

## Education Report: Additional advice on the unified funding system

<b>To:</b>	Hon Chris Hipkins, Minister of Education		
<b>Date:</b>	16 March 2021	<b>Priority:</b>	High
<b>Security Level:</b>	Budget Sensitive	<b>METIS No:</b>	1251762
<b>Drafter:</b>	Nicole Rennie	<b>DDI:</b>	044637740
<b>Key Contact:</b>	Hayley Robertson	<b>DDI:</b>	044638584 9(2)(a)
<b>Messaging seen by Communications team:</b>	No	<b>Round Robin:</b>	No

### Purpose of Report

The purpose of this paper is to outline the work we intend to do to support you and your Cabinet colleagues to make decisions on the unified funding system in 2021.

It also seeks your agreement to commence work with the sector on the detailed design of the funding category and strategic components, including testing the feasibility of an online/distance mode of delivery.

## Recommendations

---

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

- a. **note** that we will provide you with a detailed briefing by late April about the learner success component
- b. **agree** that we will commence work with the sector on the detailed policy and operational design of the funding category and the strategic component


**Agree / Disagree**

- c. **agree** that officials will test with the sector the proposal of an online/distance mode of delivery

**Agree / Disagree**

- d. **agree** to proactively release this education report after Cabinet has taken decisions of the unified funding system, with any redactions in line with the provisions of the Official Information Act 1982.

**Agree / Disagree**

  
**Katrina Sutich**  
Group Manager, Te Ara Kaimanawa –  
Tertiary Policy  
Ministry of Education

16/03/2021

  
**Gillian Dudgeon**  
Deputy Chief Executive - Delivery  
Tertiary Education Commission

16/03/2021

  
**Hon Chris Hipkins**  
Minister of Education

2/4/21

*It will be important the system doesn't end up too complex to understand. Discussion around distance learning needs to take into account our goal for more blended/multi-mode learning options. CH*

## Background

---

1. On Monday 22 February, you requested further information about the unified funding system (UFS), to address questions arising from a draft Cabinet paper we provided [METIS 1248682 refers].
2. This paper outlines how we intend to work to support you and your Cabinet colleagues to make decisions on the UFS in 2021.

## Work programme for the UFS

---

### We intend to provide you with regular advice to ensure delivery in 2023

3. Annex One outlines our plan for providing you with advice to support you and your Cabinet colleagues to make decisions related to the UFS and related workstreams (eg. fee regulation). Much of this advice is interconnected and builds to a detailed Cabinet paper in November, to inform decisions on the future of the VET funding system.
4. The timelines for delivery from 2023 are tight but achievable. They are dependent on robust data collection and sector engagement to test the best way to operationalise the high level design of the UFS. There are likely to be significant implications for implementation and on sector confidence and buy-in if these timelines are not met.
5. To ensure that we meet key milestones, and keep you informed of pertinent information as it becomes available, we will be providing you with regular advice and progress updates.

### Learner success component

6. You have asked some questions about the learner success component and indicated that you would like more information about how we developed our proposals and how our recommended options will impact and influence providers.
7. We will provide you with a detailed briefing on our recommendations on the best way to support learner success in the UFS by late April. This briefing will include information about the analysis that we have done since 2019 to inform the learner success component, illustrating the link between our recommended options and underlying evidence. This will be supported by preliminary modelling of the distribution of learners across the system and the impact and influence our proposals may have at a sector level.
8. When we provide you with this briefing, we will seek your feedback on how we can best support you to discuss the learner success component with your Cabinet colleagues.
9. Detailed modelling of the impacts of specific funding rates on providers will occur alongside the modelling of the funding category component in October 2021 and March 2022.

### Further intense engagement with the sector is needed for the funding category and strategic component

10. Throughout 2019 and 2020, we tested proposals with stakeholders. The sector recognises the proposed design as a good reflection of the goals of the Reform of Vocational Education. While there were some elements where individual providers wanted further emphasis on aspects of their particular business (for example, higher funding rates for particular subjects), they are eager to work with us on the detailed policy and operational design.
11. Continued engagement with the sector throughout 2021 is the best way to support the sector to shift their thinking and business plans ahead of implementation of the UFS from 2023. By providing the sector information on the UFS proposals and decisions as

they become available, they are more likely to be prepared to make the changes in behaviour that employers, learners and communities want and need.

12. Furthermore, we need to engage with the sector on detailed policy and operational policy design to provide you with the best advice informed by sector experts. This detailed design, alongside data collected from the sector, will allow us to provide you with more accurate modelling later this year. This engagement does not restrict your future decisions in these areas, rather helps us to provide you with robust advice.
13. The first phase of data modelling will be undertaken by October 2021, after two rounds of data collected from the sector. This modelling will allow us to advise you on high level sector impacts and the percentage split between the UFS components. In March 2022, after a full year of data, we will be able to confirm with you the final funding rates for the UFS in 2023.
14. Therefore, we recommend that you agree that we commence engaging with the sector on the detailed policy and operational design of the funding category and strategic components of the UFS.

*We want to test the detailed design of an online/distance mode of delivery*

15. You previously agreed that we would do further work on how to fund technology-enabled learning within the UFS [METIS 1233742 refers]. We provided you with advice on funding technology-enabled learning through a separate mode of delivery (see Annex Two).
16. We recommend that you agree that we can discuss the detailed design of the online/distance mode as this allows us to test the feasibility of operationalising the mode, as well as include it as part of modelling the funding category component. This will allow us to provide you with the best advice on how to fund online/distance delivery, to inform yours and Cabinet's final decision on how to fund this provision in VET in the future.

## Next steps

---

17. With your agreement, we will continue to work with the sector on the detailed design of the funding category and strategic components, including testing and online/distance mode of delivery.
18. We will provide you with further advice on the learner success component by late April.

## Annexes

---

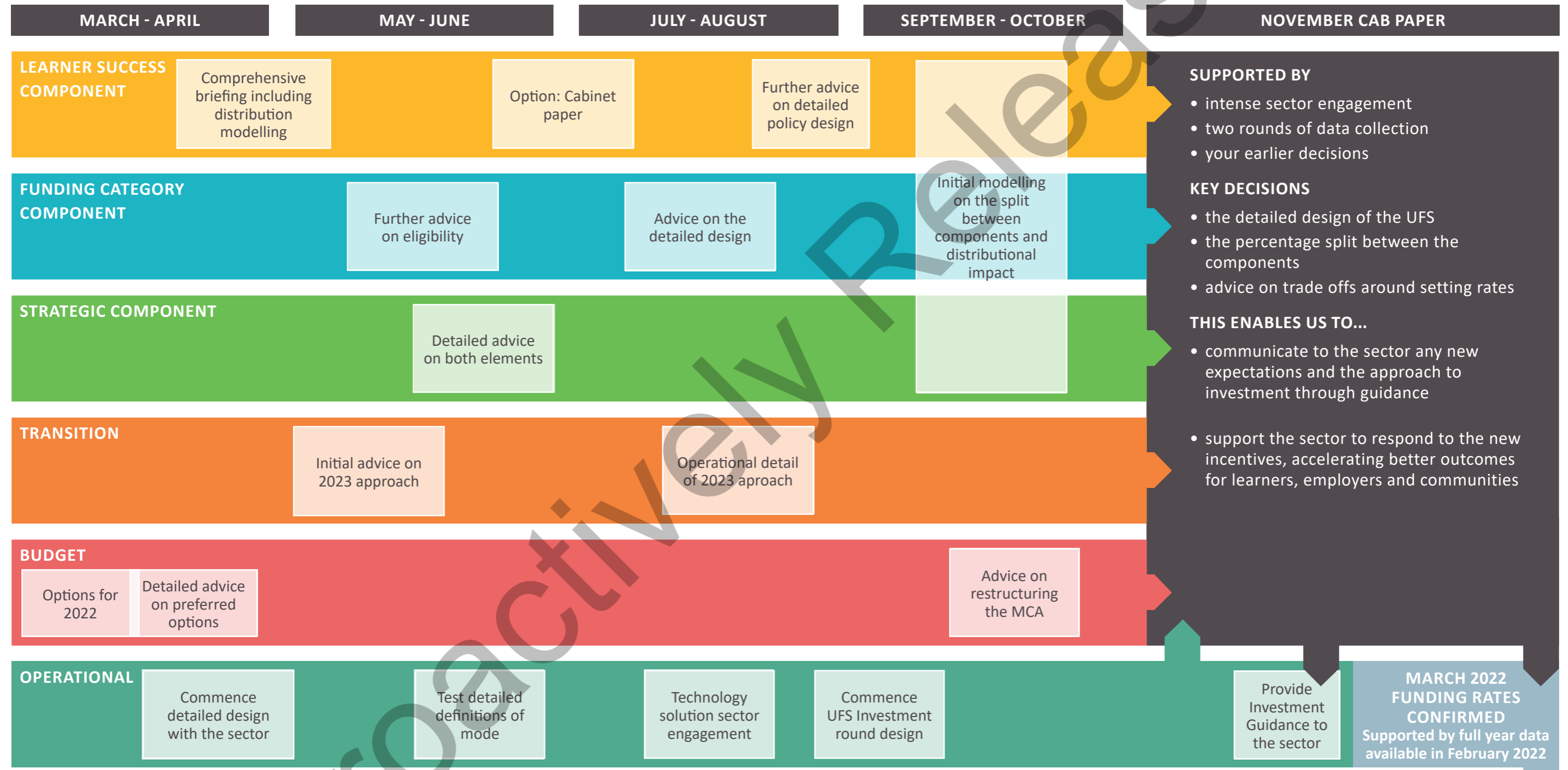
Annex One: Unified Funding System Advice through 2021

Annex Two: Previous advice on online/distance mode of delivery

# Unified Funding System

Advice through 2021 ▶▶

This diagram outlines the timing of the advice we will provide you on the design of the UFS and the operational design work we will be completing with the sector. We have included fee regulation work and associated work on student support because of the interdependencies between these projects and the UFS. This advice builds to a proposed Cabinet paper in November 2021, which is a key milestone to ensure implementation from 1 January 2023.



### SUPPORTED BY

- intense sector engagement
- two rounds of data collection
- your earlier decisions

### KEY DECISIONS

- the detailed design of the UFS
- the percentage split between the components
- advice on trade offs around setting rates

### THIS ENABLES US TO...

- communicate to the sector any new expectations and the approach to investment through guidance
- support the sector to respond to the new incentives, accelerating better outcomes for learners, employers and communities

## Annex Two: Previous advice on online/distance mode of delivery

---

*Note: this advice was provided in a cover note to the draft Cabinet paper on the high level design of the unified funding system for vocational education.*

1. You asked us to carry out more work on the funding of distance or online learning as part of the unified funding system [METIS 1233742 refers]. Work is required to identify the scope of distance and online delivery and, if necessary, to develop a funding approach to differentiate this delivery from other modes of delivery.
2. We are currently referring to this mode broadly by using the term 'distance delivery'. Work is underway to test whether the mode should cover all distance delivery or only online delivery.
3. We have considered the limited international evidence in this space and have identified three options for the form a distance mode may take.
  - a. **Option 1: status quo** – continue to fund distance learning at the same rate as face-to-face learning.
  - b. **Option 2: set a lower rate for distance learning** – continue to fund on a per full-time learner rate, but set the rate lower to reflect the lower cost of delivery.
  - c. **Option 3: fund programme development and ongoing delivery separately** – to reflect the relatively high up-front programme development costs and low costs per learner. This pattern of costs is also true for face-to-face delivery, but it is more extreme for distance, and particularly online, programmes. This approach would represent a more fundamental reform, and would need to extend to considering the centralisation of some functions (e.g. a programme design function for Te Pūkenga built off one of their existing subsidiaries with online delivery expertise). For this reason, it would require more time to carry out a full review of the opportunities (and to explore international models in more depth).
4. Option 2 appears to best balance the incentives in the system. This is because:
  - a. while the evidence is still evolving, the weight of it points towards a lower cost to offer distance learning, especially as the use of online delivery matures.
  - b. retaining a rate per full-time learner is consistent with the approach proposed for other modes of delivery, making it easier for providers to combine across modes to maximise flexibility for learners and employers.
  - c. separating funding for programme development and delivery (as in option 3) would distort the way the 'input' costs of delivery are managed, either encouraging over-supply of programme design (if we fund per-programme), or under-supply (if we pay a fixed price across all programmes). It could also reduce responsiveness to learners and employers (because the funding would not be as strongly driven by enrolments).
5. We want to further test this with the sector to identify the feasibility and potential impacts of differentiating funding on this basis. Our early discussions with the sector indicate that careful definition work will be required to allow a full understanding of any proposed mode. We are working to understand if this creates any new data gathering activities.
6. We will provide you with further advice on any proposed mode and its parameters following sector discussions.
7. The draft Cabinet paper indicates that further work is being undertaken in relation to developing a distance or online mode of delivery and that you will confirm the design of any mode when you return to them for final decisions on the overall design of the unified funding system.