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16 JUN 2014

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Referred to.....
Action.....

Dear John

Determination of Design of Funding Mechanism: “Student Achievement Component – Qualifications at Levels 1 and 2 of the New Zealand Qualifications Framework (Competitive Allocation)”

I am writing to advise you of the new funding determination made under section 159L of the Education Act 1989 for Student Achievement Component (SAC) funded provision at Levels 1 and 2 of the New Zealand Qualifications Framework (NZQF) which is competitively allocated.

The new determination is set out in the appendix to this letter. The determination covers the period from 1 January 2015.

Under section 159O of the Act, it is the Commission’s responsibility to develop the operational policy and practices needed to implement my determinations of the designs of funding mechanisms. I expect that the Commission will set appropriate measures as part of its Statement of Service Performance in order to report to me on its performance in giving effect to these determinations.

Yours sincerely

Steven Joyce
Minister for Tertiary Education, Skills and Employment

DETERMINATION OF DESIGN OF FUNDING MECHANISM: STUDENT ACHIEVEMENT COMPONENT - QUALIFICATIONS AT LEVELS 1 AND 2 OF THE NEW ZEALAND QUALIFICATIONS FRAMEWORK (COMPETITIVE ALLOCATION)

PRELIMINARY PROVISIONS

Statutory authority

1. This determination, which is made under section 159L of the Education Act 1989 (the Act), specifies the design of the funding mechanism for student achievement component (SAC) provision at levels 1 and 2 on the New Zealand Qualifications Framework (NZQF) that is allocated through a competitive allocation process (funding mechanism)¹.

Purpose

2. SAC funding contributes to the provision of teaching and learning services for students enrolled at tertiary education organisations (TEOs).
3. The SAC comprises the following two funds:
 - a. provision at levels 1 and 2 on the NZQF; and
 - b. provision at levels 3 and above on the NZQF.
4. The objectives of foundation level tertiary education (levels 1 and 2 on the NZQF) are to:
 - a. provide people who do not already have essential foundation skills with access to a low cost way to gain those skills; and
 - b. provide progression to higher level study and skilled employment; and
 - c. build the literacy and numeracy skills of eligible students; and
 - d. enable students to learn English or Te Reo Māori; and
 - e. encourage those TEOs that are best able to meet the needs of foundation education students.
5. The purpose of the competitive allocation process is to ensure that the purchase of good quality provision at levels 1 and 2 on the NZQF:
 - a. reflects the Government's objectives for foundation-level tertiary education; and

¹ For the requirements regarding the funding of provision at levels 1 and 2 on the NZQF which is not allocated competitively, refer to the "*Determination of design of funding mechanism: Student Achievement Component – provision at levels 1 and 2 of the New Zealand Qualifications Framework (non-competitive allocation)*".

- b. provides more certainty that the funding rates accurately reflect the costs of delivery.

On-plan funding

6. The Tertiary Education Commission (TEC) must pay funding allocated under this funding mechanism under section 159YA of the Act.

PART ONE: THE FUNDING MECHANISM

General parameters

Effective period dates

7. This funding mechanism is to fund provision from 1 January 2015.
8. The TEC may exercise any of its administrative functions as required to give effect to this funding mechanism outside those dates.

Available funding

9. The total amount of funding for allocation under this funding mechanism will be up to \$70 million annually.

Allocation process and priorities

10. The TEC must establish a process for competitively allocating the funding available under this funding mechanism that reflects the Government's priorities for entry-level tertiary education.
11. When allocating funding through the competitive allocation process, the TEC must give explicit consideration to provision of English for Speakers of Other Languages (ESOL), Te Reo Māori, special needs education, and prisoner education.

Funding formula and rates

12. The TEC must calculate SAC funding paid under this funding mechanism based on a metric comprising:
 - a. the number of valid domestic student enrolments, measured in equivalent full-time students (EFTS); and
 - b. the qualifications in which students are enrolled.

Valid domestic enrolments

13. For the purpose of calculating SAC funding paid under this funding mechanism, the term "valid domestic enrolment" refers to the enrolment of a student who is:

- a. a domestic student², or an Australian citizen or Australian permanent resident currently residing in New Zealand; and
 - b. one of the following:
 - i. aged 16 years and over; or
 - ii. aged under 16 years and meets the criteria determined by the TEC; and
 - c. not enrolled in a state or state integrated school.
14. The TEC must establish criteria for determining under which circumstances a student can be considered to be a valid domestic enrolment where he or she is aged under 16 years.
15. The TEC must establish the requirements that TEOs must comply with to verify each student's identity, and confirm that a student is a valid domestic enrolment.

Invalid domestic enrolments

16. Even if a student meets the criteria specified in paragraph 13, the enrolment is not a valid domestic enrolment for the purposes of this funding mechanism if it has been secured by way of an inducement(s).
17. An inducement may include a financial incentive or on-going personal possession of physical items where they induce a student to enrol.
18. The TEC must establish criteria for determining what constitutes an inducement.

The metric

Measurement of enrolments

19. The TEC must measure enrolments in units of equivalent full-time students (EFTS). One (1.0) EFTS unit is defined as the student workload that would normally be carried out by a student enrolled full-time in a single academic or calendar year.
20. The EFTS value of a qualification represents the TEC's assessment of the normal minimum time for a successful full-time student to complete the qualification. In addition, the credit value assigned to the qualification by either the New Zealand Qualifications Authority (NZQA) or the New Zealand Vice-Chancellors Committee is to be a part of the EFTS metric.
21. The TEC must consider qualifications that are disaggregated into component courses. The TEC must assign each course an EFTS factor that represents the proportion of the whole qualification that the course constitutes.

² For the definition of a "domestic student", refer to section 159 of the Education Act 1989.

Funding rates

22. As part of the process for competitively allocating the funding available under this funding mechanism, the TEC must ensure that each TEO specifies a funding rate per EFTS.
23. The TEC must fund the TEO in accordance with that funding rate (subject to performance-linked funding).

Performance-linked funding

24. The TEC must reserve 5% of a TEO's SAC funding for provision at levels 1 and 2 on the NZQF, that is paid either under this funding mechanism and/or the "*Determination of design of funding mechanism: Student Achievement Component - provision at levels 1 and 2 of the New Zealand Qualifications Framework (non-competitive allocation)*" ("combined allocations").
25. The reserved funding is to be paid on the basis of the TEO's educational performance for provision at the level 1 and 2 qualification group (combined allocations), funded either competitively or non-competitively.
26. The TEC must determine a performance score for the level 1 and 2 qualification group (combined allocations), using the following weightings of performance indicators:

Qualification level	Qualification completion	Course Completion	Retention	Progression
1-2	35%	45%	-	20%

27. The TEC must set and publish annually the upper and lower benchmarks for each group of qualification levels. The benchmarks must be based on the following criteria:
 - a. for the upper benchmark, the 50th percentile of performance at each group of qualifications levels; and
 - b. for the lower benchmark, the 10th percentile of performance at each group of qualifications levels.
28. The TEC must then apply an adjustment of 50%, in proportion to the amount of part-time study that takes place at a TEO, to the qualification completions performance indicator to give the final performance score.
29. If the TEO's performance score is:
 - c. above the upper benchmark, the TEC must allocate the full amount of reserved funding; or
 - d. below the lower benchmark, the TEC must not allocate any of the reserved funding; or
 - e. between the two benchmarks, the TEC must allocate a portion of reserved funding to the TEO according to a formula which the TEC is to

develop. The proportion of this funding allocated to a TEO depends on how close its performance score is to each benchmark.

TEO eligibility

30. The TEC may only fund a TEO under this funding mechanism for if the TEO is one of the following:
 - a. an institute of technology and polytechnic (ITP);
 - b. a wānanga;
 - c. a university; or
 - d. a private training establishment (PTE).
31. When establishing the competitive process to allocate funding under this funding mechanism, the TEC may develop other TEO eligibility criteria including a TEO's previous NZQA external evaluation and review results, or a minimum or maximum level of funding per TEO.

TEO quality assurance

32. To be eligible for funding under this funding mechanism, a TEO must be quality assured by:
 - a. the New Zealand Qualifications Authority, if the TEO is an ITP, a wānanga or a PTE; or
 - b. the New Zealand Vice-Chancellors' Committee (trading as Universities New Zealand), if the TEO is a university.

Eligibility of students

33. The TEC must ensure that a TEO only receives funding that is allocated under this funding mechanism for eligible students.
34. To be an eligible student, a student must:
 - a. meet the criteria specified in paragraph 13; and
 - b. not already hold a qualification at level 2 or higher on the NZQF unless:
 - i. the student is participating in a qualification in ESOL or Te Reo Maori; or
 - ii. the TEO at which the student has enrolled has not reached the threshold specified in paragraph 37 (if the enrolment relates to 2015), or paragraph 38 (if the enrolment relates to 2016).
35. To be eligible to participate in qualifications at levels 1 and 2 on the NZQF funded under this funding mechanism, prospective students should not already hold a qualification at level 2 or higher on the NZQF. This does not apply to

students participating in qualifications in English for Speakers of Other Languages (ESOL) or Te Reo Māori.

36. TEOs are expected to manage a transition regime that will shift most enrolments in levels 1 and 2 qualifications over time to those students who do not have a prior qualification at level 2 or higher on the NZQF.
37. For qualifications other than for ESOL or Te Reo Māori in 2015:
 - a. for all enrolments in levels 1 and 2 qualifications at any TEO, except for enrolments in mātauranga Māori qualifications at wānanga, students who already hold a qualification at level 2 or higher on the NZQF (or equivalent) must not comprise more than 10% of enrolments at each TEO; and
 - b. for enrolments in mātauranga Māori qualifications at wānanga, students who already hold a qualification at level 2 or higher on the NZQF (or equivalent) must not comprise more than 20% of enrolments at each wānanga.
38. For qualifications other than for ESOL or Te Reo Māori from 2016:
 - a. for all enrolments in levels 1 and 2 qualifications at any TEO, except for enrolments in mātauranga Māori qualifications at wānanga, students who already hold a qualification at level 2 or higher on the NZQF (or equivalent) must not comprise more than 10% of enrolments at each TEO; and
 - b. for enrolments in mātauranga Māori qualifications at wānanga, students who already hold a qualification at level 2 or higher on the NZQF (or equivalent) must not comprise more than 10% of enrolments at each wānanga.

Qualifications

Eligible qualifications

39. The TEC must ensure that funding allocated under this funding mechanism is only used for provision that:
 - a. meets the objectives of entry-level tertiary education (as set out in paragraph 4 above); and
 - b. leads to:
 - (i) a full qualification (of 40 credits or more) at level 1 or 2 on the NZQF; or
 - (ii) National Certificate of Educational Achievement (NCEA) at level 2 that is aligned with one or more of the Vocational Pathways; and
 - c. includes embedded literacy and numeracy provision (except for qualifications in ESOL or Te Reo Māori); and

- d. includes an assessment process, under which students are assessed using the Literacy and Numeracy for Adults Assessment Tool (except for qualifications in ESOL or Te Reo Māori); and
- e. if the qualifications are in ESOL or Te Reo Māori, include an assessment process under which students are assessed using the Literacy and Numeracy for Adults Assessment Tool (as required by the TEC); and
- f. is fees-free to all learners in 2015³; and
- g. involves synchronous learning (delivered in real-time to the student); and
- h. is not delivered entirely extramurally; and
- i. is provided by tutors who hold an appropriate qualification (such as the National Certificate in Adult Literacy Education (Vocational)).

Ineligible qualifications

- 40. The TEC must ensure that funding under this funding mechanism is not used for qualifications where the TEC considers on reasonable grounds that a majority of the qualification relates to health and safety or regulatory compliance.

PART TWO: FUNDING CONDITIONS

Conditions that the TEC must attach to funding

- 41. The TEC must impose the following specific conditions on funding provided to each TEO under this funding mechanism.

Tertiary Education Organisations

- 42. The TEC must attach to funding a condition that a TEO that receives funding under this funding mechanism must meet, and for the length of the funding period, continue to meet all the eligibility criteria specified in paragraphs 30 and 32 of this funding mechanism.
- 43. The TEC must attach to funding a condition that a TEO that receives funding under this funding mechanism must not subcontract any of its activities funded under this funding mechanism.

Students and enrolments

- 44. The TEC must attach to funding a condition that a TEO that receives funding under this funding mechanism must ensure that each eligible student meets and continues to meet the criteria specified in paragraph 34 of this funding mechanism.
- 45. The TEC must attach to funding a condition that a TEO must not:

³ Any limits on fees for 2016 will be determined by way of a supplementary funding mechanism to be issued during 2015.

- a. restrict enrolment in eligible qualifications (as set out in paragraph 39) on the basis of private advantage (for example, enrolment being restricted to the TEO's employees only); or
 - b. secure or seek to secure a valid domestic enrolment through offering of an inducement.
46. The TEC must attach to funding a condition that a TEO that receives funding under this funding mechanism must not seek funding for students who hold a qualification at level 2 or higher on the NZQF (or equivalent) if it has already reached the thresholds specified in paragraphs 37 and 38.
 47. The TEC must attach to funding a condition that a TEO that receives funding under this funding mechanism must verify a student's identity, and confirm that a student is a valid domestic enrolment in accordance with the requirements developed by the TEC.

Qualifications

48. The TEC must attach to funding a condition that a TEO that receives funding under this funding mechanism must ensure that a qualification in which an eligible student is enrolled meets and continues to meet the criteria specified in paragraph 39 of this funding mechanism.
49. The TEC must attach to funding a condition that a TEO that receives funding under this funding mechanism must use the Literacy and Numeracy for Adults Assessment Tool to identify the literacy and numeracy needs of each student, and measure the student's progress.
50. The TEC must attach to funding a condition that a TEO that receives funding under this funding mechanism must ensure that a majority of the qualification in which an eligible student is enrolled does not include health and safety or regulatory compliance learning.

Fees and associated course costs

51. The TEC must attach to funding a condition that a TEO that receives funding under this funding mechanism in 2015 must not charge a fee to a student enrolled in a qualification that is funded under this funding mechanism.
52. For the purposes of this condition, the term "fee" includes the following items: tuition fees, compulsory course costs, examination fees, costs of materials, costs of field trips, costs associated with the compulsory purchase of equipment or books through a TEO, and other charges associated with a course that is part of a qualification.
53. For the purposes of this condition, the term "fee" does not include compulsory student services fees or fees for student identification cards.
54. Any limits on fees for further years will be determined by way of a supplementary funding mechanism to be issued the preceding year. It is likely that this fund will continue to remain fees-free.
55. The TEC must attach to funding a condition that a TEO that receives funding under this funding mechanism:

- a. must pay for the necessary equipment, infrastructure and hardware required to deliver a particular course or qualification⁴; and
- b. in relation to the provision of essential equipment, including computers, diving hardware, and chainsaws, must not require the costs to be met through the “course-related costs” component of the Student Loan Scheme, as a condition of enrolment for students.

TEO responsibilities

56. The TEC must attach to funding a condition that a TEO that receives funding under this funding mechanism must meet minimum performance standards specified by the TEC.

No other funding

57. The TEC must attach to funding a condition that a TEO that receives funding under this funding mechanism must:
 - a. not (without the TEC’s prior written consent) seek or obtain funding from any Crown source other than the TEC to fund provision which is funded under this funding mechanism; and
 - b. notify the TEC immediately if it becomes aware of any circumstances that might result in a breach of paragraph (a) of this condition.

Responsible use of funding

58. The TEC must attach to funding a condition that a TEO that receives funding under this funding mechanism must use the funding:
 - a. lawfully, responsibly, and for the purposes for which it is provided; and
 - b. in a manner consistent with the appropriate use of public funds.

Recovery of over-funding

59. The TEC must attach to funding a condition that if a TEO receives funding under this funding mechanism that is greater than it should have been, or that it was not entitled to receive, the TEO must treat the amount of the over-funding as a debt due to the Crown that:
 - a. is repayable on demand; and
 - b. may be set-off against all or any funding, or any sum of money payable by the TEC to the TEO.
60. The TEC must provide the TEO with reasonable notice before exercising its right to demand repayment or set-off the debt against all or any funding.

⁴ The phrase “equipment, infrastructure and hardware” refers to those items that can be used by successive intakes of students. It does not include personal items which are provided for individual student use and which the TEO does not retain for the next intake of students.

61. For the purposes of this condition, a TEO will have received funding that was "greater than it should have been" if the total dollar value of the provision funded under this funding mechanism that is delivered by a TEO within a funding year is less than 99% of the total dollar value for the provision paid to the TEO under this funding mechanism.
62. In that situation, the percentage of funding that is repayable is equal to the difference between the bottom of the tolerance band (99%) and the percentage value of the provision that was delivered.

TEC administrative responsibilities

63. If a TEO receives funding under this funding mechanism that is less than it should have been, or that it was entitled to receive, the TEC must treat the amount of the under-funding as a credit and pay the amount of the under-funding as soon as reasonably practicable.

Specific conditions that the TEC must attach to Tertiary Education Institutions (TEIs) funded under this funding mechanism

64. The following specific conditions must be attached to funding provided to each TEI under this funding mechanism.

Enrolment

65. The TEC must attach to funding a condition that a TEI must keep accurate and up-to-date records of valid domestic enrolments in accordance with the requirements developed by the TEC.

Benchmarking

66. The TEC must attach to funding a condition that a TEI must participate as appropriate in benchmarking, including:
 - a. providing the vendor with financial and performance information as requested, in a timely manner; and
 - b. engaging with the vendor over follow-up questions and related quality assurance processes, in a timely manner.