



Tertiary Education Commission  
Te Amorangi Mātauranga Matua

# Investment Guidance Supplement

## Key Funding Decisions

May 2007



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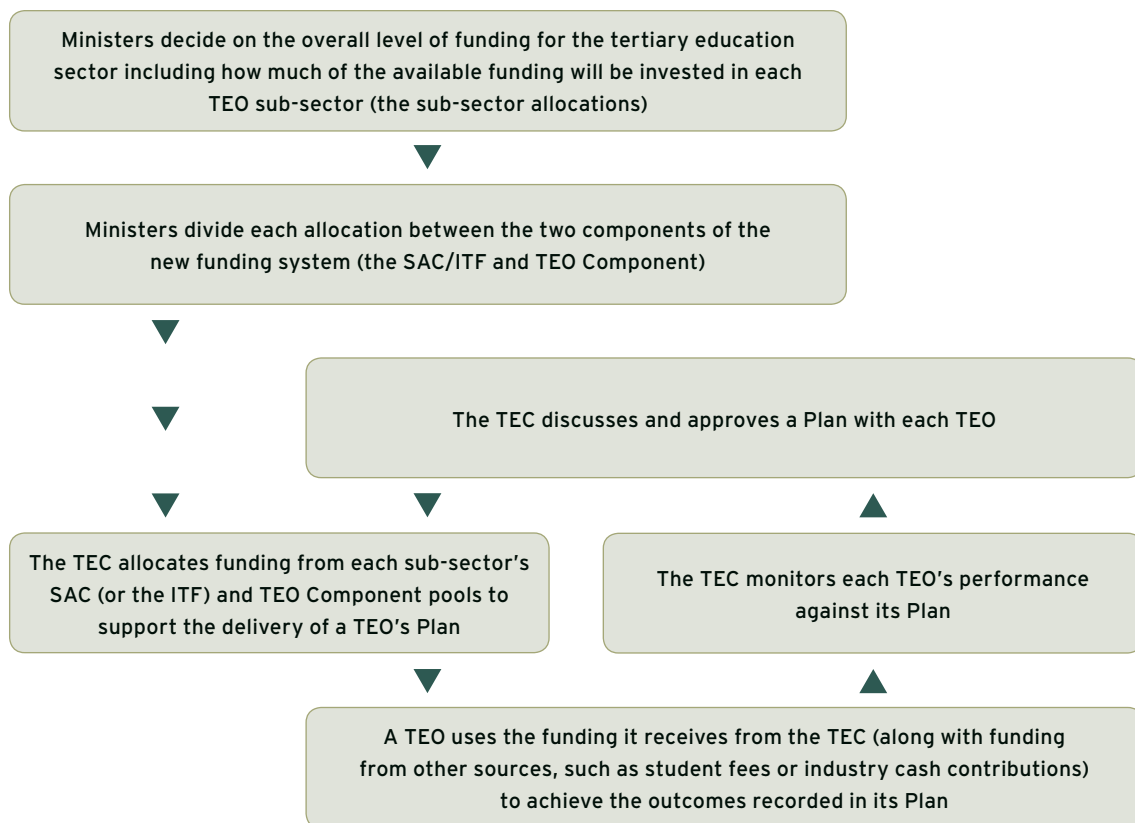
# Introduction

- 1 This supplement to the Tertiary Education Commission's (TEC) Investment Guidance (the Guidance) explains the new funding system that will be in place from 1 January 2008. It expands on the material in the box on pages 3 and 4 of the Guidance, and outlines some decisions that had not been finalised at the time the Guidance was written.
- 2 This supplement discusses the two largest pools of tertiary education funding – the Student Achievement Component (SAC) and the Tertiary Education Organisation Component (TEO Component). As noted in Annex 3 of the Investment Guidance, some existing funds will be rationalised into the SAC and TEO Component while others will continue to operate alongside them to support specific goals or activities. These other funds will operate according to their existing criteria and processes for the time being.
- 3 The Guidance outlines the new system of investing in the tertiary education sector. Under the new system, the amount of funding a Tertiary Education Organisation (TEO) receives will be determined through its approved Investment Plan (Plan). For most TEOs this differs from the current EFTS system where funding has been largely determined by the volume of student enrolments and can be subject to significant changes from year to year.<sup>1</sup>
- 4 The key funding changes involved in the new system are that:
  - a funding will no longer be driven largely by the volume of student enrolments – particularly for public providers (Tertiary Education Institutions (TEIs)) – but will be based on the commitments identified in approved Plans
  - b over time, funding levels should be less volatile giving TEOs greater certainty about the amount of funding they will receive in future years
  - c funding will no longer be paid as a single bulk grant, rather it will be delivered through two pools:
    - i the **Student Achievement Component (SAC)**, which provides a government contribution to the costs of teaching and learning and other costs driven mainly by student numbers (the **Industry Training Fund (ITF)** will continue to operate in place of the SAC for Industry Training Organisations (ITOs))
    - ii the **Tertiary Education Organisation Component (TEO Component)**, which provides a government contribution to support each TEO to focus on its specific and distinctive roles in the network of provision
  - d many of the small individual funds that currently exist will be rationalised into either the SAC or TEO Component, reducing transaction costs for TEOs and the TEC.

<sup>1</sup> The model for funding Industry Training Organisations is already quite different from the EFTS system, and similar in some ways to the new Investing in a Plan system.

# The structure of Investing in a Plan funding

- 5 In contrast to the current funding system, the Investing in a Plan system will operate within a controlled funding environment. The final section of this supplement (Establishing Investing in a Plan funding) discusses how the initial funding levels for each part of the system will be resourced.
- 6 The following diagram shows the interaction of funding decisions at different levels of the Investing in a Plan system. The remainder of this section explains the roles of ministers and the TEC.



## Overall funding and sub-sector allocations

- 7** Ministers establish an overall level of funding for the tertiary sector. They then decide how much of the available funding will be invested in each sub-sector – universities, wānanga, Institutes of Technology and Polytechnics (ITPs), ITOs, Private Training Establishments (PTEs), and Other Tertiary Education Providers (OTEPs). These are called the “sub-sector allocations”.

## Sub-sector allocations divided into the SAC and TEO Component

- 8** Ministers divide each sub-sector allocation between the two components of the system – the SAC and the TEO Component. Initially:
- a for TEI sub-sectors (universities, ITPs and wānanga), the SAC will constitute 70 percent of each sub-sector’s allocation, and the TEO Component 30 percent
  - b PTEs and OTEPs that receive funding through Investing in a Plan will receive almost all their sub-sector allocation through the SAC with only a minimal TEO Component available to support specific programmes or initiatives of particular importance (as noted on page 4 of the Investment Guidance)<sup>2</sup>
  - c for ITOs, the current Industry Training Fund (ITF) will remain as a distinct fund – this sub-sector will not have a SAC. In addition, however, a small amount of funding will be available (equal in value to approximately three percent of the current ITF) as a TEO Component.
- 9** The 70:30 SAC to TEO Component ratio for TEIs applies to the total allocation for each sub-sector only. The actual division of funding for an individual TEI will depend on the Plan and the outcomes of the TEI’s engagement with the TEC and is likely to differ from this ratio. For example, one institution’s funding might consist of 75 percent SAC-derived funding and 25 percent TEO Component-derived funding, while another’s might consist of 68 percent SAC-derived funding and 32 percent TEO Component-derived funding.
- 10** The 70:30 ratio is only intended as a starting point for the relative size of each component. This will almost certainly change over time as ministers make specific decisions about allocating funding to different areas to achieve specific outcomes and/or to support particular initiatives.
- 11** The decisions made by ministers will be based on assumptions and forecasts of student demand, demographic change, the capability needs of TEOs, and funding required to achieve distinctive contributions and the priorities in the *Tertiary Education Strategy 2007 – 2012 incorporating Statement of Tertiary Education Priorities 2008 – 2010*. To provide the flexibility necessary to respond to unanticipated changes in student and stakeholder demand, the TEC will have the (limited) ability to move funding between sub-sectors. The TEC will be required to allocate 98 percent of a sub-sector’s “target” allocation as a minimum, but may allocate up to a maximum of 104 percent.

<sup>2</sup> Note that PTEs and OTEPs receive a variety of different types of funding. In some cases they receive only minimal or no funding through the current Student Component funding system, and similarly, not all of these organisations will receive SAC funding.

- 12** The TEC will not, however, be able to exceed the overall funding levels for the tertiary sector set by ministers. Increasing the allocation for one sub-sector will therefore have to be balanced by decreasing the allocation in at least one other.

### **Investing in a Plan**

- 13** The TEC allocates funding (managed as a rolling triennium<sup>3</sup>) to each TEO from the appropriate sub-sector's SAC and/or TEO Component to support the commitments outlined in the organisation's Investment Plan. The delivery and outcome commitments recorded in each Plan provide a basis for the TEC's monitoring of that TEO, which will in turn affect future Plan discussions.

### **Initial TEO allocations**

- 14** At the beginning of each Plan cycle, the TEC will develop an initial allocation for each TEO that will include (as appropriate):
- a SAC funding (ITF for ITOs)
  - b TEO Component funding
  - c any existing commitments from funds that are to be rationalised into the TEO Component (see the final section of this supplement, Establishing Investing in a Plan funding).
- 15** The TEC will determine each initial allocation on the basis of current information about the TEO concerned. This will be derived from previous investment discussions, data returns, forecasting, and information gathered from stakeholders.
- 16** This initial TEO allocation will provide a dollar figure for each of the years to be included in their Plan and will reflect expected changes to provision over this time. These changes could be due to a variety of factors, such as demographic change or government priorities, and will be reflected in government decisions about overall expenditure on tertiary education and sub-sector allocations.
- 17** The initial allocation serves as a starting point for a TEO's Plan – and discussions with the TEC – to help with working towards an approved level of government investment in the Plan.

<sup>3</sup> This means that a TEO will have indicative funding levels established for each of the next three years (or the term of the Investment Plan if shorter), based on the content of the Investment Plan. The TEC will, however, confirm investment levels each year, allowing the precise level of investment to change where necessary.

# The Student Achievement Component and Industry Training Fund

- 18** The Student Achievement Component (SAC) will provide funding to reflect the volume and mix of provision approved within a TEO's Plan. It will apply only to those TEOs that are providers of education – ITOs will continue to receive funding through the Industry Training Fund. Being closely tied to student numbers, the SAC will ensure that funding reflects not only the amount of education and training provided, but also the types of courses or programmes offered.
- 19** The amount of SAC funding a TEO receives depends on two elements – the types of programmes or courses it offers (the “programme element”), and the forecast number of enrolments in those programmes or courses (the “volume element”).<sup>4</sup> The programme element of the SAC will be based on the current Student Component funding categories.
- 20** A TEO's SAC funding will equal the sum of the number of equivalent full-time student (EFTS) places in each funding category multiplied by a new funding rate for that category.<sup>5</sup>

## The Industry Training Fund

- 21** The Industry Training Fund (ITF) will continue to be distributed to ITOs based on Standard Training Measures (STMs), and will operate as a notional counterpart to the SAC for ITOs. All ITOs will engage with the TEC to develop a Plan that will include this funding.
- 22** The TEC is currently engaging with the Industry Training Federation to discuss any necessary changes to align the allocation methodology for the ITF with the Investing in a Plan system. ITOs will be advised of any such changes as soon as is practical.

## Over- and under-delivery of provision<sup>6</sup>

- 23** As it is difficult to precisely predict future enrolments, the actual number of enrolments at a TEO will probably differ slightly from those used to calculate its SAC funding. As noted in the Investment Guidance (page 33), there will therefore be a three percent tolerance band for under-delivery against the total volume and mix of provision approved in an organisation's Plan.
- 24** Cabinet has also decided that there will also be a three percent tolerance band for over-delivery. Allowing significant over-delivery could have serious impacts on the quality of the learning environment through, for example, possible overcrowding and the potential financial impacts involved in carrying large numbers of unfunded students. The following diagram illustrates how these over- and under-delivery tolerance bands will work.

<sup>4</sup> Enrolments will continue to be measured in EFTS, as calculated through a combination of credit values, hours and weeks of learning, and actual enrolments. TEOs will be required to provide a breakdown of the planned number of enrolments in each funding category over the life of their Plan as evidence to support the approved amount of SAC funding.

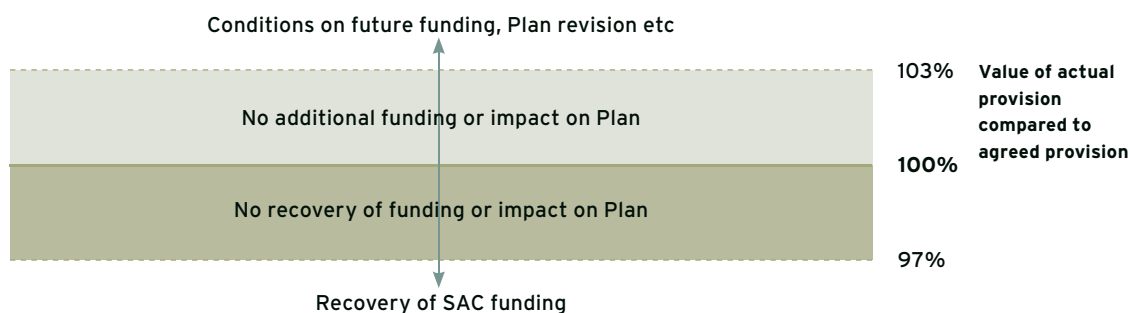
<sup>5</sup> This can be represented by the formula:

$$\text{SAC} = \sum_{x=A}^U \text{EFTS}_x * R_x$$

Where  $R_x$  represents the funding rate in funding category  $x$  (the programme element),  $\text{EFTS}_x$  represents the number of EFTS places in that funding category (the volume element), and SAC the total Student Achievement Component funding received by an organisation.

<sup>6</sup> This section does not apply to ITOs, who “will continue to be funded per STM up to the limit specified in their Plans as per existing requirements” (Investment Guidance, page 33) and will not be penalised for over-delivery. These guidelines will not preclude TEOs from delivering other education and related services on a full-fee paying basis.

### Over- and under-delivery tolerance bands



- 25** This tolerance band means that the actual value of provision (measured in dollar terms) can vary from that in a Plan provided that it doesn't differ by more than three percent. For example, a hypothetical TEO that received \$10 million in SAC funding could enrol students so that the actual combined value of these enrolments (in SAC funding terms) was between \$9.7 and \$10.3 million. This applies at the level of a TEO's overall provision, not at the level of individual courses or programmes.
- 26** As long as an organisation stays within this band, they will receive 100 percent of their SAC funding. As noted in the Investment Guidance (page 33), a TEO will not receive more SAC funding than the TEC has approved (based on the content of their Plan). This means that the cost of over-delivering provision will be borne by the TEO without additional public funding.
- 27** Even though this tolerance band exists, the TEC will still be monitoring over- and under-delivery. If a TEO's actual level of provision is consistently at the far end of the band (for example, if an organisation over-delivers by 103 percent two years in a row), then the TEC may wish to discuss this with the organisation.
- 28** Where the value of a TEO's enrolments is below the lower tolerance band, the TEC is able to recover the difference in funding between the bottom of the tolerance band (ie. 97 percent) and the actual percentage of provision achieved. For example, if a TEO enrolls only 96 percent of the value of EFTS for which it received funding, the TEC can recover one percent (97 percent minus 96 percent) of that TEO's SAC funding.
- 29** Where the value of a TEO's enrolments is above the upper tolerance band, the TEC has a range of options<sup>7</sup>, including:
- a placing conditions on future funding (such as introducing stronger monitoring systems for newly funded projects)
  - b revising approved enrolment numbers in the Plan for future years, or
  - c taking no action if there is a good reason for exceeding the band.
- 30** Before it decides to take any action relating to either over- or under-delivery, the TEC will raise and discuss the issue with the TEO concerned. As with other notable variations from the Plan, however, TEOs receiving SAC funding have a responsibility to raise significant shifts from the provision recorded in their Plan with their Investment Managers.

<sup>7</sup> Further operational policy work and consultation will be undertaken to determine how these options will affect PTEs.

# The Tertiary Education Organisation Component

- 31** The TEO Component will provide support linked to a TEO's position in New Zealand's network of tertiary education provision. It has three key functions:
- a supporting the costs associated with a TEO's role and distinctive contribution to the network of provision
  - b promoting and supporting innovation in teaching and learning
  - c contributing to the costs involved in TEOs making major changes to their provision.
- 32** The TEO Component will be composed of six elements that together, will provide support for all the areas that are critical to ensuring capability within TEOs, and maintaining a responsive and effective network of provision. The six elements will be:
- (i) Public Provider Base Grant
  - (ii) ITO Sector Leadership Component
  - (iii) PBRF
  - (iv) Priorities for Focus
  - (v) Supporting Change
  - (vi) Encouraging and Supporting Innovation.

## TEO Component composition by sub-sector

- 33** Each sub-sector's TEO Component will include a different range of elements<sup>8</sup>, as below:
- a **TEIs (universities, ITPs, and wānanga)** could have access to all elements other than the ITO Sector Leadership Component
  - b **ITOs** will access the ITO Sector Leadership Component
  - c **PTEs and OTEPs** will continue to have access to the PBRF (if they choose to participate). In addition, a small amount of TEO Component may be available to some PTEs/OTEPs to support the overall network of provision. This would be considered to be part of the Priorities for Focus element.
- 34** The availability of the Priorities for Focus element for each sub-sector will depend on decisions made by Cabinet.
- 35** All TEOs will be able to apply for funding from the single Encouraging and Supporting Innovation element.
- 36** Each of the elements of the TEO Component is discussed individually in the following paragraphs.

## Public Provider Base Grant

- 37** The Public Provider Base Grant will support ITPs, wānanga, and universities to focus on core roles and distinctive contributions. This support provides for effective governance and management, working with stakeholders, and having a culture of continuous performance improvement.

<sup>8</sup> Other than the Public Provider Base Grant and the PBRF, ministers can choose not to allocate funding to a particular element for a particular sub-sector. For example, in one Investment Plan cycle only ITPs and wānanga might have a Supporting Change element.

- 38** This element will also provide funding to support the distinctive contributions of each sub-sector. For example:
- a **for universities:** providing a research-rich teaching environment, meeting international standards of research and teaching, and building linkages and partnerships with business
  - b **for wānanga:** re-engaging learners into education and providing learning opportunities based on mātauranga Māori
  - c **for ITPs:** acting as a regional facilitator, specialising in applied, technical, and trades education and training, and building linkages and partnerships with business.
- 39** This element will be allocated through a formula. For 2008, a simple formula will be used to help TEIs transition to the new system and to allow for the collection of more robust data to support the allocation formula in the next Investment Plan cycle. Each institution will receive the amount of funding that has been notionally transferred to their sub-sector's TEO Component from the Student Component funding they would have received for their 2008 enrolments. In the hypothetical example in Table 1 (page 15), a university would receive \$275 per undergraduate Arts EFTS through their Public Provider Base Grant, while an ITP would receive \$1321 per undergraduate Arts EFTS through this element in 2008.
- 40** To ensure that currently agreed shifts in provision are supported, where the TEC and an institution have already agreed that enrolments will reduce over time the TEI's entitlement to such funding will be affected.
- 41** The full formula for the Public Provider Base Grant element is currently being developed in consultation with the sector, and will reflect four variables:
- a a base amount for operation, reflecting core functions and roles (eg. effective governance and management, engagement with stakeholders)
  - b the nature of an institution's provision, reflecting the differences in costs arising from an institution's focus on a particular form of provision as part of its distinctive contribution (such as ITPs' roles in providing applied, technical, and trades education and training)
  - c the distinctive needs of the students served by an institution
  - d the nature of an institution's catchment and/or region served.
- 42** In doing so, the Public Provider Base Grant will better reflect the costs of offering quality, relevant provision.
- 43** A small number of institutions might have distinctive features that cannot be accounted for in the basic formula. In these cases, the TEC may allocate a small amount of additional funding through the Public Provider Base Grant to reflect these features. Over time, however, the allocation formula should be refined to include such individual cases.
- 44** As this element provides support for the basic functions and roles of TEIs, the key performance indicators (KPIs) discussed in the Investment Guidance will effectively be used to monitor an institution's performance against many of the outcomes this element supports.

## ITO Sector Leadership Component

- 45** Cabinet has agreed that ITOs will have an element that is similar to the Public Provider Base Grant – the ITO Sector Leadership Component.<sup>9</sup> This will be allocated to support certain proposals in ITO Plans (rather than by a formula) that increase the performance of the wider tertiary education system and cover ITO strategic leadership and qualification development activities. Cabinet has agreed that the criteria used as the basis for allocating the ITO Sector Leadership Component will include leadership and qualification development roles.

### Leadership role

- 46** The ITO's planned activity in relation to its leadership role will benefit the wider tertiary system through:
- a the provision of high quality information on current and future industry skill and training needs that is accessible to providers and government agencies
  - b lowering the associated costs of sector-wide engagement.

### Qualification development role

- 47** The ITO is developing national qualifications where:
- a the ITO does not intend to manage training arrangements itself
  - b there is evidence of industry support for the development of the qualification(s)
  - c there is evidence of collaborative arrangements with providers willing to deliver the qualifications.
- 48** In addition, the proposals invested in through the ITO Sector Leadership Component should be likely to generate the greatest value in terms of the wider tertiary system.
- 49** The TEC is currently developing a methodology for allocating the ITO Sector Leadership Component that aligns with these criteria and the Investing in a Plan system. Further details of this methodology will be provided to ITOs when they are confirmed (to inform the development of Plans).

## Performance-Based Research Fund

- 50** The Performance-Based Research Fund (PBRF) will be part of the TEO Component. Unlike other funds being integrated into the system, however, there will be no changes to the processes around the allocation of this fund.
- 51** TEOs will not have to explicitly discuss the use of their PBRF funding as part of their Plans and there will be no specific monitoring of how this funding is used. Inclusion of this element in the Investing in a Plan funding system does mean, however, that organisations (particularly universities) will be encouraged to treat funding from the PBRF as a core element of the public support they receive, and take account of how this funding will be used when engaging with the TEC over the development of the Investment Plan.

<sup>9</sup> Cabinet has set the initial level of the ITO Sector Leadership Component at \$4.5 million per year (GST exclusive).

## Priorities for Focus

- 52** The Priorities for Focus element will provide a mechanism for the government to provide additional funding to support specific priorities. These are likely to include those in the *Tertiary Education Strategy 2007 – 2012 incorporating Statement of Tertiary Education Priorities 2008 – 2010*, but might also include more specific priorities for particular sub-sectors, communities, or stakeholder groups.
- 53** Priorities for Focus will provide additional funding for a specific activity or type of provision where ministers consider that further support – over and above that tied to other elements – is necessary to achieve desired outcomes in that area. This element does not mean that the types of priorities supported through this element will not be also relevant to, or supported by, any other part of the funding system.
- 54** This element may not always be active (if priorities can be effectively supported through other parts of the funding system), or may only be active for some sub-sectors. This will be determined by Cabinet when it makes its funding decisions as part of the annual Budget process.
- 55** Funding from this element will be tied to the achievement of specific outcomes recorded in a TEO's Plan. The basis for allocating this element will depend on the priorities the government intends it to address, and will be determined by Cabinet.

## Supporting Change

- 56** The Supporting Change element provides funding to support TEIs to make changes to their portfolio of provision, in a similar way to the existing Quality Reinvestment Fund. Examples of activities that could lead to investment through this element include exiting activities that do not align with identified priorities or skills needs, moving into new areas where there is an identified skill or provision gap, or developing the necessary staff and organisational capabilities required to re-align provision.
- 57** This element only provides support for the change itself. Once an organisation has made this shift, it will be expected to fund its new portfolio from usual funding sources (such as the SAC and the Public Provider Base Grant).
- 58** The criteria used to allocate funding through this element will be the following:
- a **Increasing alignment:** the changes the institution is seeking to make will increase the alignment of its portfolio of provision with national priorities and national and regional skill, learning, and knowledge exchange needs.
  - b **Reinforcing an institution's core role and specific contribution:** the changes invested in will reinforce and be consistent with an institution's core role and strengthen its specific contribution to the national network of provision.
  - c **Network (portfolio) view:** possible areas for investment will be considered and prioritised within the context of which investments will generate the greatest value in terms of the overall network of provision.

- d **Minimising deadweight investment:** as far as practical, changes will not be funded where they could reasonably be expected to be funded by the institution concerned as part of their usual business operations.
- e **Sufficiency:** investments will only be made where, together with funding supplied by an institution itself, the funding provided is sufficient to cover the total cost of undertaking the proposed change.

### Encouraging and Supporting Innovation

- 59 The Encouraging and Supporting Innovation element is designed to promote innovation – particularly where it will benefit learners, and stakeholders outside the tertiary education sector. This element is intended to be wide in scope and able to support a large range of potential initiatives including skill development, innovative delivery systems, infrastructure, research linkages, and relationships to enhance technology and knowledge transfer and exchange.
- 60 This element differs from other elements of the funding model (other than the PBRF) in that it will allow for a single pool of funding across all sub-sectors which will be available on a competitive basis, rather than each sub-sector having their own allocation for this element.
- 61 A key focus of this element is supporting collaborative initiatives between TEOs and other stakeholders. For this reason, funding eligibility is not only open to individual TEOs (including PTEs), but also to TEO representative bodies, consortia of TEOs, and consortia comprising both TEOs and stakeholders from outside the tertiary education sector.
- 62 As this funding is intended to generate benefits for both TEOs and other stakeholders, specific priorities will be developed in consultation with the tertiary education sector and key stakeholders prior to each funding cycle. In addition, the following criteria will be used to assess proposals:
  - a **Strengthening outcomes for tertiary stakeholders:** the project will strengthen the applicant(s) contribution to improving outcomes for the tertiary education sector and its stakeholders in terms of excellence, relevance, access, and/or capability.
  - b **Consistency with sub-sector role and distinctive contribution:** the project is consistent with the relevant applicant(s) role(s) and distinctive contribution(s).
  - c **Collaborative projects:** preference will be given to collaborative projects that will both raise outcomes in the tertiary education sector and provide direct or indirect benefit to stakeholders outside the tertiary education sector.
  - d **New:** projects must be new activities – they cannot be activities for which TEOs already receive public funding, or part of the everyday activities for individual TEOs.
  - e **Organisational capability:** the applicant(s) must have the ability to conduct the project successfully.
  - f **Self-sustaining:** projects should create sufficient benefits to ensure their ongoing continuation without further specific TEO Component funding.
  - g **Portfolio considerations:** the mix of projects funded through this element will collectively yield the greatest possible benefit to the overall network of tertiary provision and to New Zealand’s national and/or regional economies.

## Establishing Investing in a Plan funding

- 63** Cabinet has now confirmed its earlier “in-principle” decisions about how the funding system for Investing in a Plan will initially be resourced. In addition to some projected savings, this will involve:
- a the funding that is currently forecast to be allocated to the Student Component
  - b the Performance-Based Research Fund (the one source that will be incorporated without being disestablished)
  - c the funding that is currently allocated to six additional funds:
    - (i) Base Grant
    - (ii) Tripartite Funding Adjustment Fund
    - (iii) ITP Business Links Fund
    - (iv) Quality Reinvestment Fund
    - (v) Innovation and Development Fund
    - (vi) Growth and Innovation Pilots Fund.
- 64** Each of these three funding streams will be treated in a different way.
- 65** **Student Component:** This funding stream will be disestablished and the funding used to construct both the Student Achievement Component and the TEO Component. Within each sub-sector, an equal proportion will be “top-sliced” from the current Student Component funding category rates, and the funding that this frees up (ie. this “top-slice” multiplied by forecast enrolment volumes) will be transferred to be part of that sub-sector’s TEO Component. As discussed in the *Differentiation* box (see page 15) however, the proportion of the funding that will be allocated to the SAC and the proportion allocated to the TEO Component will differ from sub-sector to sub-sector.
- 66** **Performance-Based Research Fund:** The PBRF will be moved into the new system with no changes. There will be no change to how the total amount in this fund is calculated, how it is allocated, or the overall purpose of the PBRF.
- 67** **Additional Funds:** All these funds will be disestablished and used to build each sub-sector’s TEO Component. Although the funds themselves will no longer exist, each one maps to a certain element of the TEO Component that provides funding for the same or similar purposes. This means that the types of initiatives and activities that were previously funded through these sources can be supported by funding from appropriate elements of the TEO Component.
- The **Base Grant** maps to the Public Provider Base Grant element for universities, wānanga, and ITPs.
  - The **Tripartite Funding Adjustment** maps to the Public Provider Base Grant element for universities (and possibly to additional funding administered through the Priorities for Focus element).

- The **ITP Business Links Fund** maps to the Public Provider Base Grant element for ITPs. The Business Links Fund is intended to develop links between ITPs and industry stakeholders and this is considered to be a core aspect of the distinctive contribution made by ITPs.
- The **Quality Reinvestment Fund** maps primarily to the Supporting Change element available for TEIs. Importantly, however, this element focuses only on supporting the process of making changes to patterns of provision.
- The **Innovation and Development Fund** and the **Growth and Innovation Pilots** both map primarily to the Encouraging and Supporting Innovation element. A key goal of the Growth and Innovation Pilots, however, has been the improvement of links and knowledge exchange between organisations and stakeholders – specifically in the business sector. All public providers are expected to pursue this to some extent as part of their core activities, and this fund therefore also partly maps to the Public Provider Base Grant element.

**68** This does not mean, however, that the funding currently allocated to each of these funds will be directly transferred into the equivalent parts of the TEO Component. Ministers will decide how much to put into each element based on strategic and sub-sector-specific priorities and needs. The amount of funding for the Supporting Change element of the ITP sub-sector's TEO Component, for example, may be higher or lower than the amount currently allocated to ITPs through the Quality Reinvestment Fund.

**69** Over time, additional funds will be incorporated into the funding system for Investing in a Plan, streamlining both the allocation processes and reporting requirements for these funds. Until they have been transferred into the system, funds other than those listed above will continue to operate in the same way as they do currently. Annex 3 of the Investment Guidance discusses the current operation of these funds.

**70** As part of the incorporation of additional funds, ministers will consider the intended outcomes of existing funds, and how these can best be achieved and safeguarded in the Investing in a Plan system.

## Differentiation

The initial rates for each SAC funding category will be based on anticipated 2008 rates for the current Student Component funding categories. An equal proportion will then be taken off each rate and used to construct part of each sub-sector's TEO Component. Importantly, while this proportion will be the same for each funding category, it will differ between sub-sectors.

This means that different sub-sectors will have different funding category rates.<sup>10</sup> Critically, however, the money taken off the rates for each sub-sector will be reinvested in that same sub-sector through their TEO Component. Therefore, no group of TEOs will lose overall (SAC plus TEO Component) funding in comparison to another sub-sector as a result of this differentiation. Table 1 provides a hypothetical illustration of this for 100 full-time undergraduate Arts course enrolments in the university and ITP sub-sectors.

Under transitional arrangements for the Public Provider Base Grant, each TEI will directly receive the funding that has notionally been transferred out of their SAC and into their sub-sector's TEO Component in 2008. This will change once the formula for this element of the TEO Component has been fully developed.

Differentiation has several functions, but its most important aim is to ensure that the distribution of funding between the different components and elements of the new system reflects the differing needs of each sub-sector. Investing in a Plan is likely to require some sub-sectors (notably ITPs and wānanga) to make more significant changes than others. Given this, it is important that these institutions have a larger part of their funding tied to these changes and developments than simply to the number of students they enrol.

**Table 1: Pre-and Post-differentiation example**

(based on 100 full-time undergraduate Arts course enrolments<sup>11</sup>)

	University	ITP
Pre-differentiation Student Component funding – per enrolment	\$550,600 \$5506	\$550,600 \$5506
Post-differentiation SAC-derived funding – per enrolment	\$523,070 \$5231	\$418,456 \$4185
Post-differentiation transfer to TEO Component	\$27,530	\$132,144
Total post-differentiation funding (SAC + TEO Component) – per enrolment	\$550,600 \$5506	\$550,600 \$5506

<sup>10</sup> The ITO, PTE and OTEP sub-sectors will not have any funding transferred from per-STM or per-EFTS rates respectively.

The TEO Component for ITOs will be small enough to be constructed without any transfers, while PTEs and OTEPs will have only a minimal TEO Component. Funding category rates for PTEs are already lower than those for public providers.

<sup>11</sup> The figures in this table are hypothetical and account only for the Student Component, the SAC, and that portion of TEO Component funding constructed from Student Component funding. They are based on a hypothetical five percent transfer for universities and 25 percent for ITPs – the actual proportion transferred may differ.

## Equity funding

- 71** The government will continue to provide funding to support equity outcomes. Cabinet has decided that equity funding will continue to concentrate on the three groups for whom equity-focused Special Supplementary Grants (SSG) are currently available – Māori learners, Pacific learners, and learners with disabilities.
- 72** To ensure that institutions treat equity initiatives as a core function, equity funding will be integrated into the funding system, with the current SSGs being rationalised and their funding incorporated into the system. At this point, it is likely that equity funding will be delivered as a ring-fenced part of each TEI's funding. Additional work on a detailed allocation method is underway and the TEC will provide information on this to the sector as soon as is practical.
- 73** Fully incorporating equity funding into Investing in a Plan positions equity as a central activity for institutions. Institutions will be expected to discuss their equity activities with the TEC during the development of their Plan, and investment in such measures will be delivered as part of the core funding mechanism rather than through separate "add-on" funds. This approach should streamline the current reporting and management arrangements that surround the current equity SSGs, as monitoring of such initiatives will be incorporated into the Investing in a Plan system.