

Education Report: Phase One modelling of the Unified Funding System

To:	Hon Chris Hipkins, Minister of Education		
Date:	27 September 2021	Priority:	High
Security Level:	In Confidence	METIS No:	1272025
Drafter:	Hayley Robertson	DDI:	9(2)(a)
Key Contact:	Vic Johns	DDI:	9(2)(a)
Messaging seen by Communications team:	No	Round Robin:	Yes

Purpose of report

This report seeks your feedback on three scenarios for the design of the unified funding system (UFS). We seek your feedback by 4 October to allow us to finalise the design with you as we move towards Cabinet decisions in November.

Summary

This report sets out options for the design of the UFS, using three scenarios to illustrate the impacts of different funding rates. The scenarios demonstrate that there are several reasonable ways forward, all of which create a simpler system that supports the goals of RoVE whilst managing the financial sustainability of provision. The scenarios are intended to support a discussion with you about your preferred approach and the variables you would like us to test within this. (Annex 3 shows all the variables).

Scenarios for the unified funding system rates

A: Modest change	<p>This scenario establishes the learner success and strategic components, and makes some increase to work-based rates.</p> <p>This makes significant new investments whilst providing financial stability for providers, but the gap between work- and provider-based rates is still large.</p>
B: Moderate incentives	<p>Building on scenario A, this scenario further increases work-based rates and applies subject differentials to them. It also aligns extramural rates to work-based rates.</p> <p>This creates stronger incentives for providers and employers to collaborate on work-based learning.</p>
C: Sharper incentives	<p>This scenario increases investment in the learner success and strategic components, and closes the gap between provider- and work-based rates.</p> <p>This creates more dramatic incentives, but with greater risks to delivery in areas not currently offered in workplaces. The stronger incentives may also overshoot what is needed to effect change.</p>

We think scenario B shows the most promise as the basis of a new system. It delivers the full set of incentives we need to achieve the outcomes of RoVE, but without shifting rates beyond the sector's capability to adapt and make good use of in the medium term.

In particular, this scenario should support providers and employers to collaborate on work-based learning, creating a shift towards apprenticeships and traineeships, with pathways for learners who are currently more likely to stay in campus-based programmes. This, together with the learner component, will be important for breaking down barriers for learners, and for building pathways from school to work.

The UFS will create significant change, creating the risks of some unintended behaviours. These risks can be mitigated through transition arrangements, TEC's investment and monitoring arrangements, and agile responses to issues as they arise. We will provide more advice on these risks and transition arrangements as the design of the UFS firms up.

Recommendations

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

- a. **discuss** the three scenarios for unified funding system rates, and indicate what alternatives you would like us to explore
- b. **forward** this briefing to the Associate Ministers for Education
- c. **agree** to proactively release this education report within 30 days of final decisions being made, with any redactions in line with the provisions of the Official Information Act 1982.

Agree / Disagree



Katrina Sutich
Group Manager
Te Ara Kaimanawa
Ministry of Education

27/09/2021



Gillian Dudgeon
Deputy Chief Executive – Delivery
Tertiary Education Commission

27/09/2021



Hon Chris Hipkins
Minister of Education

3/10/2021

Background

1. The UFS is intended to support RoVE by enabling the integration of the vocational education and training (VET) system, and by creating greater support for the following shifts:
 - a. growing work-integrated learning, i.e. learning agreed between an employer, employee and provider that includes work-based elements as well as pedagogical expertise, wellbeing support and support for employers;
 - b. ensuring learners can access more tailored support, so that all learners can participate, achieve, and experience good educational and employment outcomes;
 - c. encouraging innovative provision that responds to regional and national skills priorities and supports Te Pūkenga to build and sustain a national network of provision.
2. From 2023, the full funding increase from Budget 2021 will take effect, with an additional \$97 million provided for 2023 and 2024 (\$96 million in outyears). This was an estimated 13.4% increase in VET funding. Whilst this funding primarily addresses a history of under-investment, it creates an opportunity to shift how funding is invested, to support RoVE objectives.

We can provide more alternatives based on your feedback on this paper

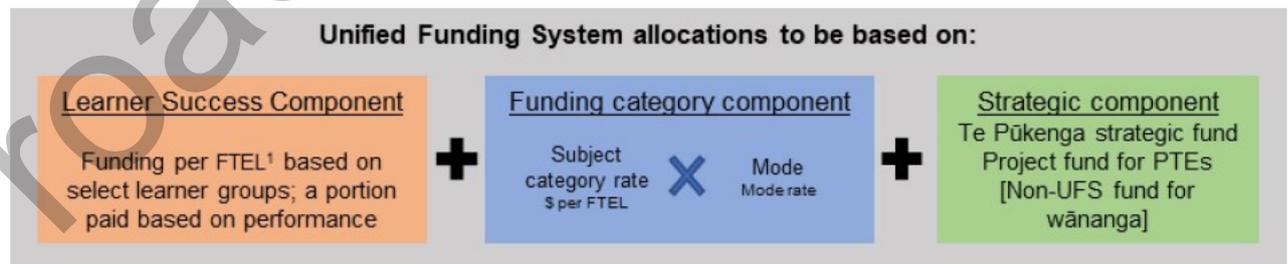
3. Over the past two months you have made in-principle decisions on the design of the UFS [METIS 1267373, 1263885 and 1266423 refer; Annex 1 describes the process further]. We have built these into the modelling of the UFS.
4. This paper provides scenarios for the funding rates in the UFS, and for the relative size of the three components of the UFS. We seek your initial feedback by 4 October, to allow time to work through the many alternatives for the design of the UFS, and reach Cabinet decisions in November.
5. We will report back on other matters following your decisions on this paper – these include possible exemptions to support eligibility changes, and options for introducing programme design funding for online learning.
6. This is all aimed at Cabinet decisions in November, to allow TEC and the sector to make the necessary operational changes to support the UFS to operate from 2023. We also hope that it will allow you to announce many of the design elements for the UFS towards the end of this year. Giving the sector as much information and notice as possible about the policy and operational policy design by the end of this year will better support the sector to adapt to the UFS.
7. Finally, we are aiming to have the final UFS rates set in March 2022, before being announced in April. The current modelling uses data to end of July 2021 (projected to full-year) and is therefore preliminary. By March next year we will have close to full-year data to test the rates more precisely (along with clarity about total volume to be funded in 2023).

We are advising you on several interconnected matters

8. In addition to the UFS, work is underway on:
 - a. Fee regulations and employer contributions: 9(2)(f)(iv)
 - b. Targeted Training and Apprenticeship Fund (TTAF): We will be providing you with advice on uptake of TTAF to date and on options for a potential extension that could be considered as part of Budget 2022.
 - c. Apprenticeship Boost Initiative: You have received new estimates for ABI to August 2022 and initial options for extending ABI after August 2022 in earlier advice [METIS 1271208 refers].
 - d. Te Hono Wānanga: We are currently working with the wānanga to develop funding proposals to support their unique roles and aspirations, 9(2)(f)(iv)
 - e. Te Reo funding review: We recently provided advice to Ministers on short-term improvements to tertiary education te reo funding rates as an early step in a broader review of te reo and māturanga Māori funding [METIS 1264377 refers]. We will be providing further advice on the broader review in the coming weeks, including on any initiatives that could be considered for Budget 2022.
 - f. Demand pressures: We recently provided you with advice on options for managing likely volume pressures across the tertiary system in 2022 and 2023, including in those parts of the system that will be within scope of the UFS from 2023 [METIS 1266917 refers].
 - g. 9(2)(f)(iv)

The unified funding system creates a simpler system which supports RoVE

9. This section summarises the design of the UFS which the modelling is based on, reflecting your decisions to date. The overall design of the UFS is as follows:



¹ FTEL stands for "Full-time equivalent learner", replacing EFTS/STMs as terms.

10. This would replace a system where:
 - a. Equity funding was very limited (\$2.5 million in 2019), and not historically available for most VET provision, including apprentices and trainees.

- b. A transition from provider to work-based learning required a non-completion at the provider and a new training arrangement in work (potentially involving duplication), creating a weak pathway for learners, especially for school students.
 - c. High-quality training delivered in collaboration between providers and employers was funded at the same rate as training offering very little pedagogical or wellbeing support.
 - d. The costs of delivering different subjects were not reflected in industry training, including training with higher costs.
 - e. There was limited strategic funding (\$3.5 million in industry training only) to support priorities and try new approaches.
11. These changes make the VET funding system simpler and more transparent. The three components of the UFS would replace five funds: the Student Achievement Component (SAC) (3-7 non-degree, with 11 funding rates), Industry Training Fund (ITF) (two funding rates and a Direct Funding Scheme), Joint Ventures and Amalgamation Projects funding (JVAP), the current Equity Fund (non-degree), and (potentially) the Qualifications Development Fund.

Funding category component

12. The table below summarises the subject groupings and modes applied within the funding category component. The four subject groupings replace 11 SAC rates; the proposed allocation of transitional Industry Training Organisation (ITO) programmes to subject groupings may be refined as we test them further with transitional ITOs.

Table 1: Subject and mode categories for the UFS

Subject groupings	Modes
<ul style="list-style-type: none"> • Humanities, Business and Social Service Vocations • Trades, Creative, Health-related and IT Vocations • Engineering, Health, Primary Industry and Science Vocations • Specialist Low-Volume, High-Cost Vocations 	<ul style="list-style-type: none"> • Provider-based • Provider-based: extramural (to become an 'online' mode from 2024) • Work-based • Work-based: pathway to work • Assessment and verification

13. After consultation with the sector, the names of the modes have changed slightly. Annex 2 discusses this further.
14. It is intended that programmes, especially work-based programmes, would be funded from a combination of modes which reflect the different ways learning is delivered. Annex 2 includes some examples to illustrate this.
15. The funding rates for te reo and tikanga Māori provision are to be maintained at pre-UFS levels, pending separate reviews. We will test this approach with wānanga prior to Cabinet decisions on the UFS. And, we will provide advice soon on programme funding as part of the extramural mode.

Learner success component

16. Learner success funding will be allocated to providers in a simple mechanistic way as part of the regular Investment Plan process. Most of this will be paid regularly but a portion of the funding would be paid upon completion of milestones or achievements linked to learner success. Learner success component funding is allocated according to enrolments of:
 - a. learners with low prior achievement (no prior qualification at NZQF level 3 or above)
 - b. disabled learners
 - c. Māori and Pacific learners, using the equivalent of 2021 Equity Fund rates
17. Funding through this component will not apply to enrolments through the assessment and verification mode.
18. 9(2)(f)(iv)

Strategic component

19. The strategic component includes two elements, with priorities informed by advice from Workforce Development Councils (WDCs) and Regional Skills Leadership Groups (RSLGs):
 - a. funding for Te Pūkenga to support it to meet its charter obligations to build a sustainable national network and to meet regional and national skills priorities
 - b. project funding available to private training establishments (PTEs) to support them to meet national and regional skills priorities
20. 9(2)(f)(iv)

Modelling allows us to test the effects of different levels of change

21. We have developed a model that shows how the split between the three components, and the subject and mode rates within the funding category component, affect different areas of provision.
22. The model is based on estimated delivery volumes in 2021. It uses the amount that this volume would cost under current policy settings, plus the Budget 2021 investment, as the funding available to set UFS rates (\$925 million). The approach provides an appropriate basis for comparison between current and future funding rates, although it uses a higher baseline than is what is currently appropriated for the UFS in 2023 (approximately \$855m). This discrepancy is due, in part, to the fact that high 2021 volumes will be partly funded from other sources (transfers and the balance sheet) and because providers will deliver some unfunded volume. In addition, current baselines presume a reduction in volume by 2023 (particularly for industry training). We have provided you with advice on responding to demand pressures, including a proposed Budget bid for volume growth in 2023 and 2024 [METIS 1266917 refers].

The unified funding system has the potential to drive several key shifts

23. We have developed three scenarios to show the effects of three different approaches - modest, moderate and sharper incentives scenarios. They are intended to support a discussion with you about your broad approach and the variables you would like us to adjust within this.
24. The scenarios all show the effects of different levels of increases to:
 - a. Work-based learning, especially for apprenticeships. This is due to two distinct shifts: block courses and other campus-based delivery are funded at the higher provider-based rate; and applying subject differentials favours trades, engineering and agriculture, which tend to cost more to deliver.
 - b. A 'pathway to work' payment for providers to support learners moving from provider-based to work-based learning. This is to identify work opportunities and help learners establish their learning through the transition into work. (This payment would be limited to three months, so the FTEL rates in the scenarios would only be paid up a quarter of the figure stated).
 - c. The learner success component directs resources to providers to allow them to tailor additional support on top of the services they offer all learners. At 10% of the UFS, the rate would be around \$1,700 per FTEL with low prior achievement or a disability. Given the general obligations to support learners as part of all funding, this is quite a high additional investment. We treat this as an upper limit.
 - d. The strategic component – for example, 5% of the UFS is around \$45 million.
25. The additional investment at Budget 2021 pays for much of this change. We have also explored options to reduce investment in:
 - a. Extramural funding – as discussed in earlier advice (noting that further work is to come on programme development funding, and that this may affect how the strategic component is allocated). This accounted for 12% of the value of delivery in 2021.
 - b. Assessment and verification – recognising that those employers who largely deliver their own training do not require as much support as work-integrated learning delivered jointly by providers and employers. Around 4% of FTEL were in this category in 2021 (around 14% of industry trainees).
 - c. In most scenarios, funding category component rates are set below current SAC rates, in recognition of the funding from the learner success component and the strategic component.
26. The modelling has some limitations, due to the accuracy of the data available (particularly cost information from transitional ITOs). This can be managed through the investment process (informed by WDCs and RSLGs), which allows TEC to direct provision to modes as advised by WDCs. It will also be important to monitor the impacts and be agile in response to any issues. Annex 2 discusses these data limitations further.

Scenario A: Modest change

27. This scenario prioritises financial stability for providers, making use of additional investment at Budget 2021 to establish the learner success and strategic components, and make some increases to work-based rates. Details are in annex 3.
28. Whilst this is a significant uplift in investment towards the goals of RoVE, it does not go to the heart of the incentive issues between provider-based and work-based learning. The differentials between the two modes remain large, and create incentives for providers to focus on campus-based delivery over building collaborative models for work-based delivery with employers. In other words, the incentives are stronger for off-job provision than on-job.

Table 2: Key parameters for scenario A: Modest change

	Learner success	Funding category component	Strategic component
Funding	8%, ~\$74m	88%, ~\$814m	4%, ~\$37m
Rates	\$1,367 / FTEL for learners with low prior achievement and disabled learners	<ul style="list-style-type: none"> Work-based rates are 45-80% of provider-based rates. Provider-based rates (including extramural) are close to SAC rates (~ 93%) Work-based training is set at a flat rate (~14% above average ITF rates), with a top-up for pathways to work (\$1,200+) 	Te Pūkenga: \$26m PTE fund: \$11m

29. The effect of this scenario by provider type is set out in the table below. The figures show the impacts *if each provider keeps delivering the same mix of provision*. If providers make changes as intended by RoVE (within limits agreed with TEC), their funding would also shift.

Table 3: Impacts of scenario A: Modest change

Subsector	2021	Scenario A	Difference	
	\$ million	\$ million	\$ million	%
Te Pūkenga	346.3	366.8	20.5	6%
Delivery from transitional ITOs	203.2	255.0	51.8	20%
Wānanga	94.6	98.7	4.1	4%
PTEs	168.3	176.5	8.2	5%
Universities	28.9	28.4	- 0.5	-2%
Total	841.3	925.4	84.1	10%

30. Funding for transitional ITOs is recorded separately because all the transition decisions have not yet been made, and it also provides a sense of the transfer of investment to work-based learning.

31. Although the changes are small at the subsector level, there are some variations within each subsector. Allocating all funding consistently according to mode of deliver affects provision at the interface between SAC and the ITF, such as managed apprenticeships and block courses.

Table 4: Impacts of scenario A within subsectors

Subsector	Range of impacts	Biggest decrease	Commentary
Te Pūkenga	+1% to -7%	-\$1.6m	Most subsidiaries of Te Pūkenga would experience a small decrease in funding, more than offset by the increase in funding for those apprentices and trainees that will be part of their network.
Delivery from transitional ITOs	+59% to +1%	none	The increased investment in transitional ITOs mostly comes from the provider-based rate applied to campus-based activities such as block courses. 80% of the increase in funding for this delivery (\$41 million) is due to this effect. The direct increase in work-based learning is modest (\$10 million).
PTEs	+16% to -27%	-\$1.0m	PTEs experience a wider range of effects. Under this scenario 11 PTEs would lose more than \$100,000, including four that lose more than \$500,000. 9(2)(b)(ii)
Wānanga	+4%	none	All wānanga receive a small increase.
Universities	+5% to -4%	-\$0.3m	The impacts on universities are small as a share of their total revenue.

Scenario B: Moderate incentives

32. This scenario goes further to grow work-based learning. It maintains the investment in the learner success and strategic components from scenario A, and increases work-based rates and introduces subject differentials to them. Details are in annex 3.
33. Compared to scenario A, this creates a coherent set of rates that incentivise the collaborative delivery we want between providers and employers. Provider rates are a little higher than work-based, which is reasonable in light of the higher underlying cost structures of campus-based delivery. But, even allowing for the higher standard we are seeking from work-based learning, the uplift in work-based rates makes this much more attractive for providers and employers.

Table 5: Key parameters for scenario B: Moderate incentives

	Learner success	Funding categories	Strategic component
Funding	8%, ~\$74m	88%, ~\$814m	4%, ~\$37m
Rates	\$1,367 / FTEL for learners with low prior achievement and disabled learners	<ul style="list-style-type: none"> Work-based rates are 80-95% of provider-based rates. Provider-based rates are about 85% of SAC rates (subject relativities are maintained) Work-based rates are closer to provider-based (40-90% increase on average ITF rates) Extramural funding is aligned to work-based rates. 	Te Pūkenga: \$26m PTE fund: \$11m

34. This scenario places stronger incentives on providers to change, particularly those who are focussed in a single subject area, offering a lot of online delivery, or with high capital costs.

Table 6: Impacts of scenario B: Moderate incentives

Subsector	2021	Scenario B	Difference	
	\$ million	\$ million	\$ million	%
Te Pūkenga	346.3	335.7	-10.6	-3%
Delivery from transitional ITOs	203.2	304.8	101.6	50%
Wānanga	94.6	96.0	1.4	1%
PTEs	168.3	163.1	-5.2	-3%
Universities	28.9	25.8	-3.1	-10%
Total	841.3	925.4	84.1	10%

35. The subsector impacts are discussed in the table below. Compared to scenario A, more funding is directed to work-based learning, creating stronger incentives for learner pathways into work and collaborative arrangements between providers and employers. Funding reduces for providers specialising in online learning, as it is now aligned to the rate for work-based learning (which uses delivery with similar cost structures).

Table 7: Impacts of scenario B within subsectors

Subsector	Range of impacts	Biggest decrease	Commentary
Te Pūkenga	-6% to -16%	-\$7.0m	The changes affect the whole Te Pūkenga network, but the potential decreases are biggest where there is a focus on online provision.
Delivery from transitional ITOs	+91% to +7%	none	As discussed for scenario A, the impact on funding for transitional ITOs includes higher rates for campus-based delivery. This is about a third of the funding increase (\$35 million). Compared to scenario A, more of the investment is going into work-based delivery.

PTEs	+7% to -34%	-\$2.4m	Under this scenario 31 PTEs would lose more than \$100,000, include seven that lose more than \$500,000. 9(2)(b)(ii)
Wānanga	+4% to +1%	none	All wānanga receive a small increase.
Universities	-1% to -18%	-\$1.2m	The impacts on universities are small as a share of their total revenue. The effect is more significant for Massey, due to changes in extramural rates.

36. We will provide further advice on the impacts of the UFS as the preferred settings firm up. If the model affects areas of provision which are nationally significant, options to manage that include transition arrangements, shifting areas of provision into higher-funded subjects, or creating bespoke arrangements (using the strategic component).

Scenario C: Sharper incentives

37. This scenario offers a more dramatic shift, prioritising the objectives of RoVE, at the expense of financial stability for some provision (particularly in those areas of provider-based delivery that are not currently offered in workplaces). It invests more in learner success and strategic funding, and brings provider- and work-based rates closer together. Details are in annex 3.
38. The differential between work-based and provider-based rates becomes small, and the learner component rate is higher. However, it does this at the expense of higher provider-based rates, such as for health, trades and agriculture. These changes may be more than we need to deliver on the objectives of RoVE.

Table 8: Key parameters for scenario C: Sharper incentives

	Learner success	Funding categories	Strategic component
Funding	10%, ~\$93m	85%, ~\$787m	5%, ~\$46m
Rates	\$1,738 / FTEL for learners with low prior achievement and disabled learners	<ul style="list-style-type: none"> Work-based rates are 90-100% of provider-based rates Provider-based subject ratios decrease; rates are 75-90% of SAC rates Work-based rates are similar to scenario B, with a higher pathway to work rate Extramural funding is aligned to work-based rates. 	Te Pūkenga: \$32m PTE fund: \$14m

39. The effects of this scenario by provider type are set out in the table below. Whilst these effects appear similar to scenario B, there is a much wider range of impacts at the provider level, as discussed in table 9.

Table 9: Impacts of scenario C: sharper incentives

Subsector	2021	Scenario C	Difference	
	\$ million	\$ million	\$ million	%
Te Pūkenga	346.3	333.5	-12.8	-4%
Delivery from transitional ITOs	203.2	304.4	101.1	50%
Wānanga	94.6	98.0	3.5	4%
PTEs	168.3	163.5	-4.8	-3%
Universities	28.9	25.9	-2.9	-10%
Total	841.3	925.4	84.1	10%

40. The subsector impacts are discussed in the table below. Compared to scenario B, provider-based funding decreases in higher-funded subjects, affecting some of the more 'traditional VET' on-campus provision such the trades.

Table 9: Impacts of scenario C within subsectors

Subsector	Range of impacts	Biggest decrease	Commentary
Te Pūkenga	-9% to -17%	-\$6.0m	This scenario affects all areas, with on-campus trades and extramural delivery the most affected.
Delivery from transitional ITOs	+91% to +18%	none	Funding currently directed to transitional ITOs increases. Around 30% of the increase (\$30 million) is due to increases in provider-based delivery such as block courses.
PTEs	+18% to -37%	-\$3.2m	Under this scenario 37 PTEs would lose more than \$100,000, include nine that lose more than \$500,000. In addition to the PTEs most affected in scenario B, it affects PTEs with a focus on arts and design, agriculture and trades.
Wānanga	+5% to +1%	none	All wānanga receive a small increase.
Universities	+4% to -15%	-\$1.3m	Effects are similar to scenario B.

Scenario Recommendations

41. The scenarios demonstrate that there are several reasonable ways forward, all of which support the goals of RoVE and the financial sustainability of provision.
42. We think scenario B offers the most promise as the basis of a new system. It delivers the full set of incentives we need to achieve the outcomes of RoVE, but without shifting rates beyond the sector's capability to adapt and make good use of in the medium term.
43. In particular, this scenario should support providers and employers to collaborate on work-based learning, creating a shift towards apprenticeships and traineeships, with pathways for learners who are currently more likely to stay in campus-based programmes. This, together with the learner component, will be important for breaking down barriers for learners, and for building pathways from school into work.
44. There are many judgements to be made to fine-tune this scenario. Your feedback on this paper will allow us to begin that process with you.

We will provide advice on transitions as we firm up the preferred option

45. As we move to finalise the design of the UFS, we will provide advice on options for the transition from the current system to the UFS. We will need to consider how fast the sector can adapt, both to increases and decreases in funding. We will seek your views on the pace of change, and/or any tailored arrangements for sub-sectors or specific areas of provision.

Next steps

46. We seek your feedback on this paper by 4 October. We will provide follow-up advice as quickly as possible, and then move to providing a draft Cabinet paper as the policy design firms up (hopefully in mid-October).

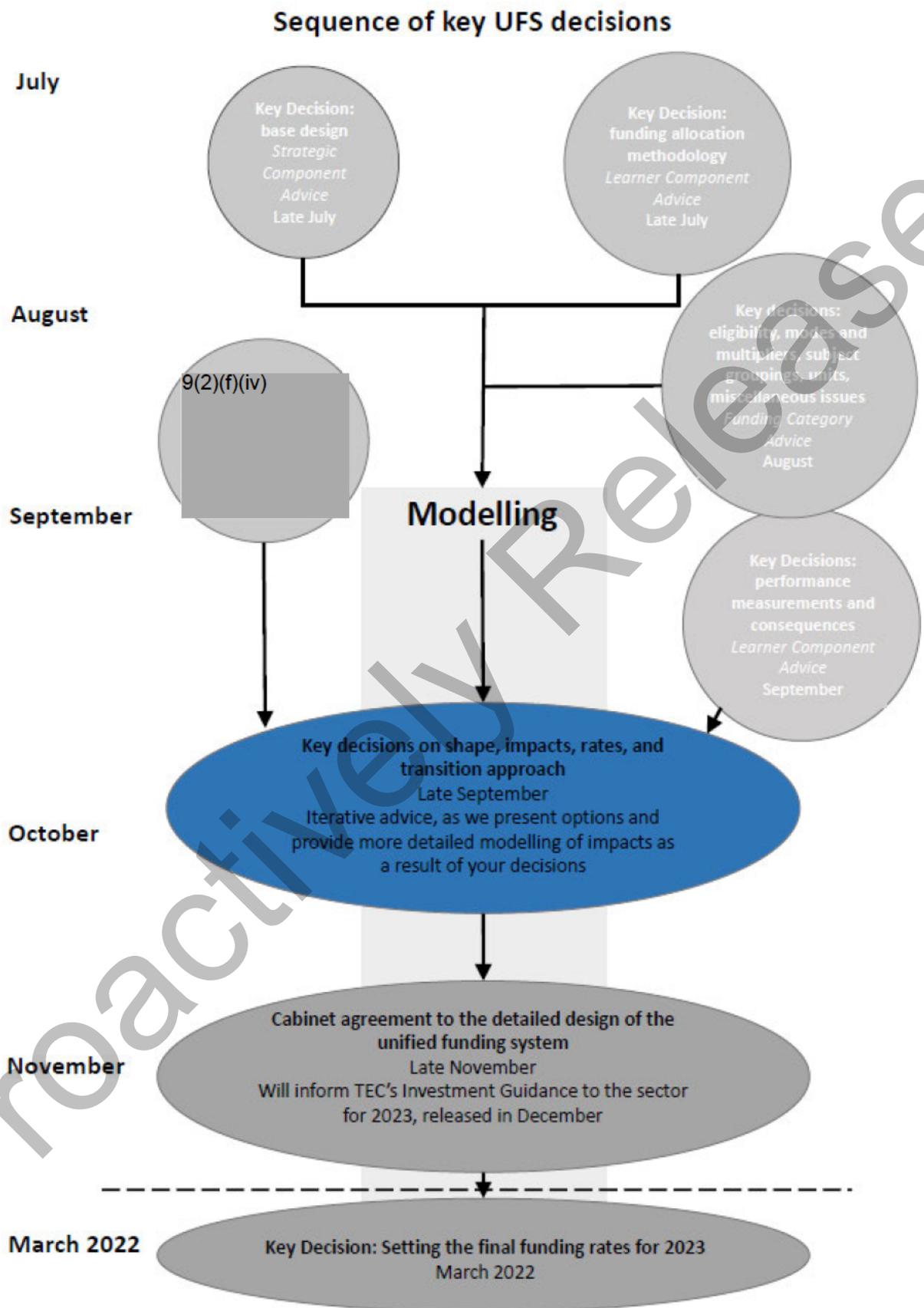
Annexes

Annex 1: Sequence of key UFS decisions

Annex 2: Further information about the funding category component design

Annex 3: Details of scenario parameters

Annex 1: Sequence of key UFS decisions



Annex 2: Further information about the funding category component design

Management of data limitations in the modelling

Modelling is based on projected full-year data for 2021. It assigns modes and subjects based on current behaviours. This means there are some limitations relating to data quality. The model also does not account for behavioural shifts that the incentives may produce. We intend to refine the model to reflect real full-year data before finalising rates. Full year data for 2021 will not be available until early 2022 as the Single Data Return and Industry Training Register are close to confirmed.

However, we believe these risks can be managed through TEC's investment process, supported by advice from WDCs about mix of provision. This will allow the TEC to approve shifts in provision before they occur. This is particularly important to manage the proportion of work-based training occurring in the system. TEC will keep you informed as next year's investment round progresses.

There is a lack of robust cost data in many areas, including mode of delivery, especially for industry training. We made several, intensive, attempts to gather more cost data from transitional ITOs. However, they don't uniformly collect cost data in the way that Institutions are required to do for the 'benchmarking' tool, which limited what we could collect.

However, we think that current costing information is less important for the model than thinking about the new activities we are buying and how this relates to a provider-based rate for the same activities. We are seeking to buy a range of new activities that aren't currently carried out anywhere in the system as the shift from arranging training to providing training occurs. We believe this shift justifies significant new investment.

Descriptors for modes of delivery

The descriptors for modes of delivery were based on feedback in 2021, particularly from transitional ITOs. Having trialled the terms, including in discussion with stakeholders, some simplification is required. The table below summarises the proposed new descriptors.

New descriptor	Previous descriptor	Reason for change
Provider-based	Provider-led	Use of "based" rather than "led" mirrors the shifts for work-based mode.
Provider-based: Extramural	Provider-led: Extramural	As above.
Work-based	Work-integrated for learners who are employed	Work-based more clearly reflects that this mode is about what happens in a workplace. "Work-integrated" is more often understood to mean a work-based programme delivered in partnership between providers and employers, which may include provider-led elements.
Work-based: pathway to work	Work-integrated for learners brokered into employment	WDCs also have a brokerage function, which was creating confusion. "Pathway to work" is more succinct.
Assessment and verification	Employer-led	Transitional ITOs prefer "employer-led" because it mirrors "provider-led" and reflects the contribution that employers make. However, it requires considerable explanation, and is likely

		to raise expectations about the level of funding. “Assessment and verification” is clearer.
--	--	---

Examples of apprenticeship programme rates

Apprenticeship programmes (and some traineeships) are likely to combine provider-based and work-based elements. The diagrams below demonstrate the effect of different combinations. It uses the rates from scenario B, for a 120-credit programme, funded at F3 subject rates.

120 credits		
Provider-Based 80% at \$10,054 \$8,043.20	Work-Based 20% at \$8,032 \$1,606.40	Total funding for programme \$9,649.60

120 credits		
Provider-Based 20% at \$10,054 \$2,010.80	Work-Based 80% at \$8,032 \$6,425.60	Total funding for programme \$8,436.40

120 credits		
Provider-Based 5% at \$10,054 \$502.70	Work-Based 95% at \$8,032 \$7,630.40	Total funding for programme \$8,133.10

120 credits			
Provider-Based 25% at \$10,054 \$2,513.50	Work-Based Pathway to work Capped at 25% at \$10,043 \$2510.75	Work-Based 50% at \$8,032 \$4016	Total funding for programme \$9,040.25

Subject groupings

The table on the following page shows the number of FTE learners by the proposed subject areas, to provide context for the scenarios.

Subject groupings

			2020 EFTS	Apprentice STMs	Trainee STMs	TOTAL
1: Humanities, business and social service vocations	A	Arts and Languages; Social Sciences; Management and Commerce; Health Therapies	16,210	1,207	5,552	41,312
	J	Business, Accountancy, Law; Computer Applications; Hospitality; Logistics	11,700	81	6,562	
2: Trades, creative, IT and health-related vocations	B	Computer Science; Fine Arts; Design; Architecture; Health-related Professions	6,470	0	62	35,889
	I	Teaching	120	-	-	
	P	Building, Construction and related trades; Automotive Industry; Hairdressing; Cookery and Food Processing	10,110	17,320	1,807	
3: Engineering, health, science and primary industry vocations	L	Agriculture and Horticulture (inc. Forestry)	3,060	1,979	3,555	20,387
	V	Science	3,220	-	17	
	C	Engineering, Technology, Health Sciences	2,300	2,349	2,505	
	N	Priority Engineering (L5-6)	810	-	278	
	M	Pilot Training	290	-	24	
4: Specialist low-volume, high-cost vocations	S	Foreign-Going Nautical	120	-	15	155
	H	Agriculture and Horticulture (L7)	20	-	-	
5: Te Reo and tikanga Māori	(nil)	Te Reo and tikanga Māori	8,690		18	8,708
TOTAL EFTS/STMs			63,120	22,936	20,395	106,451

Annex 3: Details of scenario parameters

Reference information: 2021 investments

Equity funding: 0.3%, ~\$2.8 m

Joint Ventures Amalgamation Fund: 0.4%, ~ up to 3.5 m

	Funding rates
Māori and Pacific learners level 1-6	\$135
Māori and Pacific learners level 7	\$325
Disabled learners (rate for all EFTS)	\$29.06

Funding categories –99%, ~\$835 m

Subject rate			Mode	
	Ratio	Provider (including Extramural) Rates	Apprentice Rate	Trainee Rate
Arts, Social Sciences, Business, Accountancy (A1, J1)	1.00	\$6,511	\$5,379	\$3,310
Teaching (I1)	1.52	\$9,888		
Computer Science, Fine Arts, Design, Health-related professions, music and performing arts (B1)	1.53	\$9,960		
Trades (P1)	1.64	\$10,758		
Osteopathy, Acupuncture, Nursing, Agriculture and Horticulture (L1)	1.71	\$11,191		
Science	1.79	\$11,644		
Engineering, Technology, Health Sciences (C1)	1.83	\$11,974		
Priority Engineering (N1)	2.05	\$13,285		
Dental Therapy, Pilot Training, Optometry (M1)	2.20	\$14,252		
Foreign-Going Nautical (S1)	3.05	\$19,813		
Specialist Large Animal (H2)	3.31	\$21,592		

Scenario A: Modest change

Learner success component: 8%, ~\$74m

	Funding rates
Māori and Pacific learners to level 6	\$137
Māori and Pacific learners level 7	\$329
Learners with low prior achievement	\$1,367
Disabled learners	\$1,367

Strategic component: 4%, ~\$37m

	Share	\$ million
Te Pūkenga	70%	26
PTE projects	30%	11

Limited shifts within funding categories, focussed on a higher work-based rate, with a top-up for 'pathway to work'.

Funding category component – 88%, ~\$814m

Subject rate			Mode of delivery				
	Ratio or Rate	Base rates	Provider based	Provider-based: Extramural	Work-based	Work-based: Pathway to work	Assessment & verification
			100% of base rate	100% of base rate	\$5,000	\$5,000 + 20% of base rate	\$1,500
Humanities, Business and Social Service Vocations (F1)	1.0	\$6,093	\$6,093	\$6,093	\$5,000	\$6,219	\$1,500
Trades, creative, IT and health-related vocations (F2)	1.6	\$9,748	\$9,748	\$9,748	\$5,000	\$6,950	\$1,500
Engineering, Health, Science and Primary Industry Vocations (F3)	1.8	\$10,967	\$10,967	\$10,967	\$5,000	\$7,193	\$1,500
Specialist Low-volume, high-cost vocations (F4)	3.1	\$18,877	\$18,877	\$18,877	n/a	n/a	n/a
Te reo and Tikanga Māori (F6)	\$6,511	\$6,511	\$6,511	n/a	n/a	n/a	n/a

Scenario B: Moderate incentives

Learner success component: 8%, ~\$74m

	Funding rates
Māori and Pacific learners to level 6	\$137
Māori and Pacific learners level 7	\$329
Learners with low prior achievement	\$1,367
Disabled learners	\$1,367

Strategic component: 4%, ~\$37m

	Share	\$ million
Te Pūkenga	70%	26
PTE projects	30%	11

In this scenario, the work-based rates are partially set according to subject ratios, improving the incentives to support learners in workplace settings. Extramural rates are the same as work-based, in recognition that the online delivery of learning materials in work has very similar cost structures.

But this all requires lower provider-based rates.

Funding category component – 88%, ~\$814m

Subject rate			Mode of delivery				
	Ratio or Rate	Base rates	Provider based	Provider-based: Extramural	Work-based	Work-based: Pathway to work	Assessment & verification
			100% of base rate	\$2,000 + 60% of base rate	\$2,000 + 60% of base rate	\$2,000 + 80% of base rate	\$1,500
Humanities, Business and Social Service Vocations (F1)	1.0	\$5,586	\$5,586	\$5,351	\$5,351	\$6,468	\$1,500
Trades, creative, IT and health-related vocations (F2)	1.6	\$8,937	\$8,937	\$7,362	\$7,362	\$9,149	\$1,500
Engineering, Health, Science and Primary Industry Vocations (F3)	1.8	\$10,054	\$10,054	\$8,032	\$8,032	\$10,043	\$1,500
Specialist Low-volume, high-cost vocations (F4)	3.0	\$16,757	\$16,757	\$12,054	n/a	n/a	n/a
Te reo and Tikanga Māori (F6)	\$6,511	\$6,511	\$6,511	n/a	n/a	n/a	n/a

Scenario C: Sharp incentives

Learner success component: 10%, ~\$93m

	Funding rates
Māori and Pacific learners to level 6	\$137
Māori and Pacific learners level 7	\$329
Learners with low prior achievement	\$1,738
Disabled learners	\$1,738

Strategic component: 5%, ~46m

	Share	\$ million
Te Pūkenga	70%	32.4
PTE projects	30%	13.9

This scenario reduces the ratios for subject rates (e.g. lowering F2 and F3), in order to bring work- and provider-based rates closer together and to increase the spend on the learner success and strategic components.

Funding category component – 85%, ~\$787m

Subject rate			Mode of delivery				
	Ratio or Rate	Base rates	Provider based 100% of base rate	Provider-based: Extramural \$1,700 + 70% of base rate	Work-based \$1,700 + 70% of base rate	Work-based: Pathway to work 120% of base rate	Assessment & verification \$1,500
Humanities, Business and Social Service Vocations (F1)	1.0	\$5,964	\$5,964	\$5,875	\$5,875	\$7,157	\$1,500
Trades, creative, IT and health-related vocations (F2)	1.3	\$7,753	\$7,753	\$7,127	\$7,127	\$9,304	\$1,500
Engineering, Health, Science and Primary Industry Vocations (F3)	1.5	\$8,946	\$8,946	\$7,962	\$7,962	\$10,735	\$1,500
Specialist Low-volume, high-cost vocations (F4)	2.7	\$16,103	\$16,103	\$12,972	n/a	n/a	n/a
Te reo and Tikanga Māori (F6)	\$6,511	\$6,511	\$6,511	n/a	n/a	n/a	n/a