

Education Report: Unified Funding System: remaining policy decisions for the learner component

To:	Hon Chris Hipkins, Minister of Education		
Date:	24 February 2022	Priority:	High
Security Level:	In Confidence	METIS No:	1281224
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Messaging seen by Communications team:	No	Round Robin:	Yes

Purpose of Report

The purpose of this report is to seek your agreement to the remaining policy decisions for the performance elements of the learner component of the unified funding system (UFS):

- parameters for how the Tertiary Education Commission (TEC) will set performance expectations
- proportion of funding for incentive payments
- targeted implementation of performance elements.

This report also updates you on our discussions with disability and vocational education and training (VET) sector stakeholders about a collaborative approach to developing advice about funding for disabled learners who require higher investments to meet their needs.

Recommendations

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

- a. **agree** to set the following parameters for how the TEC will set each tertiary education organisation's (TEO's) performance expectations for the learner component:
 1. The TEC must set and publish priorities for the learner component in line with Te Tiriti o Waitangi, the Statement of National Education and Learning Priorities (NELP) and the Tertiary Education Strategy (TES), and other relevant education strategies. The priorities must also be in line with the relevant objectives for the Reform of Vocational Education (RoVE), which are as follows:
 - i. The vocational education system delivers to the needs of all learners, including through strong secondary-tertiary pathways.
 - ii. The vocational education system prioritises traditionally underserved learners (especially Māori, Pacific and disabled learners).

I think the Minister should agree the performance expectations based on the TES. The TES sets out the govt's priorities specific to tertiary education. How the TES links to other priorities and strategies is something for the govt of the day.

2. The TEC must, building on its tools to drive learner success such as Learner Success Plans, use the Investment Plan process to agree measures of success with TEOs that show how TEOs will contribute to meeting the priorities. TEC will select performance expectations that are relevant and tailored to each TEO and the needs of their learner populations. ✓
3. The TEC must monitor and report progress against the priorities. ✓
4. The TEC must review the priorities and measures of success. ✓
5. The TEC must engage with Māori and iwi when identifying priorities and measures of success, and when developing monitoring arrangements. This includes ensuring that TEOs appropriately engage with Māori and iwi as required for Investment Plans. ✓

~~Agree / Disagree~~

- b. **agree** that 20% of each TEO's learner component funding will form an incentive payment, which the TEC will pay to each TEO upon its achievement of the performance expectations

Agree / Disagree

- c. **agree** that the TEC can distribute incentive payments as milestone payments and/or partial payments where appropriate

Agree / Disagree

- d. **agree** that the performance elements of the learner component are implemented in a targeted approach for 2023, such that for 2023 the performance elements only apply to select TEOs that receive high amounts of learner component funding, with the TEC to determine the TEOs

Agree / Disagree

- e. 9(2)(f)(iv)

- f. **forward** this briefing to the Associate Ministers for Education

- g. **agree** that the Ministry of Education release this briefing once it has been considered by you, and once the decisions have been communicated to TEOs, with the information

in paragraphs 31-36 withheld under section 9(2)(f)(iv) of the Official Information Act 1982 while the advice remains under active consideration.

Agree / Disagree



Katrina Sutich
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24/02/2022



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24/02/2022



Hon Chris Hipkins
Minister of Education

 / /
7/3/2022

Proactively Released

Background

1. Each section below begins with relevant background information.

Parameters for how the TEC will set performance expectations

2. In November (METIS 1268057 refers) you agreed that:
 - a. the TEC will identify and set performance expectations for TEOs via the learner component for how they support their learners' success
 - b. the performance expectations should be relevant and tailored to TEOs and the needs of their learner populations
 - c. you will set parameters for how the TEC should identify appropriate measures
 - d. the Ministry of Education and the TEC will work together to develop advice to you about what the parameters could be.
3. The parameters you set will be published in the funding determination issued under section 419 of the Education and Training Act 2020 (the Act).

Proposal

4. We propose that your parameters set out the following process the TEC should take in identifying and achieving priorities for VET learners:
 - a. The TEC must set and publish priorities for the learner component in line with Te Tiriti o Waitangi, the NELP and the TES, and other relevant education strategies. The priorities must also be in line with the relevant objectives for the RoVE, which are as follows:
 - i. The vocational education system delivers to the needs of all learners, including through strong secondary-tertiary pathways.
 - ii. The vocational education system prioritises traditionally underserved learners (especially Māori, Pacific and disabled learners).
 - b. The TEC must, building on its tools to drive learner success such as Learner Success Plans, use the Investment Plan process to agree measures of success with TEOs that show how TEOs will contribute to meeting the priorities. TEC will select performance expectations that are relevant and tailored to each TEO and the needs of their learner populations.
 - c. The TEC must monitor and report progress against the priorities.
 - d. The TEC must review the priorities and measures of success.
 - e. The TEC must engage with Māori and iwi when identifying priorities and measures of success, and when developing monitoring arrangements. This includes ensuring that TEOs appropriately engage with Māori and iwi as required for Investment Plans.
5. This approach would ensure the priorities and measures of success are transparent for TEOs, reviewed regularly, and aligned with the key strategies and objectives for the VET system and with Te Tiriti o Waitangi (METIS 1271314 refers).

6. TEC has existing tools to drive and monitor learner success through the Investment Plan process, including through Learner Success Plans and Disability Action Plans. This approach will enable the TEC to augment these existing tools.
7. This approach would also be flexible to allow the TEC to consider different approaches with different TEOs, including, for example, approaches that may better align with current operational practices with smaller private training establishments (PTEs) (see paragraph 26).
8. We considered alternatives whereby you would set the specific priorities themselves, but the above approach better aligns with TEC's roles and responsibilities.
9. In paragraph 21 below, we propose a more targeted approach for 2023.

Proportion of funding for incentive payments

10. In November you agreed that a portion of each TEO's learner component funding will be paid to each TEO upon achieving the performance expectations set by the TEC (METIS 1268057 refers).
11. The proportion of funding linked to performance expectations will be published in the funding determination issued under section 419 of the Act.
12. In our previous advice, we envisioned that you would set a minimum and a maximum amount of funding that is to be linked to performance expectations, with parameters about when to apply the minimum or maximum.
13. We have assessed this further. While this approach would allow the TEC the flexibility to tailor the approach for each TEO, it is too complex and risks appearing to "punish" TEOs that have a higher proportion of funding linked to performance expectations.

Proposal

14. We propose that 20% of each TEO's learner component funding is linked to their performance expectations.
15. This approach is simple and transparent. Twenty percent would be sufficient to incentivise TEOs to achieve their performance expectations, without being overly punitive and still providing sufficient funding certainty.
16. Table 1 below sets out what the incentive payment could be for the five TEOs that are currently modelled to receive the most learner component funding (this is based on current modelling, and so is an approximation).
17. We considered alternatives of 10%, which we assess as being too small to provide enough incentive for TEOs, and 30%, which does not provide enough funding certainty for TEOs.
18. We also propose that you enable the TEC to pay milestone and/or partial payments to ensure TEOs are recognised and paid promptly for their progress and achievements. (We have previously advised that sustained improvements in learner success can involve a lengthy, complex process of organisational change, and lags in reporting

(METIS 1268057 refers), and that milestone payments can help incentivise and reward TEOs' progress.) This would support the following scenarios:

- a. The TEC and a TEO could agree milestones towards their performance expectations, and the TEC could pay a portion of the incentive payment when each milestone is achieved.
- b. The TEC and a TEO could agree multiple performance expectations, and the TEC could pay a portion of the incentive payment if the TEO achieves some, but not all, of the performance expectations.

Table 1: Estimated learner component funding and incentive payments for five TEOs¹

TEO	Total estimated UFS funding (excl. strategic component)	Total estimated learner component funding	Estimated incentive payment of 20%
Te Pūkenga*	\$586m	\$49m	\$9.8m
Te Wānanga o Aotearoa	\$75m	\$5m	\$1m
9(2)(b)(ii)	\$19m	\$1.6m	\$320,000
	\$14m	\$1.1m	\$220,000
	\$13m	\$840,000	\$168,000

* For simplicity, this includes all provision from the transitional ITOs (noting that some transitional ITOs are yet to confirm arrangements for transitions and some small areas of provision have shifted to PTEs).

19. An alternative would be to pay incentive payments only upon full completion of all performance expectations, but this would be unnecessarily restrictive, and we do not recommend this.

Targeted implementation of performance elements

20. We have not previously provided you with advice about the timing of implementing the performance elements of the learner component.

Proposal

21. We propose that you enable the TEC to take a phased approach to implementing the performance elements of the learner component. Specifically, we propose a targeted approach in 2023, with full rollout in 2024.
22. For 2023, we propose the TEC implements performance expectations and incentive payments for TEOs that receive high amounts of learner component funding. We propose the TEC selects the TEOs based on the TEC's operational assessment. The TEC envisions this could be up to eight TEOs across multiple subsectors and covering most VET learners, and that engagement with Māori and iwi on the performance expectations will occur at the TEO level.
23. Remaining TEOs would not have learner component-specific performance expectations for 2023 or incentive payments – i.e. they would receive their full learner component allocation up-front (including the performance element).

¹ The estimates provided are based on current modelled rates of the UFS based on your decisions in previous advice, which will be refined further using full-year 2021 data in the coming weeks.

24. A targeted approach for 2023 would enable the TEC to target its resources and allow the TEC to work on a TEO-by-TEO basis to set tailored performance expectations that reflect the needs of each TEOs' learners and each TEOs' starting points.
25. As previously advised, performance improvement in the VET system will take time as the sector adapts to the new funding system (METIS 1268057 refers). The TEC will, working with the sector, refine a range of measures that support investment objectives, and build on what works currently (such as progression, completion and equity measures). Initial incentive payments will be linked to tangible deliverables such as evidence of capability building to support improved learner success.
26. 9(2)(f)(iv)
27. One alternative to our proposal for a phased approach would be to delay implementation of the performance elements for all TEOs until 2024, but this would delay a key element of the learner component and would not align with the outcomes for RoVE. Another alternative is full implementation from 2023, but this would be overly onerous for many PTEs without a low-compliance approach in place. We do not recommend either of these alternatives.

Monitoring the effectiveness of the learner component

28. As the UFS begins to be implemented, we will be monitoring its impacts closely to ensure it is achieving its objectives without unintended negative consequences. This section sets out two aspects of the learner component we intend to monitor closely.
29. Firstly, the incentive payments of the learner component are a unique element of the UFS. While the incentive payments account for a relatively small proportion of funding overall, they aim to complement other aspects of the tertiary education system to have a positive impact for learners in VET. As such, we will closely monitor their implementation and impacts.
30. Secondly, as indicated above some PTEs have particularly small numbers of learners that are eligible for learner component funding. This means those PTEs will receive very small amounts of learner component funding, sometimes so small that the funding would not be enough to support learners' needs. Enrolments can fluctuate significantly from year-to-year for smaller PTEs, which means our modelling is less accurate than for larger TEOs. We propose to monitor this and provide you with any further advice next year.

9(2)(f)(iv)

Next steps

37. Once we have received your feedback, the TEC will communicate your decisions to the relevant TEOs.
38. We will provide you with advice about the final rates for the learner component in March as part of our advice about all UFS funding rates.

9(2)(f)(iv)