

Aide-Memoire: Funding impact of the Unified Funding System on private training establishments from 2023

To:	Hon Jan Tinetti, Minister of Education
From:	Gillian Dudgeon, Deputy Chief Executive, Delivery
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Executive summary

1. The unified funding system (UFS) has changed the funding allocated to individual private training establishments (PTEs). For the PTEs that have 2023 allocations for vocational education and training (VET), this represents nearly 55 percent of their overall funding allocations.
2. PTEs historically have delivered only two of the five vocational modes of delivery: provider-based and provider-based: extramural. As a result of the changes made to 2023 vocational funding, the rates for these delivery modes are lower than the previous funding rates, which has contributed to overall funding decreases for many PTEs, under the delivery component.
3. However, total vocational funding is now allocated across three different components – delivery, learner and strategic. When assessing the impact on the PTE sector it is important to look at the combined funding of all three components
4. When comparing pre-UFS delivery to 2023 funding allocations for PTEs, overall funding has increased by 5% since 2022. However, the impacts on individual PTEs are more varied. For example, 43% of PTEs (67 PTEs) received more base funding (delivery and learner components) in 2023, whereas 44% of PTEs (68 PTEs) received less total funding. These differences were largely driven by funding rate differences across the modes of delivery.
5. For 2023 a portion of the Strategic Funding was used to allocate transition funding to PTEs in 2023 to help mitigate PTE funding concerns. This is time-limited funding and was made available to help support PTEs until 2024 to evolve their business models to respond to the new incentives. In 2025, all the strategic component funding for PTEs will be available to allocate via a contestable process.
6. The spread of funding for PTEs will likely change in 2023 as actual enrolment volumes may differ to those that initial allocations were based on. We will continue to monitor the subsector and will provide further updates as we receive reporting from the sector.

Purpose

7. The purpose of this aide-memoire is to provide a high-level view of PTEs sector funding in 2023, and how the subsector has been impacted by the UFS since 2022.

8. We recommend that this aide-memoire is proactively released in full.

Background

The PTE subsector receives most of its funding for vocational education and training

9. For the 155 PTEs that are affected by the UFS, all of their allocated funding is spread across the following funding categories in 2023:
- Foundational education: 32% (\$145 million),
 - Vocational education and training (VET): 53% (\$239 million),
 - Higher education: 14% (\$64 million), and
 - Other funds: <1% (\$0.4 million).
10. The UFS funding changes have impacted the funding allocated to PTEs. This is because vocational provision makes up more than half of the overall provision by the PTE subsector and the number of PTEs who currently deliver work-based provision is very low.

Delivery remains the largest component of VET funding across the PTEs

11. The UFS applies a new funding approach that focuses on learners, incentivises providers to work closer with employers, and helps address national and regional skill priorities.
12. The UFS funds vocational education and training (VET), which includes all levels of industry training, and provider-based learning at levels 3-7 (non-degree). In 2023, most of this provision has been allocated to Te Pūkenga (\$642 million or 65%) and PTEs (\$237 million or 24%).
13. UFS funding includes three components. In 2023, this funding is allocated across the PTE subsector as outlined below:
- the delivery component¹ – 85% of UFS funding (\$200million, 155 PTEs received)
 - the learner component² – 6% of UFS funding (\$15 million, 150 PTEs received)
 - the strategic component³ – 9% of UFS funding (\$22 million, 86 PTEs received)⁴

We have provided transition funding to mitigate funding concerns from PTEs

14. PTEs have raised concerns that the UFS delivery component funding rates have reduced their overall funding entitlement, compared to the previous funding rates. For example:

¹ The delivery component comprises the bulk of the UFS funding system. It has replaced Student Achievement Component (SAC) funding for levels 3-7 (non-degree) and all funding from the Industry Training Fund. The delivery component is volume-based and considers the subject of learning, and how it is delivered – that is, in a classroom, in the workplace or online (or a combination of these).

² Learner component funding is also volume-based and is calculated based on the enrolments of four groups of learners (eg, low prior achievement, disabled, Māori, and Pacific learners), who traditionally have not been well served by the VET system. Learner component allocations for 2023 were based on volume-based enrolments in 2021. Five PTEs do not have learner component allocations as they either did not deliver in 2021 (three total) or are new PTEs in 2023 (two total).

³ Strategic component funding is a contestable fund allocated for regional and national skills priorities, and programme maintenance and development. This component aims to encourage and enable providers to trial new approaches to provision or other activities, without relying on enrolments to fund the trial.

⁴ 2023 values include additional \$6 million of transitional funding for 2023, which comes from the strategic component (44 PTE recipients total). Note that the figures outlined in this update include allocations from the latest targeted strategic funding round.

- a. delivery component funding rates for the provider-based mode of delivery are around 88% of their previous funding rates.
 - b. delivery component funding rates for the extramural mode of delivery are much lower by comparison (around 57% of their previous funding rates), which is concerning for PTEs that exclusively offer extramural delivery.
15. However, these delivery component comparisons do not show the impact of learner and strategic components, which boost the overall funding available through the UFS.
16. Transition funding was established in response to PTE concerns about funding allocations and comes from the strategic component fund. It was allocated to recognise that it could take time for PTEs to adjust their delivery to focus on new priorities for this part of the education system. Transition funding has been allocated to PTEs which are:
- a. delivering in strategic or niche areas, and
 - b. forecast to have a 2023 funding reduction of 10% or more (based on 2021 figures).
17. For 2023, transition funding of \$6 million was made available to 45 eligible PTEs. For 2024, transitions support will drop to no more than 50% in 2024 (i.e., \$3 million in total), with no transition funding available in 2025. As transition funding declines, the total amount of strategic funding for PTEs will lift (e.g., more funding available for strategic purposes).
18. For 2023, a total of \$16.8 million is available for strategic component funding, not including transition funding. Of this:
- a. strategic funding of \$15.5 million has been allocated to 61 PTEs, across 69 projects (with six PTEs receiving allocations for two or more proposals). TEC received 123 proposals from 92 PTEs. Of these, 39 PTEs were funded in full for their proposals, and 30 were funded in part.
 - b. most of the remaining amount has been allocated through a targeted strategic funding round for PTEs. TEC received 54 proposals in total. Of these, 7 proposals were funded in full, 13 were funded in part and 34 were declined funding.

UFS has impacted the funding allocated to PTEs

The distribution of VET funding has changed since 2022

19. Overall, there were 146 PTEs that delivered at vocational levels in 2022, which also have UFS allocations in 2023. The analysis in this section focuses on these 146 PTEs to measure the impact of UFS funding changes before and after UFS was implemented and compares actual delivery in 2022 to allocations in 2023⁵.
20. Before 2023, VET funding was predominantly volume (or delivery) based, determined by the number of equivalent full-time learners enrolled, with a very small amount of additional equity

⁵ These figures exclude new PTEs (three total), and the Skills Organisation Transitional Industry Training Organisation (Skills Org) receiving PTEs (six total) for comparability purposes. The Skills Org transition occurred progressively over 2022, so direct annual comparisons are not possible. The transition was complex and involved learners and responsibilities shifting to five PTEs and Te Pūkenga, depending on the areas of provision. The analysis in this paper therefore excludes these organisations. The comparisons include 146 PTEs that delivered at vocational levels in 2022, and also have UFS allocations in 2023.

funding available. After the introduction of the UFS, volume-based delivery funding is now one of three components of total VET funding (as detailed in Table 1 below).

Table 1: Changes to VET funding before and after UFS - % of total funding across 146 PTEs in 2022 and 2023

VET funding before UFS (2022)	% of total funding	VET funding after UFS (2023 allocation)	% of total funding
Delivery (volume-based)	98%	Delivery component (volume-based)	82%
Equity funding	2%	Learner component	8%
		Strategic component ⁴	11%
Total funding	100%	Total funding⁴	100%

21. Delivery-based funding continues to represent the highest proportion of VET funding for PTEs in 2023 (82% in delivery component funding, vs 98% before UFS), whereas the proportion of funding to support under-served learners has increased (8% in learner component funding, vs 2% in Equity funding before UFS). Strategic component funding represents 11% of VET funding for PTEs; there was no comparable fund before UFS.

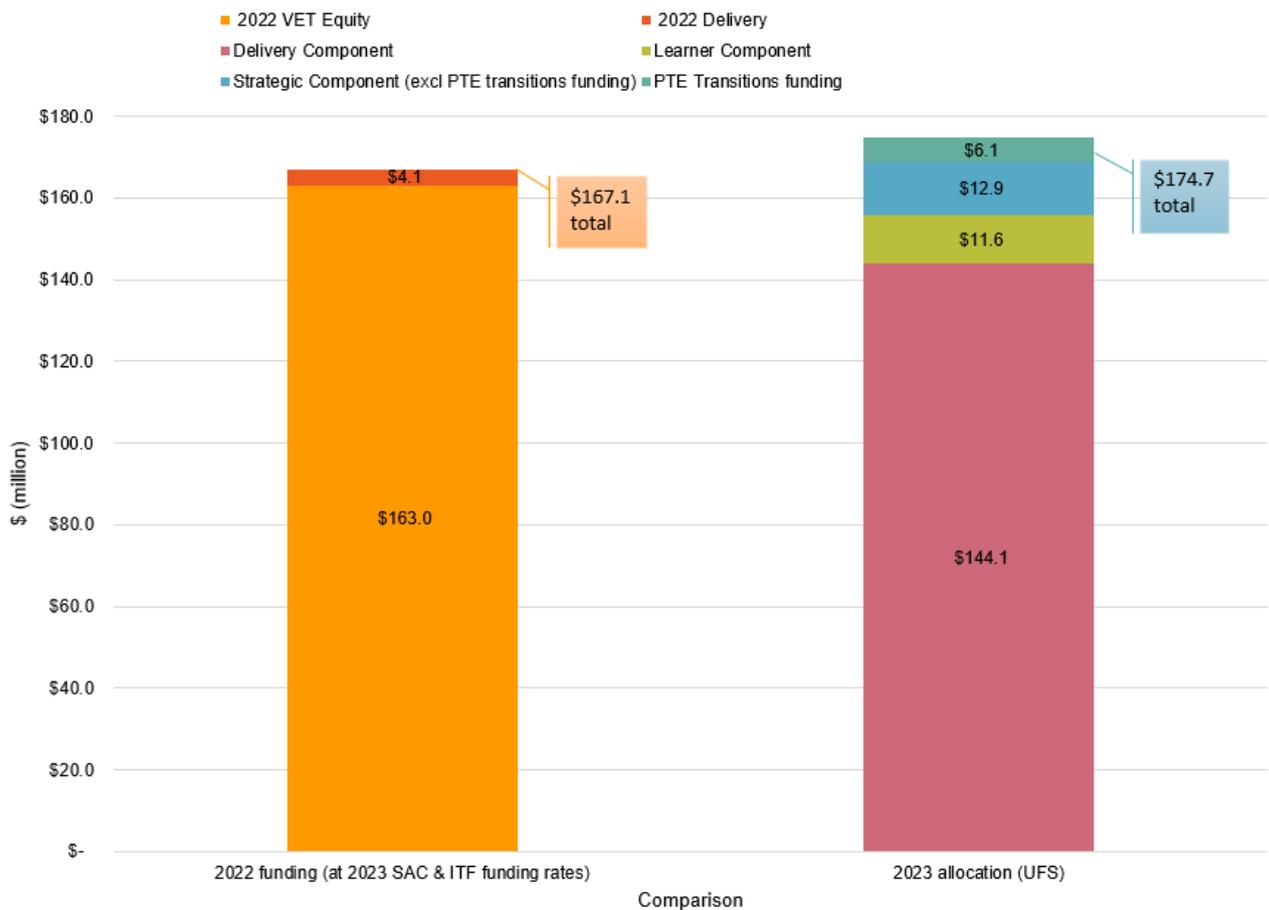
VET funding allocated to PTEs has increased in 2023, compared to 2022

22. The figure below shows the total UFS allocations in 2023 across 146 PTEs and compares this to actual delivery in 2022 for the same PTEs⁶. The 2022 funding amount includes the expected annual rates increases from 2022 to 2023, for Student Achievement Component (SAC) and Industry training Funds (ITF; +2.75%), so that information is comparable.

23. The total funding across the 146 PTEs has increased under UFS. Compared with 2022, funding increased by \$7.6 million in 2023.

⁶ The 2022 funding is estimated, as funding allocations for that year were not provisioned at vocational-equivalent levels. The total funding for 2022 focuses on UFS-eligible allocation. Note that the final funding amounts relating to work-based training reported through the Industry Training Register reporting system will not be finalised until April 2023, so the figures outlined in this paper may revise. 2023 allocations were based on historic delivery data. These allocations are subject to change depending on the actual delivery volumes reported by PTEs in 2023 (which will determine the final funding amounts).

Figure 1: Funding impact comparisons for vocational provision across 146 PTEs: 2023 funding under UFS compared to 2022 funding (at 2023 SAC & ITF funding rates)



While total funding has increased, the impacts on individual PTEs are varied

24. For the 155 PTEs that have UFS allocations in 2023, our latest analysis shows that⁷:

- a. 58 PTEs (37%) have been allocated *more* funding for 2023 than they received in 2022 for their base (delivery and learner component) funding. This includes 54 PTEs that are not transitional industry training organisation (TITO) receivers. When all funding is included (adding transitions and strategic component funding), this rises to 74 PTEs (48%).
- b. 66 PTEs (43%) have had a decrease of 10% or more on their base UFS funding. However, this number drops to 59 (38%) when the time-limited transitions funding is considered; and to 42(27%) when strategic component is included.

⁷ The appendix provides two tables which show the estimated funding changes from 2022 to 2023, split between base funding (delivery and learner component); funding including transitions; and all UFS funding (including strategic component). Appendix table 1 analyses by dollar change, appendix table 2 analyses by percentage change.

25. The dollar value of the funding change depends on the amount of UFS provision across the PTEs, with larger PTEs showing larger reductions. When all UFS funding is considered:
- a. 56 PTEs (36%) have an estimated reduction of up to \$200,000;
 - b. 12 PTEs (8%) have a reduction of between \$200,000 and \$4.2 million.

The differences are driven by each PTE's mode of delivery, with extramural providers showing the largest funding declines

26. In summary, the impacts are as expected based on the following funding rate changes:
- a. PTEs mostly offer provider-based and/or provider-based: extramural modes of delivery. The funding rates for these modes of delivery are lower than pre-UFS funding rates, which has resulted in reduced funding across the delivery and learner components. Those with extramural delivery have the opportunity to fund new programmes and amendments through applying for the strategic fund.
 - b. Compared to 2022, strategic funding (including transitions) has maintained or increased the funding for 20 PTEs that would otherwise have received reduced funding in 2023. However, 34 PTEs which received this funding have a lower funding allocation in 2023 compared to 2022;
 - c. TITO receivers have higher funding than the TITOs would have received for this provision, pre-UFS. This is because the funding rates for work-based learning have increased overall.

Funding allocations for PTEs will likely change during 2023

27. Actual funding for 2023 will depend on the delivery volumes reported by each provider, and applicable milestone reporting for the learner and strategic funds. This will be calculated across March and April 2024 following the final data returns for 2023.
28. The TEC will respond to evidence of both under-delivery and over-delivery for delivery component funding allocations. This may result in 2023 allocations and final funding amounts increasing or decreasing for specific providers.
29. The year-end funding wash-ups also recover funding relating to under-delivery and provide a limited amount of additional funding in the case of over-delivery that meets certain criteria (up to a maximum of 2% of the approved funding allocation). Therefore, PTEs' final funding for 2023 cannot be determined until early 2024.

We will continue to monitor the PTE subsector

30. We recently provided an overview of how reporting will change under the UFS [AM-23-00162 refers]. The paper outlines the reporting approach for enrolment, delivery, and educational performance information under the UFS, and how often we can provide this information.
31. It should be noted that early 2023 enrolment data indicates that provider-based enrolments have decreased in 2023 compared to previous years. However, the PTE subsector tends to have multiple learner intakes per year, and enrolment trends may therefore change in later reporting periods.

AIDE MEMOIRE: FUNDING IMPACT OF THE UNIFIED FUNDING SYSTEM ON PRIVATE TRAINING ESTABLISHMENTS FROM 2023



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21 July 2023



Hon Jan Tinetti

Minister of Education

06 / 08 / 2023

Appendix: Tables showing estimated funding changes for PTEs

In 2022, we conducted early analysis of the potential funding impacts of the UFS changes on PTEs. The analysis compared the indicative allocations for 2023 against the actual funding for 2021, restated to the 2023 equivalent value. Actual volumes delivered in 2021 were very high compared to other years, following increased demand due to COVID-19 related initiatives (eg, the Targeted Training and Apprenticeship fund).

The information in this section provides updated analysis, comparing the current 2023 allocations with the estimated total funding for 2022. This is based on:

- funding for UFS-eligible Student Achievement Component at Level 3 and above (SAC 3+), based on the allocation of UFS vs non-UFS provision;
- funding for Industry Training, based on 2022 allocations as at 8th June;
- funding for VET Equity; this was a Budget 2021 initiative that increased the equity funding in relation to VET provision for 2022 only, pending the UFS learner component funding;
- an adjustment to reflect the 2023 2.75% tuition subsidy increase announced in Budget 2022 (this was applied to 2022 delivery information, to restate to the 2023 equivalent value).

Funding impact comparisons are not available for the Skills Organisation PTE receivers. This is because it is difficult to attribute the 2022 delivery across the PTEs that have taken on delivery previously administered by the Skills Organisation TITO (eg, restating as if the current organisational structures had been in place for all of 2022, when the transitions had occurred progressively throughout 2022).

The tables below show that 46 PTEs have estimated funding reductions of 10% to 30% (for delivery and learner components only). This is an improvement from our earlier analysis which used 2021 funding as a comparison, whereby 60 PTEs showed the same funding reduction.

Appendix table 1: VET funding changes by number of PTEs in 2023, compared to 2022 (155 PTEs total)

Funding change (increase or reduction in funding in 2023, compared to 2022)	Base funding (delivery & learner components only)	Including Transitions Funding		Including all funding (Base & Transitions)	
		PTEs with transitions funding	PTEs without transitions funding	PTEs with strategic Funding	PTEs without strategic funding
Not analysed - Skills Org receivers and new in 2023	9	n/a	9	6	3
Increases (TITO receivers)	4	n/a	4	3	1
Increases (not TITO receivers)	54	15	43	35	39
Reduction between \$0 and \$100K	46	16	34	11	34
Reduction between \$100K and \$200K	16	4	8	4	7
Reduction between \$200K and \$300K	7	3	5	2	3
Reduction between \$300K and \$400K	2	1	1	0	0
Reduction between \$400K and \$500K	5	0	2	0	0
Reduction between \$500K and \$700K	5	1	3	0	1
Reduction between \$700K and \$1,000K	2	1	0	1	1
Reduction between \$1,000K and \$2,000K	3	3	1	1	2
Reduction between \$2,000K and \$3,000K	1	0	0	0	0
Reduction between \$3,000K and \$4,000K	0	0	0	0	0
Reduction between \$4,000K and \$5,000K	0	1	0	1	0
Reduction between \$5,000K and \$6,000K	1	0	0	0	0
Total number of PTEs	155	45	110	64	91

Appendix table 2: VET funding changes by number of PTEs in 2023, compared to 2022 (% changes)

Funding change (increase or reduction in funding in 2023, compared to 2022)	Base funding (delivery & learner components only)	Including Transitions Funding		Including All Funding (Base & Transitions)	
		PTEs with transitions funding	PTEs without transitions funding	PTEs with strategic Funding	PTEs without strategic funding
Not analysed - Skills Org receivers and new in 2023	9	n/a	9	6	3
Increases (TITO receivers)	4	n/a	4	3	1
Increases (not TITO receivers)	54	15	43	35	39
Reduction between 0% and 10%	22	6	19	9	17
Reduction between 10% and 20%	28	15	21	8	19
Reduction between 20% and 30%	18	7	8	2	6
Reduction between 30% and 40%	8	2	0	1	1
Reduction between 40% and 50%	4	0	3	0	2
Reduction between 50% and 60%	4	0	0	0	0
Reduction between 60% and 70%	2	0	1	0	1
Reduction between 70% and 80%	1	0	1	0	1
Reduction greater than 80% ⁸	1	0	1	0	1
Total number of PTEs	155	45	110	64	91

⁸ LIFE Leadership College Limited merged with Skills Update Limited in 2023, therefore received \$0 Allocation and had a reduction of 100%