

## Proposal on a unified funding system Technical discussion document

Thank you for taking an interest in the Reform of Vocational Education. The Government wants to hear your views on these proposals. The changes we propose are complex, and we need the detailed knowledge and the different perspectives of people across New Zealand to get them right.

This technical discussion document is a companion document to the Reform of Vocational Education consultation discussion document, which is published here:

<https://conversation.education.govt.nz/conversations/reform-of-vocational-education/>.

The consultation discussion document is the official statement of the Government's three proposals for the Reform of Vocational Education, signed off by the Minister of Education. The technical discussion documents go beyond the Government's formal proposals, to set out some possible ways in which the features of these proposals might be implemented in practice. They should not be regarded as a statement of the Government's position, but rather initial thoughts from officials from the Ministry of Education and the Tertiary Education Commission.

This technical discussion document looks at the Government's proposal for a unified funding system for vocational education. Please read the main consultation document before reading this technical document, so that you understand the wider context for the proposal discussed here.

Within this document are questions seeking your input to help inform Government decisions about the proposal to establish a unified funding system. These questions are also available in the consultation's online survey.

The document includes ideas or indicates the way things might work for detailed aspects of the proposals should they proceed following consultation. These ideas and suggestions are not Government policy or a view from the Government about these details, and we are open to any suggestions you may have on these topics.

### A vision for NZ

A strong, unified vocational education system that is sustainable and fit for the future of work, delivering what learners, employers and communities need to be successful.

### Have your say

The Government is seeking feedback on the proposals for the Reform of Vocational Education by Wednesday 27 March 2019. The link above will also take you to our online survey where you can respond to the questions posed and more.

You can also provide feedback by attending a face-to-face consultation event. Details on these events are available at <https://conversation.education.govt.nz/conversations/reform-of-vocational-education/>

## Overview of the Government's proposal for a unified funding system

### Current problems and opportunities

We need a strong, unified vocational education system that is sustainable and fit for the future of work, delivering what learners, employers and communities need to be successful.

The design of funding for vocational education will be essential for achieving this system. In particular, funding design will be critical for improved collaboration. The current system funds vocational education based on who arranges or delivers it, rather than what teaching and learning is occurring. It encourages education providers and ITOs to compete with one another, driving a wedge between provider-based and workplace-based learning – the opposite of what we want and need.

This has consequences for employers and learners. Some employers find it hard to influence programmes and providers, and may struggle to build a coherent approach to skills development for their workforce across providers and industry training. Learners may find that their programmes do not reflect their particular needs or starting point. And when a learner starts studying at a provider, and then moves into work partway through their programme, instead of a seamless continuation of learning they often have to repeat material or even start again in a new programme of industry training.

For tertiary education organisations, many of these problems are described as 'overlapping provision': the overlap is between learning funded through the Industry Training Fund (ITF) and Student Achievement Component (SAC) fund. The two funds undermine collaboration in a range of ways, including substantial differences in funding rates and rules for employer and student contributions, and performance measures that focus on programme completions in an unsophisticated way. These problems are part of a deeper issue for learners and employers – that it is hard for them to access the best possible mix of work and provider-based learning.

Funding reform is also required to support Proposal 1: to create new roles for providers and industry. If this proposal goes ahead, providers will be responsible for supporting apprentices and trainees as well as people studying outside of employment. This would require a new unified fund that brings together ITF and SAC-funded vocational education.

### The formal proposal

The Government's proposed changes to vocational education would need to be supported by a new funding system. Creating one funding system for vocational education would ensure learners get the skills, experience and support they need to be successful, providers have the funding they need to be sustainable and to support our regions, and Industry Skills Bodies can fulfil their roles.

The Government will work through the details of the new funding regime after consultation. Officials want to hear your ideas about how it could work, and what kind of incentives different arrangements might create. At this stage the Government envisages that a new funding system would include:

- » a consolidated set of funding rates for both on-job and off-job provision;
- » funding for strategically important delivery that comes at higher costs (for example, where more delivery is in remote regions or in areas with lower populations). This could be a per-learner top-up or through a base grant;
- » funding for Industry Skills Bodies (since they would not receive funding for individual trainees and apprentices), balanced with employer contributions to ensure Industry Skills Bodies are responsive to employers;
- » continued industry/employer contributions to the cost of training; and
- » continued fees to learners in some cases.

The proposal to create a unified funding system is part of an integrated package of reforms. This paper addresses the proposal for a unified funding system, while the other proposals would give industries and regional bodies new roles in advising on how funding should be allocated. These roles would create new ways of deciding the mix of investments – see the other technical discussion documents for more information on these investment roles: <https://conversation.education.govt.nz/conversations/reform-of-vocational-education/>.

### How a unified funding system would address the key problems in vocational education

Funding reforms would be an essential part of creating a system where education providers are responsible for supporting employers' workplace training. A unified funding system would make it easier for industry, employers and providers to collaborate. This would ensure that learners are equipped with the skills needed to succeed in the world of work.

The proposed unified funding system would in turn benefit:

- » learners enrolled at providers, by providing more work-based learning opportunities, and an earlier entry to work;
- » apprentices and trainees, by providing access to more tutor support and pastoral care. In particular, this would allow for more tailored support to different types of apprentices and trainees;
- » employers, by making it easier to recruit people with the right skills, including learners currently enrolled at providers; and by making it easier to access high quality fit-for-purpose vocational education in their region;
- » everyone, through a higher performing vocational education system which improves New Zealand's ability to respond to economic and social change.

The remainder of this discussion document sets out some of the matters officials are seeking feedback on to assist their advice to Ministers about the design of a unified funding system.

### Implications of the proposal for a unified funding system

This section unpacks the possible implications of the formal proposal set out in the main consultation document. It is intended to help people with a more technical interest in funding system design think about the challenges and opportunities in the creation of a unified funding system.

### How would a unified funding system apply across the education system?

The funding reforms would create a unified system for education and training currently funded by the Industry Training Fund and by the Student Achievement Component up to level 7 diplomas (i.e. excluding degree study).

The Government currently proposes that this would mean:

- » Funding for degrees and post-graduate study would not be affected.
- » Funding for foundation learning (ie, much of study at level 1 and 2), and for learning at levels 3 to 7 that is not vocational (eg, te reo and tikanga Māori, English for speakers of other languages) would need to be considered as part of the funding reform. It has not yet been determined whether the reforms should simply separate off these areas of provision and ensure the interface with vocational education is easy to navigate, or whether these areas of provision should be included in a unified funding system.
- » In particular, the Government wishes to work with wānanga to consider how the changes might apply to them and recognise their distinct role.
- » Secondary-tertiary funding (eg, for Trades Academies) is out of scope, but it will be important to ensure that the new funding system aligns smoothly with these arrangements, and supports a smooth transition from school into vocational education.
- » Adult and Community Education funding and Workplace Literacy and Numeracy funding are out of scope.

## Technical discussion questions

*The questions below are just a guide – we welcome any additional feedback you have. You can see more questions or provide additional feedback online.*

Would you design a unified funding system for vocational education that also takes account of tertiary-based foundation learning? Or should this be an entirely separate funding system?

### A consolidated set of funding rates for both on-job and off-job provision

This might involve combining SAC funding of vocational education and the ITF into a single vocational education funding system with one set of funding rates that vary according to the nature of what is delivered to learners.

Vocational education is complex, with a wide range of factors determining the cost of different types of delivery. This complexity means its funding system is unable to reflect all these differences without also being complex. Officials consider that it will be important to design a funding system that strikes a balance between the complexity of delivering vocational education and the need for a transparent, predictable funding system that makes it clear to providers what government is seeking to achieve from its investments.

Some crucial factors in designing a new funding system are:

- » Unit of funding – SAC-funded delivery is funded per 'EFTS' (Equivalent Full-time Student). ITF-funded delivery is funded per 'STM' (Standard Training Measure). Although both measures are based on delivering 120 credits, there are small differences.  
*Do you feel that a unified funding system would need to be based on a single measure?*
- » Retaining employer leadership and engagement – A key feature of the industry training system is the flexibility that the system offers employers. Industry training organisations are incentivised to deliver learning at the place, time and style that works for the employer. Some employers have their own workplace learning arrangements, with considerable pedagogical depth.  
*Within a unified funding system, officials consider that it would be important to consider how to retain this flexibility and ownership of workforce needs.*
- » Subsidy per unit of funding – SAC funding rates generally aim to meet a similar proportion of costs across fields and levels of study, so there are higher funding rates for more expensive fields and levels of study. In contrast, the ITF applies consistent funding across all fields of study, because the differences in cost are difficult to identify, and are not easily mapped to fields of study. ITF funding rates are lower than SAC funding, which reflects the differing costs of provider-based and workplace-based learning, and the additional contributions of employers (due to the benefits of the training for their firms).  
*Officials suggest that a unified funding system would need to design the right incentives across delivery styles and fields of study.*
- » Types of learners – The ITF funds apprentices at a higher rate than trainees, to support more teaching and pastoral care. The SAC does not differentiate directly on student characteristics other than their field and level of study, although Equity Funding does support Māori and Pacific students and students with disabilities. Some additional funding and programmes support the achievement of targeted learners (such as Māori and Pasifika Trades Training).  
*Officials suggest that the design of a unified funding system would need to consider how it and other policy settings can support the diverse needs of learners.*
- » Types of employers – Neither the ITF nor the SAC differentiate for different types of employers. However, because industry training is based around employer-supported learning, it is not available to the self-employed (because there is no-one to support their learning). Small employers, who make up the majority of New Zealand employers, may find their size to be a barrier to taking on an apprentice.  
*Officials suggest that a new funding system for vocational education could consider how funding can*

*support different types of employers to offer workplace-based training, for example by enabling group training arrangements.*

- » Location of learning – It can be expensive to deliver vocational education to a small population dispersed over a large area. E-learning can provide important access and scale benefits but isn't suitable for all learning or learners. In designing a unified funding system, officials suggest that there would need to be an appropriate balance between ensuring student access in remote locations, and value for money.

*This might mean that funding aims to incentivise providers to create programmes and resourcing approaches that can adapt to different circumstances.*

- » Recognition of Prior Learning – Learners have sometimes already attained some of the knowledge and skills needed for a qualification. Recognition of Prior Learning (RPL) is important for efficiently identifying what people already know and can do, and for saving learners, providers and employers from repeating learning. But officials suggest that it should be a prelude to and preparation for learning that develops new skills, not simply a process for credentialising existing skills.

*Do you feel that the role of RPL should be considered in the development of a new system? This work could also look at providers' incentives, when enrolling a learner, to fully recognise any credits the learner has acquired at other providers (Credit Recognition and Transfer).*

These are only a sample of the range of design questions officials would need to advise the Government about if this proposal goes ahead. Officials would like to hear from you about the key design features from your perspective.

The proposed reform does not involve any changes to providers' other sources of revenue, including commercial activity (including research contracts and student accommodation) and student fees.

### Technical discussion questions

*The questions below are just a guide – we welcome any additional feedback you have. You can see more questions or provide additional feedback online.*

What are the key features of a funding system that would support flexible learning pathways for learners and employers?

What opportunities and challenges do you see in creating a unified fund for vocational education?

What specific design elements of the current funds for vocational education should be included or changed in a new vocational education funding system?

### Funding for strategically important delivery that comes at higher costs

The SAC and ITF are designed to balance the need to reflect different delivery costs with the need to reduce complexity and provide transparency about funding. The 'bulk funding' approach within these funds gives flexibility for providers to shift funding to meet their particular priorities.

Officials are aware of ongoing debate about whether the range of factors currently considered is adequate, and whether there needs to be more flexibility to address different delivery costs. For example, if delivery is mainly to remote areas, or to very small employers, it may be more costly. Some of the factors commonly cited are:

- » Small class sizes;
- » More remote delivery sites;
- » More learners with low literacy or numeracy;
- » More learners with pastoral care or other support needs; and
- » A high proportion of small firms and the self-employed.

Related to this flexibility is the mode of funding. The SAC and ITF allocate funding based on enrolment volumes. In the past 'base grant' arrangements allocated a fixed block of funding, typically contracted for multiple years, with some variable enrolment-based funding on top of that. A mix of base grant and volume-based funding may make it easier for providers to meet the needs of different communities or industries, without such a strong focus on constantly growing enrolments. However, such an approach may also reduce incentives to offer as much vocational education to as many learners and employers as they can.

A further question is whether all funding rates should be set to cover roughly the same proportion of providers' delivery costs across different types of delivery (whether differentiated by field of study, mode of delivery, or learner type), or whether the price paid for some types of vocational education and training should influence what providers choose to focus their mix (or niche) of provision on. At the moment, as noted, SAC rates are set as a contribution to the cost of delivery, whereas ITF rates are flat across all delivery. Neither set of rates aims to incentivise providers to focus on particular fields of study or learners, for example by paying more for programmes that are under-supplied, or by paying more for learners who are under-represented in the system.

*Do you feel that a new funding system should consider using the "price lever" to shape provider choices?*

### Technical discussion questions

*The questions below are just a guide – we welcome any additional feedback you have. You can see more questions or provide additional feedback online.*

Which factors that lead to higher delivery costs should be taken into account in funding?

Which types of funding mechanisms (eg, funding rates or a base grant) would you suggest we use to address strategically important delivery with higher costs?

Should the funding system use funding rates to incentivise providers to deliver more (or less) vocational education to particular learners, or in particular fields of study? Or should it try to be as neutral as possible in meeting the actual costs of delivery across the board?

### Funding and accountability arrangements for ISBs

The Government proposes that ISBs would receive funding from, and be accountable to, both the Government and the industries they represent. ISBs would be tasked with delivering private as well as public benefits; it is important for industries to have financial "skin in the game" and to be able to hold the ISB to account for its performance.

If the reforms go ahead as planned, officials would consult with industry at a later date on details of funding arrangements for ISBs, potential industry funding collection mechanisms, and arrangements for ensuring accountability to Government/taxpayers and to industry, at a later date in consultation with industry.

At this stage, officials are interested in your feedback on what you think the balance of private and public funding for ISBs should look like and what form it should take. We are also interested to know whether you think that any activities or functions should receive fully private or fully public funding. The Government and industry could collectively purchase a single set of services from ISBs, sharing the total cost according to an agreed contribution ratio; another option would be for the Government and industry to separately purchase specific services, so that Government was fully paying for some services and industry fully paying to others, according to where benefits lay or where accountability needed to sit.

## Feedback questions on the formation and recognition of Industry Skills Bodies

*The questions below are just a guide – we welcome any additional feedback you have. You can see more questions or provide additional feedback online.*

What is the appropriate balance between public and private funding for ISBs? What form should the funding take?

Are there any activities or functions that you think ought to receive fully private or fully public funding?

Do you have any other comments on the funding arrangements for ISBs?

### Employer contributions to the cost of on-job training and fees to learners in some cases

One of the features of New Zealand's tertiary education and training funding system has been a relationship between sharing costs and benefits. Public funding can be seen as intended to support learning that benefits New Zealand – for example, because the learning supports economic growth, improves social wellbeing, and creates efficiencies by encouraging common qualifications and transferable learning. It also promotes and supports equitable access and outcomes from undertaking tertiary education and training.

Employers also derive considerable benefit from training their staff. Higher skilled workers are more productive, have lower error rates, and are more able to adapt to new technology or flexible working arrangements. As a result, industry training funding has included a requirement that employers contribute between 20 and 30 percent of the cost of training, though quantifying or monitoring these contributions in a consistent way across thousands of employers interacting with ITOs has proven complex.

The Government has signalled that it is likely to retain employer contributions to the cost of training within the proposed new funding system for vocational education. Officials will need to consider how this should be structured within a unified funding system (in light of the mix of learners with different levels of employer engagement with their learning).

Similarly, learners benefit from undertaking tertiary education and training, with strong evidence of clear connections between qualifications and employment outcomes. Learners generally contribute to cost of delivering education and training, including an indirect contribution by accepting lower wages whilst in training. The Government recognises that some learners face a range of barriers to accessing and undertaking education and training, particularly financial barriers, and therefore provides student support and Fees-Free funding to help meet the costs. Officials are interested to hear views on how the Government can continue to reduce barriers to New Zealanders accessing and undertaking vocational education. No changes to current student support and Fees-Free settings are specifically included in the proposed Reforms of Vocational Education.

## Technical discussion questions

*The questions below are just a guide – we welcome any additional feedback you have. You can see more questions or provide additional feedback online.*

Do you agree that the broad aim should be to maintain a balance of contributions to vocational education from government, employers and learners?

How should the design of a new funding system for vocational education balance and implement contributions from employers?

What do you see as key barriers to New Zealanders accessing and undertaking vocational education, and how could these be addressed?

## What happens after I provide feedback?

We expect that many people will be interested in having a say on the future of vocational education in New Zealand. Everyone's feedback is welcome. We'll carefully consider what we've heard in engagement meetings, along with the feedback that is sent in to the survey, email address and phone line. The Minister and Cabinet will receive a summary of all the feedback, which will inform their decisions about the Reform of Vocational Education. You can expect to hear about these decisions around mid-2019. We'll also continue to draw on feedback and ask for more conversations as we work through how to implement the Government's decisions.

## Are you looking for more detail?

Technical discussion documents that go into greater detail on the specifics of the other two proposals are available at <https://conversation.education.govt.nz/conversations/reform-of-vocational-education/>. Questions on the details are available on the technical discussion documents and online when you indicate that you wish to provide specific feedback to the following topics:

- » Proposal on roles of providers and industry bodies
- » Proposal on a single New Zealand Institute of Skills & Technology