
[redacted]

17. 9(2)(f)(iv)
- [Redacted content]

Strategic component

18. You previously agreed that the strategic component include a flexible funding element, while also incorporating the need for Te Pūkenga to enable access and meet regional skills priorities [METIS 1235409 refers], rather than having an additional component to fund Te Pūkenga.
19. Following further work, we therefore propose that the single strategic component be made up of the following two elements:
- a. longer-term funding to support a regional network of provision across New Zealand
 - b. flexible, time-limited, likely contestable funding designed to address national and regional skills priorities.
20. This reflects that the two elements have two different purposes while also offering flexibility to respond to shifting regional and industry skills needs as these emerge and allows funding to adapt as the sector changes. We have amended the draft Cabinet paper (Annex One) to reflect this.
21. In designing both elements, we are mindful of balancing the costs of compliance with the level of funding. This is in line with your previous indication that you were concerned about the potential for compliance costs to become overly burdensome.

Funding to support a regional network of provision

22. This funding is designed to help address long-standing challenges associated with meeting regional skills priorities in areas of geographic isolation. We intend for this funding to be allocated on a sufficiently long-term basis (as compared to the flexible funding element) to allow the network of provision to develop.

Flexible time-limited funding to address national and regional skills priorities

23. This element is designed to provide flexible funding to support innovative proposals that respond to national and regional skills priorities. It will likely be run as a contestable process for funding. Proposals could be received from individual providers, consortia of providers or providers partnering with industry and/or iwi. We would expect TEOs to incorporate successful proposals into their baseline funding after the completion of a project.
24. We propose that the process for determining these priorities involve both Regional Skills Leadership Groups (RSLGs) and Workforce Development Councils (WDCs). This will mean decisions on the priorities are informed by industry and regional skills needs. This

also reflects your previous comments that they need to be involved in the process. This recommendation is reflected in the draft Cabinet paper. We will also provide you with further advice on your role in the setting of national and regional priorities.

25. We are working to develop an appropriate mechanism for distributing this funding. We will provide you with further advice on whether RSLGs and WDCs should also be involved in the process of making decisions on proposals. While this would help to ensure consistency across the process we are interested in testing this idea with the sector and RSLGs and WDCs before providing you with a recommended option.
26. We have also noted in the Cabinet paper that the interests of Māori learners and employers need to be considered by RSLGs, WDCs and providers when determining national and regional priorities. We expect that monitoring of these bodies will include ensuring these voices are heard. This reflects Te Taumata Aronui's feedback on the importance of ensuring these voices are incorporated into decision-making processes.

Protecting provision of national significance

27. The current scope of the unified funding system covers a number of areas which are of national significance to New Zealand but are not primarily vocational, for example, te reo Māori and tikanga Māori. This provision makes up a large part of the funding that wānanga would receive through the unified funding system.
28. We advised you in December that this provision will need to be supported through the transition to the unified funding system and beyond [METIS 1246677 refers].
29. Within the unified funding system, we will ensure te reo Māori and tikanga Māori funding is carefully managed through the transition to the unified funding system. Our initial view is that we should at least match the amount of funding received per EFTS pre- and post- the implementation of the unified funding system. This could involve creating a different subject category, or considering how we apply mode of delivery to this provision. We will provide you with further advice on the best way to protect this provision after further detailed modelling is underway.
30. Wānanga funding needs to be considered at a system level. Te Hono Wānanga is committed to engaging with the wānanga sector to establish an enduring wānanga-Crown partnership that will focus on identifying new solutions for the wānanga sector. We will work with the wānanga through this workstream on how the unified funding system supports their character, as legislated under section 268 of the Education and Training Act 2020, and to meet their own individual priorities and goals.
31. The approach to supporting te reo Māori and tikanga Māori may need to adapt in light of the work on wānanga funding, and we will continue to coordinate across these projects.

Transition approach to the new funding system

32. It is important to give as much certainty as possible to providers as they transition into the new funding system in 2023. For many providers this will involve significant behaviour shifts to meet the objectives of the unified funding system, such as encouraging the growth of work-integrated delivery models and meeting the needs of learners' communities and employers.
33. We are developing options to enable a smooth, managed transition that balances the financial viability of providers, with driving the behaviours required from the unified funding system. This approach is likely to phase the system in over time, which (if necessary) allows providers time to adapt to changes in funding.

34. The Cabinet paper reflects this approach, and seeks Cabinet's delegation to you, as Minister of Education, for decisions on the design of the transition approach for 2023. This will enable you to consider the impacts of funding level changes and to direct officials on approaches for addressing funding level fluctuations.
35. You could consider seeking delegation to both you and the Minister of Finance on these issues, to give Cabinet an additional level of security because of the scale of the decisions that may be taken.
36. We expect to provide you with options on a transition approach before mid-2021.

Budget implications

37. The Budget bid to support the unified funding system appropriates funding to be spent in 2022. This is before the full implementation of the unified funding system from 2023.
38. We will report back to you later this month on how we will utilise funding in 2022 to accelerate the outcomes of the unified funding system. We will provide you with further advice on the details of utilising funding from 2023 in the second half of this year, if the bid is successful.

Timeline and next steps

39. We seek your feedback on the draft Cabinet paper by Monday, 15 February. After you have provided your feedback, we will provide you with a revised draft to circulate for ministerial consultation.
40. We have worked with your office on which Cabinet meeting will be most appropriate. We are aiming for this Cabinet paper to go to Cabinet on either the 15th or 22nd of March, to align with Budget decisions.
41. We intend to provide you with multiple pieces of advice throughout 2021 as we work to confirm the details of the design of the system.

Annexes

Annex One: Draft Cabinet paper - High-level design of the unified funding system underpinning the Reform of Vocational Education