



## Education Report: Further advice on pilot training and priority engineering for the UFS

<b>To:</b>	Hon Chris Hipkins, Minister of Education		
<b>Date:</b>	09 February 2022	<b>Priority:</b>	High
<b>Security Level:</b>	In Confidence	<b>METIS No:</b>	1280994
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<b>Messaging seen by Communications team:</b>	No	<b>Round Robin:</b>	No

### Purpose of report

This paper provides further advice on creating a new funding category (F4) in the Unified Funding System (UFS) for pilot training and priority engineering.

### Summary

This paper responds to your feedback on the *Education Report: Additional information on the proposed UFS rates for pilot training* [METIS 1280401 refers] with a proposal to create a new funding category in the UFS and seeks your decision on whether to include both pilot training and priority engineering in this category. We seek your agreement for the provider-based rate for this category to be set at approximately 85 percent of the current 2021 Student Achievement Component (SAC) rates for pilot training and priority engineering (approximately \$12,000 for provider-based).

For pilot training, this proposal would result in a less significant decrease in funding for the ten affected private training establishments (PTEs) than our previous recommendation to set the rate at F3 (a decrease of approximately 15 percent to their government funding compared to 30 percent). The estimated cost of setting pilot training at this new rate is approximately \$0.7 million and so will result in a slight reduction to other rates to make up this increased cost. 9(2)(g)(i)

Given the fixed costs and regulation in aviation it is unlikely that transition funding will enable these PTEs to move to more sustainable models over time. 9(2)(f)(iv)

For priority engineering, the difference between this provision being classified as F3 (currently modelled at \$9,805 for provider-based) and the new F4 category would result in a cost of approximately \$2.6 million. This will require a more significant reduction to other rates. This decision would mostly benefit Te Pūkenga given that it has approximately 96 percent of the equivalent full-time students (EFTS), with less than 4 percent of EFTS at universities (no PTEs delivered priority engineering in 2021). Te Pūkenga is already set to see a net increase in funding of approximately \$60 million through the UFS and so retaining the priority engineering rate at F3 would not create significant viability issues for providers. If you decide not to include

priority engineering in the new funding category then F4 would be for pilot training only, which may result in a strong reaction from other PTEs impacted by the UFS. This can be mitigated by clear communications that this decision was to avoid a disproportionate decrease in funding for pilot training.

Alternatively, you could agree to set the new provider-based funding rate at around the current SAC rates for pilot training and priority engineering. However, this would not be in line with reductions to other provider-based rates from SAC and would result in a significant cost of approximately \$5.5 million to manage through reductions to other rates. This may also result in a strong reaction from other PTEs in the vocational education and training (VET) sector that are facing significant decreases in funding through UFS and may be considered strategically important to the network of VET provision. Our proposed reduction at 85 percent of the 2021 SAC rate also supports the broader shift we want to see in UFS with greater incentives for work-based learning.

## Recommendations

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The Ministry of Education recommend that you:

- a. **agree** to establish a new funding category in the unified funding system (F4) that includes the following areas of provision:

- i. pilot training (currently M1 in the Student Achievement Component rates)

Agree  Disagree

AND

- ii. priority engineering (currently N1 in the Student Achievement Component rates)

Agree  Disagree

EITHER

- b. **agree** that the provider-based rate of the new funding category 'F4' is set at approximately 85 percent of average 2021 Student Achievement Component rates (approximately \$12,000), consistent with reductions in other subject areas under the unified funding system (**recommended**)

Agree  Disagree

OR

- c. **agree** that the provider-based rate of the new funding category 'F4' is set approximately in line with average 2021 Student Achievement Component rates (approximately \$13,500) (**not recommended**)

Agree  Disagree

- d. **note** that pilot training and priority engineering are currently funded at slightly different rates (\$14,252 and \$13,285 respectively) and so if both are included in the new F4 category we would need to split the difference to create one new rate

- e. **note** that if you disagree with recommendation (a)(ii), then priority engineering will remain at 'F3' and the rates in recommendations (b) or (c) will be set in relation to the current pilot training rates
- f. **agree** to proactively release this education report after the funding rates for the unified funding system have been announced in April 2022, with any redactions in line with the provisions of the Official Information Act 1982.

Agree  Disagree



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09/02/2022



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[21/ 2 /2022](#)

## Background

1. In the recent *Education Report: Additional information on the proposed UFS rates for pilot training* [METIS 1280401 refers] we recommended that the funding rates for pilot training and priority engineering remain at the 'F3' provider-based rate of the UFS (currently modelled at \$9,805). This was to support simplicity in the design of the UFS by limiting the number of funding rates and avoiding exceptions for specific subject areas. However, this resulted in a disproportionality higher drop for pilot training in particular.
2. You disagreed with this proposal due to concerns about the impact of the proposed funding decrease, especially for those PTEs delivering pilot training that are already facing difficulties due to the decline in international enrolments. This paper provides further advice on alternative options to reduce the funding decrease for these areas of provision.

## Establishing a new funding category in the UFS

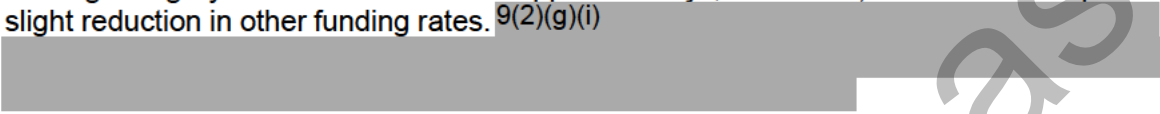

3. As suggested in our previous advice, an alternative would be to establish a new funding category in the UFS (F4). We recommend that the provider-based rate be set at approximately 85 percent of average 2021 SAC rates.
4. The current pilot training and priority engineering SAC rates are slightly different (\$14,252 and \$13,285 respectively) and so if both are included in the new F4 category we would need to split the difference to create one new rate. For example, a provider-based rate at \$12,000 would be 84 percent of the current pilot training rate and 90 percent of the current priority engineering rate.
5. The approximate rates at the different modes for this new rate are shown below in table 1. Most of the volume for these areas of provision is in the provider-based mode, but there are 300 priority engineering standard training measures (STMs) reported as work-based.

Table 1: Estimated rates for the new F4 rate and volume by mode

	Provider-based	Extramural	Work-based	Work-based: Pathway to work	Assessment and verification
Approx. rate	\$12,000	\$4,750	\$9,000	\$11,500	\$1,500
Est. 2021 pilot training EFTS / STMs	290	<1	30	0	0
Est 2021 priority engineering EFTS / STMs	1,010	190	300	0	0

6. This proposed funding rate would be in line with reductions to other provider-based rates from their equivalent SAC funding rates. We consider this reduction is reasonable and aligns with the broader shifts we want to see across the UFS with greater incentives for work-based learning. This follows the 'moderate incentives' option in our initial modelling advice from October 2021 [METIS 1272025], that recommended higher reductions to funding for provider-based provision to support higher work-based rates.

## Further information about including pilot training in the new funding category

7. We seek your decision on including pilot training in the new funding category. If included, then the ten pilot training PTEs with domestic students would still receive a decrease in funding, but this would be more manageable than setting it at F3.<sup>1</sup> It would mean that the UFS value of delivery for these PTEs would fall by approximately 15 percent and their combined tuition subsidy and domestic student fee revenue would drop by 3 percent.<sup>2</sup> This compares to a decline of around 30 percent decline to their UFS value of delivery (6 percent of their combined tuition subsidy and domestic student fee revenue) at the F3 rate.
8. Further information showing the impact of this proposed change on each of the ten PTEs that deliver pilot training is in Annex 1. We estimate that including pilot training in this new funding category will result in a cost of approximately \$0.7 million, which would require a slight reduction in other funding rates.<sup>9(2)(g)(i)</sup>  

9. Pilot training providers have a relatively unique operating environment that constrains their ability to manage reduced funding:
  - a. they are highly regulated by the Civil Aviation Authority (CAA), including setting requirements for the number and qualifications of training;
  - b. pilot training delivery is very sensitive to external cost drivers such as increasing fuel costs, which have been rising to pre-COVID levels;
  - c. almost all pilot training providers only deliver this provision, so they are limited in their ability to diversify delivery or income streams; and
  - d. they have very few learners.
10. Furthermore, initial pilot training qualifications are not suitable for work-based training due to requirements for licenses. Pilot training is also less likely to receive funding from the learner component as entry requirements mean that disabled learners and those with low prior qualifications are often not eligible for entry.
11. It is important to note however that government funding is a relatively small part of the income for PTEs delivering pilot training, with much more significant revenue from domestic and international student fees. Therefore, the potential impact of future fee regulation changes and current proposals led by the Ministry of Business, Innovation and Employment to reduce eligibility for international students to come to New Zealand for non-degree programmes would likely have a much more significant impact on the viability of these PTEs.
12. <sup>9(2)(f)(iv)</sup>  


<sup>1</sup> Our previous advice [METIS 1280401] had included Air NZ Academy of Learning as an impacted PTE, however, all reported delivery in 2021 relates to Engineering Technology funded through the C1 SAC rate, not pilot training. For this reason, we have removed this provider from the list of those impacted.

<sup>2</sup> The value of delivery figures in the paper are calculated from the estimated 2021 volume multiplied by the proposed rate. The figures are not adjusted for funding caps and over- or under-delivery. These figures will therefore differ from the actual funding allocations made by the TEC.

### *Transition and Strategic funding*

13. The TEC and Ministry are working through an approach for transition funding for PTEs. Funding to support PTEs to transition will be from the strategic component and is intended to enable providers to transition their business models to the new UFS incentives, not sustain current funding levels. Given the nature of pilot training, those affected pilot training PTEs are unlikely to be able to change to lower costs models. Transition funding will also only be available in the short-term.
14. Funding from the strategic component (not related to the transition) could also support the viability of pilot training delivery. However, this would reduce the funding available for areas of strategic priority identified by Workforce Development Councils (WDCs) and Regional Skills Leadership Groups (RSLGs) while subsidising the delivery of a relatively small number of providers. 9(2)(f)(iv)

### **Further information about including priority engineering in the new funding category**

15. Priority engineering was a funding category introduced in 2013 as part of changes to increase the supply of engineers. The rate was intended to incentivise enrolments in level 5 and 6 engineering provision. Based on current 2021 estimates, 75 percent of the SAC-funded enrolments for priority engineering were at Te Pūkenga, 21 percent were at transitional industry training organisations (ITOs) and 4 percent at universities (no PTEs delivered 'priority engineering' in 2021). The arranging training functions for all the transitional ITOs delivering priority engineering in 2021 have been transferred to Te Pūkenga.<sup>3</sup>
16. If you decide to fund priority engineering at approximately 85 percent of average 2021 SAC rates in the new funding category, this will result in a cost of approximately \$2.6 million from the current modelled rate at F3. This will require a more significant reduction to other rates. We estimate that about 98 percent of this funding would go to Te Pūkenga, which is already set to see a net increase in the value of its delivery of approximately \$60 million through the UFS. The remaining 2 percent will go to universities (no PTEs delivered 'priority engineering' in 2021). Annex 2 provides further information on those providers impacted.
17. If you decide not to include priority engineering in the new funding category, then F4 would be for pilot training only. A separate funding rate for pilot training only may result in a strong reaction from other PTEs impacted by the UFS that have a greater dependence on government tuition subsidy funding. This can be mitigated by clear communications to the sector that this decision was to avoid a disproportionate decrease in funding for pilot training.

### **Alternatively, the new funding category could be set around the current rates**

18. If you remain concerned by a drop in government funding for pilot training and priority engineering, you could set the F4 provider-based rate approximately in line with average 2021 SAC rates (approximately \$13,500). This would result in a more significant cost of \$5.5 million (approximately \$1.1 million for pilot training and \$4.4 million for priority

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<sup>3</sup> The four transitional ITOs with volume in the priority engineering category are Competenz, Connexis, MITO and Service IQ.

engineering) requiring more substantial reductions to other rates. It would also mean that the priority engineering rate would be set slightly higher than the 2021 rate of \$13,285, to split the difference with the 2021 pilot training rate and create one new rate.

19. We do not recommend this approach as we do not consider there to be a strong case to retain the current SAC rates for pilot training or priority engineering (as we have done for te reo and tikanga rates) when considering broader UFS priorities. We consider that the increases to work-based rates are a greater priority. Furthermore, this may also result in a strong reaction from other PTEs in the VET sector that are facing significant decreases in funding through UFS and may be considered strategically important to the network of VET provision.

### Next steps

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20. Subject to your decision on establishing a new funding category and whether to include pilot training and priority engineering, the updated rates will be factored into the modelling of the UFS. We will provide advice seeking your agreement to the final UFS rates in March 2022 after we have analysed the impact of full-year 2021 data.

Annex 1: Estimated impact of providers of UFS rates options for pilot training and priority engineering

Table 1: Estimated impact on total UFS value of delivery for PTEs from options for pilot training rate in the UFS

PTE	Est. impact of F3 rate at approx. 70% of current average rate (\$000) and % drop in UFS value of delivery	Est. impact of F4 rate at approx. 85% of current average rates (\$000) and % drop in UFS value of delivery	Est. impact of F4 rate at approx. current average rates (\$000) and % drop in UFS value of delivery <sup>4</sup>	Current financial viability rating (provided by TEC)	International student allocations for 2022	
Air Hawkes Bay	9(2)(b)(ii)				23	
Ardmore Flying School						39
Christchurch Helicopters						0
International Aviation Academy of NZ						34
Nelson Aviation College						8
North Shore Helicopter Training						0
NZ International Commercial Pilot Academy						90
Southern Wings						0
Waikato Aero Club						0
Wanaka Helicopters						1
<b>Total</b>	<b>-1,310 (-30%)</b>	<b>-\$640 (-15%)</b>	<b>-\$190 (-4%)</b>	<b>N/A</b>	<b>195</b>	
<b>Additional cost (compared to F3 rate)</b>	<b>N/A</b>	<b>\$670</b>	<b>\$1,120</b>	<b>N/A</b>	<b>N/A</b>	

<sup>4</sup> Given that approximately 20 percent of pilot training provision at these PTEs is funded through the 'Arts' (A1) rate as theory, there will still be some small reductions to their funding through the UFS even if the pilot training rate was retained.



Table 2: Estimated impact on priority engineering value of delivery for providers from options for priority engineering rate in the UFS

Providers with priority engineering provision		Est. impact on UFS value of delivery of...		
		F3 provider-based rate at approx. 70% of current average rate - \$9,805 (\$000)	F4 provider-based rate at approx. 85% of current average rates - \$12,000 (\$000)	F4 provider-based rate at approx. current average rates - \$13,500 (\$000)
Te Pūkenga	14 ITP subsidiaries	-4,300	-2,170	-720
	4 Transitional ITOs	1,610	2,040	2,340
	<b>Total</b>	<b>-2,690</b>	<b>-130</b>	<b>1,620</b>
Universities		-360	-300	-270
<b>Total TEIs</b>		<b>-3,050</b>	<b>-430</b>	<b>1,350</b>
<b>Additional cost (compared to F3 rate)</b>		<b>N/A</b>	<b>\$2,620</b>	<b>\$4,400</b>

#### Notes for tables

- Figures are for the value of delivery, and do not take account of funding caps and the effects of over- and under-delivery on providers' actual funding.
- Figures are based on estimated 2021 volumes.
- Value of delivery figures include the total of the delivery component and learner success component, but do not include potential allocations from the strategic component or Programme Development Fund.
- Figures are rounded to the nearest 10,000 and so may not add the totals.