



# Report: VET funding – further policy decisions

To:	Hon Penny Simmonds, Minister for Vocational Education		
Cc:	Choose an item.		
Date:	14/02/2025	Deadline:	18/02/2025
Security Level:	In-Confidence	Priority:	Medium
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## Why are we sending this to you?

- You are receiving this paper as part of confirming policy decisions for VET funding for your Cabinet paper in March 2025.

## What action do we need, by when?

- We would like to discuss this report with you at the agencies meeting on Tuesday 18 February.
- Your decisions and feedback will inform the drafting of a Cabinet paper.

## Key facts, issues and questions

- This paper seeks decisions on a range of VET funding settings which are interconnected with each other and with Budget decisions, including funding rate changes, settings for reduced Learner Component funding, freeing up funds for standard-setting, and confirming the proposed approach to supporting strategically important provision.
- We also provide advice on the National Party commitment to restore industry training subsidies for migrant workers, and recommend that any funding for this change be sought via a future Budget process.
- Following your feedback on the options presented in this paper and Budget decisions, we will model the cumulative impacts of your preferred funding changes on tertiary education organisations to check for any unforeseen consequences for provider incentives or the overall distribution of funding.

## Alignment with Government priorities

1. This report aligns with Government priorities as part of the work programme to disestablish Te Pūkenga and confirm new funding settings to come into effect from 1 January 2026.

## Background

2. In December 2024 Cabinet agreed to legislation changes to disestablish Te Pūkenga and support a new structure for Institutes of Technology and Polytechnics (ITPs). It was agreed that arrangements for work-based learning would be confirmed after further consultation (currently underway) was completed. You also committed to report back to Cabinet in March with “options to support strategically important provision, including transitional funding reprioritised from within existing baselines”.
3. In January you agreed that for the purposes of transitional support funding, strategically important provision should be defined as provision which is either in a priority industry and regional-critical, or is a foundation or secondary-tertiary programme, delivered by an ITP that is at risk of not being viable [METIS 1341651 refers]. You signalled that you would like to commit \$15 million from savings, plus \$5 million from volume to support this provision. This paper provides an update on our modelling of this approach.
4. We have provided separate advice on the savings that are intended to fund support for strategic provision [METIS 1342160 refers], and these will be agreed through a separate Cabinet paper in parallel with VET funding decisions.
5. This paper seeks your decisions on policy matters to be included in your March Cabinet paper, including:
  - a. Delivery Component funding rates for provider-based learning;
  - b. reductions to Delivery Component funding rates for work-based learning;
  - c. funding arrangements for the standard-setting function;
  - d. Learner Component funding rates and settings; and
  - e. confirming the approach to supporting strategically important provision.
6. This paper also includes advice on:
  - a. targeting the cost adjustment sought through Budget 2025 for VET provision, as the impacts of this cost adjustment are interdependent with other funding changes [METIS 1339860 refers].
  - b. advice on subsidising work-based training for migrant workers.

## Delivery Component – provider-based funding rates

7. You have two sources of funding with which to increase funding rates for provider-based VET:
  - a. Approximately \$20 million reprioritised from the Learner Component;<sup>1</sup> and
  - b. \$17 million set aside in your Budget package for a cost adjustment to VET funding rates as part of Budget 2025.
8. You have previously indicated your preference to target rate increases rather than increase all rates equally. This would allow funding for priority areas to be increased by a

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<sup>1</sup> The exact amount required will depend on your preferred options for fiscally neutral changes overall, and we have used this as an indicative figure. Once you have indicated your decisions, we will model the cumulative impact of those decisions to confirm that they can be done in a fiscally neutral way.

larger amount and send a signal to the sector about the Government's strategic priorities [METIS 1339860 refers].

9. These increases would be confirmed at different times through different decisions, but they will have a cumulative effect on the funding landscape from 2026. The cumulative impacts of funding rate decisions are discussed below.
10. If both funding increases are strongly targeted, there is a risk that the differences between targeted and non-targeted rates become too large, with consequences for funding system design and provider incentives. While a high funding rate is an incentive for providers to invest in that provision, high funding for provision without high costs could lead to providers gaming the system at the expense of other core provision.
11. It is also worth noting that funding rates do not have a strong impact on learners' choices about what they study, which ultimately drive demand. Increased funding rates may encourage tertiary education organisations (TEOs) to improve and market programmes but do not guarantee higher demand from learners.

### Options for funding increases

12. The Unified Funding System (UFS) for VET has six funding categories, each containing a broad range of provision. The categories and modes of delivery are shown below with the current rates for 2025.

Table 1: Funding categories, modes of delivery and rates for 2025

Funding categories	Mode of delivery / \$ per EFTS				
	Provider-based	Provider based: extramural	Work-based	Work-based: pathway to work	Assessment and verification
Humanities, Business and Social Service Vocations (F1)	\$6,84	\$6,584	\$5,701	\$6,901	\$1,658
Trades, Creative Arts, Information Technology and Health-related Professions (F2)	\$10,469	\$10,469	\$7,825	\$9,732	\$1,658
Agriculture, Engineering, Health Sciences and Science (F3)	\$11,786	\$11,786	\$8,543	\$10,693	\$1,658
Pilot Training and Priority Engineering (F4)	\$14,419	\$14,419	\$9,984	\$12,613	\$1,658
Foreign going Nautical and specialist Agriculture (F5)	\$19,753	\$19,753	\$12,900	\$16,499	N/A
Māori and Te Reo Māori (F6)	\$7,827	\$7,827	\$7,827	\$7,827	\$1,782

13. In the context of your Budget package we noted your priorities for VET as including trades, agriculture, engineering and health sciences. Targeting these areas could most easily be achieved by providing an increase to category F2 ('Trades, Creative Arts, Information Technology and Health-related Professions') and F3 ('Agriculture, Engineering, Health Sciences and Science'). The UFS funding categories are broad, however, and non-targeted provision in these categories will also benefit from such an increase.
14. We have considered three options for the distribution of funding from the Learner Component into provider-based delivery funding rates. The percentages in these options

are approximate and can be refined once you have decided on an approach. Modelled using 2023 volume data, a reprioritisation of approximately \$20 million could facilitate:

- a. Option 1 – a targeted increase of 6 percent to F2 and F3 funding rates only;
  - b. Option 2 – an equal increase of 4 percent across F1-F5 funding rates; or
  - c. Option 3 – a larger increase of 5 percent to F2 and F3 funding rates as well as a small increase of 2 percent to F1, F4 and F5 funding rates.
15. For the purposes of the fiscally neutral redistribution of funding we have excluded the funding category F6: Mātauranga Māori and Te Reo Māori. This is because funding for this provision was not decreased from the previous SAC funding rate when the UFS was introduced, whereas other provider-based funding rates were. This funding category also benefits from a Budget 2023 decision to increase the funding rate by 15 percent by 2027. You could still choose to increase funding for this category through a cost adjustment.
16. The impact of the options on provider-based funding rates is shown in the following table:

*Table 2: Fiscally neutral increases to provider-based funding rates (before cost adjustment)*

Funding rate	Option 1 (per EFTS)	Option 2 (per EFTS)	Option 3 (per EFTS)
Humanities, Business and Social Service Vocations (F1) - provider	\$6,584 (no change)	\$6,847 (+ \$293)	\$6,716 (+ \$132)
Trades, Creative Arts, Information Technology and Health-related Professions (F2) - provider	\$11,097 (+ \$628)	\$10,888 (+ \$419)	\$10,992 (+ \$523)
Agriculture, Engineering, Health Sciences and Science (F3) - provider	\$12,493 (+ \$707)	\$12,257 (+ \$471)	\$12,375 (+ \$589)
Pilot Training and Priority Engineering (F4) - provider	\$14,419 (no change)	\$14,996 (+ \$577)	\$14,707 (+ \$288)
Foreign-going Nautical and specialist Agriculture (F5) - provider	\$19,753 (no change)	\$20,543 (+ \$790)	\$20,148 (+ \$395)

17. We do not recommend Option 1 as it creates a large gap between the two targeted rates and other provider-based categories which is not reflective of a difference in costs. This creates a risk of gaming behaviour from providers being incentivised to focus too strongly on specific fields at the expense of others.
18. Either Option 2 or Option 3 could serve the objective of lifting provider funding rates closer to previous levels. Option 2 provides the broadest support across provider-based delivery, while Option 3 would provide increases more strongly in favour of your priority areas with a smaller increase to other delivery. Our recommendation will depend on your Budget decisions and the combined effect (discussed below).

### **Factoring in a cost adjustment through Budget 2025**

19. A Budget cost adjustment for 2026 would be applied in addition to these changes. Table 3 (below) shows how this could be done with each of the above options, and the resulting overall increase to funding rates.
20. We propose two options for how you might choose to apply this cost adjustment:
- a. a targeted increase to all delivery in the F2 and F3 categories (approx. 3 percent); or

b. applied equally to all delivery across all funding categories (approx. 1.8 percent).<sup>2</sup>

21. An alternative approach would be to shift trades provision from the F2 category into the F3 category and target only this funding rate. This would provide a very substantial increase for trades provision in particular,<sup>3</sup> but would concentrate the entire cost adjustment for VET delivery into one funding category. This increases the risk that it grows out of proportion with other funding. We have not yet modelled the cost of shifting trades provision into the F3 category, and we recommend using the categories as they currently exist for simplicity and to avoid incurring the cost of a larger jump in funding rate.

Table 3: Scenarios for cost adjustments in combination with funding rate changes

Reprioritisation scenario	Cost adjustment targeted (F2 and F3; +3%)	General cost adjustment (+1.8%)
1. Target to priority subject areas only (+6%)	Targeted (provider): +9% Other (provider): <i>no change</i>  Targeted (work-based): -7% <sup>4</sup> Other (work-based): -10%	Targeted (provider): +7.8% Other (provider): + .8%  All (work-based): -8.2%
2. General increase for provider-based rates (+4%)	Targeted (provider): +7% Other <sup>5</sup> (provider): +4%  Targeted (work-based): -7% Other (work-based): - 10%	F1 F5 (provider): +5.8% F6 (provider): +1.8%  All (work based): -8.2%
3. Higher increase for priority areas with a smaller general increase (+5% / +2%)	Targeted (provider): +8% Other (provider): +2%  Targeted (work-based): -7% Other (work-based): - 10%	Targeted (provider): +6.8% Other (provider): +3.8%  All (work-based): -8.2% <i>(MoE preferred approach)</i>

22. Targeting a cost adjustment focuses the benefit to certain areas, although the targeted categories (and F2 in particular) contain a large amount of VET provision. The risks of targeting are reduced if increases through reprioritisation are more evenly dispersed. A targeted increase could further soften the impact of work-based learning funding decreases for the targeted categories.
23. On balance, we recommend a combination of Option 3 for reprioritised funding (a higher increase for priority categories with a smaller increase for other provision) and a small, untargeted cost adjustment to all VET delivery. This balanced approach would help the VET system as a whole keep pace with rising costs and inflation, while still incentivising the sector to focus on your priority areas by providing a stronger funding increase in those areas. It also slightly compensates for the reduction of funding across work-based learning.
24. We note that Budget discussions are ongoing, and that funding and Budget decisions in tertiary education are now expected to be worked through and agreed with the Minister for Universities. We will consider any changes in your Budget package between now and the lodging of the March Cabinet paper and provide further advice if necessary. We

<sup>2</sup> This percentage is approximate has been chosen to work within the modelling used for this report. Final percentages may change slightly to account for the cumulative impact of different funding decisions, and we will model this once you have indicated your decisions.

<sup>3</sup> Shifting from F2 to F3 would increase trades funding from \$10,468 per EFTS to \$11,786 per EFTS (at 2025 rates), an increase of \$1318 per EFTS before the addition of a cost adjustment.

<sup>4</sup> Calculated assuming a decrease of 10 percent across all work-based delivery funding rates (discussed below), so work-based learning in targeted areas would receive a reduced decrease.

<sup>5</sup> This increase would be applied to the F1, F4 and F5 categories, but not F6 as discussed above.

recommend that Cabinet decisions on funding are sought in-principle pending confirmation of Budget decisions, with adjustments able to be made toward the overall outcome that Cabinet agrees.

## Modes of delivery

25. The current funding system has five modes of delivery (see Table 1). We have considered whether these could be reduced in the interests of simplifying funding, and we recommend removing the 'work-based: pathway to work' mode while leaving other modes as they are for 2026.
26. This mode is intended to support the transition of a learner from provider to work-based learning, and is used only for a small volume of EFTS over a limited period. It has overall not added value in practice and the TEC reports that some TEOs find it difficult to understand where it applies. If the 'pathway to work' mode is removed the TEC can develop guidance to clarify the boundary between the provider and work-based modes for learners who transition between them.
27. The 'provider-based: extramural' mode is less relevant now that its funding rates have been equalised with other provider-based learning. However, retaining a separate mode has the advantage of making extramural delivery more visible in a TEO's mix of provision, which allows the TEC to make more informed investment decisions. We consider this to be sufficient value-add to retain the mode at this stage.

## Work-based learning and standard-setting

28. You have agreed to reduce funding for work-based learning to achieve savings of \$30 million, which is to be reprioritised to fund standard-setting. We have estimated this will require reducing the total Delivery Component funding in work-based modes by approximately 10 percent.
29. Decisions on the structure of work-based learning are expected in April 2025, and the funding needs of the system may differ slightly under the Independent and Collaborative models of work-based learning. Because Cabinet is not expected to agree to one of these models until April, funding arrangements for work-based learning cannot be developed or agreed as part of the March Cabinet paper on funding issues. We therefore recommend achieving the necessary savings in a simple way for 2026, and deferring broader decisions on how work-based learning is funded so that the model can be taken into account.
30. We estimate that reducing all funding rates in the 'work-based' mode of delivery by 10 percent will provide savings of just over \$30 million. The 'assessment and verification' mode is already a low rate intended to cover minimal services<sup>6</sup> and we propose to leave these rates unchanged.
31. Under this approach almost half of the \$30 million savings comes from the reduced rate for work-based learning in the F2 category (which includes trades and contains the majority of work-based learning).
32. We have excluded the category F6 (Mātauranga Māori and Te Reo Māori) from this reduction in line with a previous policy decision that learning in this category should be funded at the same rate regardless of mode. This has a minimal impact on the savings achieved because there is very little work-based delivery in the F6 category.

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<sup>6</sup> In 2025 the 'assessment and verification' rate is \$1,658 for all categories where it applies, apart from F6 (Mātauranga Māori and Te Reo Māori), where it is \$1,782 due to Budget increases to the category but there is not currently any provision delivered in this category and mode.

Table 4: Proposed work-based learning funding rates (before cost adjustment)

Funding category	Work-based mode (-10%)	Difference with 2025 rates	Projected savings*
Humanities, Business and Social Service Vocations (F1)	\$5,131	- \$570	\$5.085m
Trades, Creative Arts, Information Technology and Health-related Professions (F2)	\$7,043	- \$782	\$17.658m
Agriculture, Engineering, Health Sciences and Science (F3)	\$7,689	- \$854	\$7.758m
Pilot Training and Priority Engineering (F4)	\$8,986	- \$998	\$0.167m
Foreign-going Nautical and specialist Agriculture (F5)	\$11,610	- \$1,290	\$0.029m
<b>Total</b>			<b>\$30.697m</b>

\* Savings based on 2023 learner volumes in each category.

33. Funding settings for work-based learning will also depend on the final model to be agreed by Cabinet in April (e.g. whether funding needs to be split between delivery and pastoral care functions). We note that there will be a limited window between decisions on work-based learning and consultation on funding determinations, which is expected to happen in late May/early June 2025.<sup>7</sup> To achieve the implementation of a new model for work-based learning from 2026, high level decisions about any funding changes would likely need to be agreed in April at the same time as the work-based learning model.
34. After the future work-based learning model is established, you may wish to make more significant changes to the funding model that supports it. This could include changing the structure of funding rates from subject-based categories to something closer to the previous model of apprentice and trainee rates (as has been discussed in previous advice [METIS 1324004 refers]) or otherwise moving away from the UFS structure. However, there will not be sufficient time to work through these sorts of changes for implementation on 1 January 2026.

### Funding standard-setting through the transition

35. The savings from this reduction will provide \$30 million in dedicated funding for standard-setting function. From 2026, once Industry Skills Boards (ISBs) have been established and take responsibility for standards-setting, this funding will be divided between them [METIS 1336884 refers].
36. Workforce Development Councils (WDCs), which currently carry out standards-setting functions, are funded through to the end of the 2024/25 financial year. You have indicated that between June 2024 and the establishment of ISBs in 2026 WDCs should utilise their cash reserves to fund their standards-setting functions. The TEC estimates that there will be a shortfall of approximately \$15 million across the WDCs, and you have agreed to include this amount as a cost pressure in your Budget package to secure this function for the 2025 calendar year [METIS 1339861 refers].
37. A time-limited funding delegation for industry standard-setting could be established to enable TEC to allocate funding for 2026, with some flexibility in allocating funding to the organisation holding the system role at the time (WDCs or ISBs) if the dates of transition

<sup>7</sup> Funding determinations are the primary implementation of changes to the funding system. Variations to existing determinations are required under legislation to be confirmed only after consultation with affected parties (TEOs that receive the funding), and final versions must be confirmed before the end of September to come into effect on 1 January the following year.

will be staggered. A funding determination could then be established to fund ISBs for standards-setting in the future. This would be reviewed annually as part of the standard review and consultation process for funding determinations. We will provide you with further advice on this approach once Budget decisions have been confirmed.

## Learner Component settings

38. You have previously agreed to fund the increase to provider-based funding rates by reducing Learner Component funding. We estimate the required savings at \$20 million per annum, or nearly 25 percent of the \$78 million overall spend on the Learner Component in 2023
39. You have already agreed that you would like to remove the Māori and Pacific learner criteria (savings of approximately \$6.5 million), and additional reductions will be required to the funding rates for learners with low prior achievement and/or disabled learners [MET S 1336887 refers].

## Options for reprioritising the Learner Component

40. We have considered two options for how the Learner Component could be re-prioritised:
  - a. **Option 1** - remove funding for Māori and Pacific learners and reduce funding for learners with low prior achievement by approximately 27 percent. Funding for disabled learners would remain the same under this option.
  - b. **Option 2 (recommended)** - remove funding for Māori and Pacific learners and reduce funding for both learners with low prior achievement and disabled learners by approximately 20 percent.
41. The following table shows the approximate Learner Component rates under each option (to be confirmed in final modelling):<sup>8</sup>

Table 5: Learner Component rate adjustment options

Eligible learner group	2024 rate per EFTS	Option 1 rate per EFTS	Option 2 rate per EFTS
Learners with low prior achievement	\$1,295	\$950	\$1,030
Disabled learners	\$1,295	\$1,295	\$1,030
Māori and/or Pacific learners Levels 1 -2 (work-based only) and Levels 3 - 6	\$152	-	-
Māori and Pacific learners at Level 7 (non-degree)	\$364	-	-
<b>Total saving</b>		\$20 million	\$20 million

42. Currently funding is only allocated once for a learner who is disabled and/or has low prior achievement. We recommend that where a TEO enrolls a learner who qualifies under both eligibility categories, the higher of the two rates is allocated under Option 1.

## Impact of the changes

43. Savings from the Learner Component will be retained within the VET provider system, with the expectation that TEOs will continue to support underserved and at-risk learners using their volume funding.
44. However, the changes will result in a net reduction in total funding for work-based learning. For this reason, we recommend Option 2 as this has a smaller impact on overall funding

<sup>8</sup> This modelling uses 2023 learners and EFTS volume and 2024 funding rates.

for the work-based learning divisions of Te Pūkenga, due to the different proportions of eligible learners (see Annex 2 for more detailed information on the impacts of each option on TEOs). Option 2 will significantly decrease the Learner Component funding received by PTEs who deliver only work-based learning (approximately 24 percent) – however, due to the relative volume of learners in each sub-sector, Option 2 is still our preference.

45. The impact of Option 2 is still significant, however, with modelling showing that the current work-based learning divisions of Te Pūkenga will lose between 28 and 32 percent of their Learner Component funding. In the case of BCITO, for example, this equates to over \$2 million per annum.
46. Wānanga will also be negatively impacted, with a reduction in their Learner Component allocation of between 30 and 40 percent. This equates to approximately \$2 million per annum in the case of Te Wānanga o Aotearoa, who receive the largest allocation of Learner Component funding based on Māori and Pacific learner enrolments of any TEO. Increases to provider-based rates should offset these losses, with the extent of the overall increase dependent on how these are targeted.
47. It is difficult to predict how TEOs will respond to the funding changes and consequently how learners will be impacted. Some TEOs may see a reduction in the Learner Component as a signal that learner success is no longer a priority and reduce the amount of support they provide as a result. Other TEOs have embedded learner-centric approaches into their operating models and have seen significant benefits that they are likely to be motivated to maintain.

### Feedback on the proposed changes

48. Funding changes, including changes to the Learner Component, were signalled in the public consultation document released in August 2024. The consultation document did not directly propose that Māori and Pacific learner numbers would no longer be used to calculate funding.
49. We consider that the Crown's responsibilities under Article 1 of the Treaty of Waitangi | Te Tiriti o Waitangi include specific consideration of, and engagement with, Māori interests (such as Māori employers, Māori learners and their whānau, hapū and iwi) and ensuring these interests are protected in the redesigned VET system [METIS 1337752 refers]. In a situation such as this, where clear Treaty interests have been identified, the best practice approach would be to collaborate with Māori to develop solutions that address Māori interests and support Māori to participate and achieve equitable outcomes from the VET system.
50. The 2024 consultation document noted that the specifics of funding settings for 2026 would be subject to further engagement before being finalised. Due to the tight implementation timeline and the summer break, we have not been able to carry out significant engagement with population groups who will potentially be most impacted by the changes.<sup>9</sup>
51. However, in feedback from public consultation in 2024 several submitters told us that more funding should be allocated to ensure culturally responsive education pathways and to support Māori to succeed in the VET system. These submitters saw the key risks associated with removing dedicated funding to support Māori (and underserved learners in general) as:
  - a. reduced access to opportunities and resources which exacerbates existing inequities;
  - b. a potential reduction in equitable outcomes for Māori learners if targeted funding is reduced;

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<sup>9</sup> Variations to funding determinations must still be consulted on, which will allow the sector to provide feedback, but this will be at a late stage of the process and after Cabinet decisions have been made.

- c. entrenching systemic bias within the education system, ultimately undermining the mana and dignity of learners with disabilities, Māori and Pacific people.
- 52. These risks need to be weighed against the risk of ITP failure, which would have significant impacts on access and participation in VET for underserved learners, and the potential benefits of a network of independent ITPs which will be better able to respond to the needs of their local communities, including whānau, hapū, and iwi.
- 53. We have met with officials from Whaikaha, Te Puni Kokiri, the Ministry for Pacific Peoples, and the Ministry for Social Development and Employment to talk through the proposed options and potential impacts. Officials from these agencies reiterated the concerns they expressed during agency consultation on your December Cabinet paper about the potential negative impacts of reducing the Learner Component for learners. There were particular concerns about the impact on work-based learners.

### **Supporting a continued focus on improving outcomes for all learners**

- 54. The Learner Component was never designed to be the sole support for TEOs to improve outcomes for learners. This requires ongoing investment, using delivery funding as well as Equity/Learner Component funding to drive efficiencies and/or ensure more sustainable revenue through retention and completion. There is a clear return on investment for both TEOs and the wider economy from improving outcomes for learners, and the tertiary education system should continue to incentivise and signal the importance of this.
- 55. In addition to the Learner Component, there are a number of other system levers to incentivise and hold TEOs accountable for learner success. These include:
  - a. Investment Plans, including via:
    - Learner Success Plans;
    - Disability Action Plans;
  - b. the Minister's letter of expectation to TEC;
  - c. Education Performance Indicators (EPIs); and
  - d. the Education (Pastoral Care of Tertiary and International Learners) Code of Practice.
- 56. The Learner Component has a performance element, with 20 percent dependent on meeting performance expectations agreed with the TEC if that TEO receives over \$100k in Learner Component funding. The funding attached to the performance element tends to be quite small and is not in itself an effective incentive for improving outcomes, and it creates an additional administrative burden.
- 57. Along with utilising the levers listed above, we recommend removing the performance element from the Learner Component from 2026. This will reduce the compliance burden on TEOs, more closely tie Learner Component and Equity funding to a TEO's Learner Success Plan (which covers all levels of delivery), and create a more coherent policy narrative focused on a whole-of-organisation approach to improving educational outcomes for all learners.
- 58. There may be further opportunities to mitigate some of the risk of changes to the Learner Component once the cumulative effects of funding changes are clearer following Budget decisions.

### **Strategically important provision**

- 59. You have agreed to a definition of strategically important provision as provision which is:
  - a. delivered by an at-risk ITP; and

- b. at Level 3-7 (non-degree), in a priority industry and not delivered by another provider in the region; or
- c. part of a foundation education or secondary-tertiary programme.

60. You have indicated that you would like to commit \$15 million in agency savings to support strategically important provision through a criteria-based fund. We have modelled the likely distribution across eligible ITPs if this funding is divided based on the proportion of their total provision which is defined as strategically important (Table 6). This is a preliminary estimate using only the industry priority, foundation and secondary-tertiary criteria at this stage, and excluding 9(2)(ba) ITPs currently expected to be able to operate as standalone entities from 1 January 2026 9(2)(ba)(i)

61. Whether or not eligible provision is region-critical is not yet reflected in Table 6 as this will require more extensive data modelling at the programme level to analyse.<sup>10</sup> Full modelling is unlikely to be completed in time to be included in the March Cabinet paper, but the TEC is confident that it will be able to take comparable provision from other providers into account in determining eligibility for this funding. We propose to provide Cabinet with a map showing the number of providers in each region, to illustrate where comparable provision is more likely to be found.

9(2)(ba)(i)

62. The indicative distribution of funding shown in Table 6 is roughly aligned with where we understand the greatest need to be. It includes significant allocations for ITPs in the West Coast, Northland and Taranaki regions, which you highlighted as areas of concern in your December Cabinet paper. Of the examples in that paper, “critical agricultural and forestry

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<sup>10</sup> Industry priority has been identified based in NZSCED categories for this indicative table, however these categories are too broad to determine whether another provider offers something which can be considered comparable.

provision in Otago” is the only one not represented among the larger allocations (but some support funding is still provided under this model).

63. You have indicated that you would also like to set aside \$5 million from volume funding to be allocated through grants under section 556 of the Education and Training Act 2020. This option would allow you discretion to address issues that individual ITPs may face but which are not well reflected in the criteria above. We can include this as part of your preferred option for the Cabinet paper in March.

## Industry training for migrant workers

64. In early December 2024 we became aware of a commitment in the National Party's Primary Sector Growth Plan to “reverse changes made by Labour to allow migrant workers to access industry training at domestic rates”.<sup>11</sup> Background information on this issue is provided in Annex 3. As this policy would require changes to VET funding settings we suggest addressing it in your March Cabinet paper.

9(2)(f)(iv)

[REDACTED]

<sup>11</sup> [Primary Sector Growth Plan](#).

<sup>12</sup> In 2017, work carried out to consider amending the eligibility rules found that 49% of ‘overseas’ trainees undertook programmes of 3-6 months’ duration, compared to 27% overall. It also found that, in 2016, 6% of funding was directed to ‘overseas’ trainees, and a further 9% to ‘unknown’ residential status. But this varied widely by ITOs, with Primary ITO receiving 25% of their funding for ‘overseas’ trainees.

<sup>13</sup> Stats NZ noted in February 2024 that net migration remained at near record levels, with an annual net migration gain of 173,000 non-New Zealand citizens in 2023 which is just below the provisional record of 177,700 in the October 2023 year. Net migration gains of non-New Zealand citizens averaged about 60,000 a year from 2014–2019, before the COVID-19 pandemic. ([Net migration remains near record level | Stats NZ](#))

9(2)(f)(iv)

## Next Steps

70. A table of the funding decisions sought in this paper is provided in Annex 1. We propose to discuss this with you at the agencies meeting on Tuesday 18 February.
71. Following your feedback, and taking into account any further Budget discussions, we will model the cumulative impacts of your proposed funding changes on TEOs to check for any unforeseen consequences for provider incentives and the overall distribution of funding.
72. We will reflect your decisions and any further feedback in a draft of your March Cabinet paper for your approval in late February.
73. You may wish to begin discussing your intentions with your Cabinet colleagues ahead of formal consultation (which we expect to undertake 6-14 March). Funding and Budget decisions will require discussion with Minister Reid, and your report back to Cabinet in March is invited in consultation with the Minister for Social Development and Employment.

## Annexes

The following are annexed to this paper:

- Annex 1: Summary of funding decisions sought in this report
- Annex 2: Impact of changes to the Learner Component on TEOs
- Annex 3: Background information on subsidies for non-domestic learners in work-based learning

## Recommended Actions

The Ministry of Education recommends you:

- a. **discuss and indicate** your preferred approach to the funding options outlined in Annex 1, including:
  - i. provider-based funding rates
  - ii. Budget cost adjustment
  - iii. learner component
  - iv. standard-setting and work-based learning

☒ Yes / ☐ No

- b. **agree** to remove the 'work-based: pathway to work' mode from the Unified Funding System, with delivery instead categorised as either work-based or provider-based
- Agree** Disagree
- c. **agree** to remove the performance element of the Learner Component from 2026
- Agree / Disagree**
- d. **agree** to your March Cabinet paper including as your preferred option to support strategically important provision:
- i. \$15 million allocated through a criteria-based fund using criteria previously agreed [METIS 1341651 refers]; and
- ii. \$5 million set aside from volume funding for grants to ITPs under section 556 where there is a particular need and additional funding is in the national interest

**Agree** Disagree

*Industry training for migrant workers*

- e. **agree** to one of the following approaches:
- i. retain the current eligibility settings for non-resident industry trainees (*recommended*)
- Agree** Disagree
- ii. propose to Cabinet that an initiative is submitted to reinstate tuition subsidies for all non-resident industry trainees on an AEWV as part of Budget 2026

**Agree** Disagree

**Proactive Release:**

- f. **agree** that the Ministry of Education release this paper once Cabinet decisions on VET funding settings have been announced, with any information needing to be withheld done so in line with the provisions of the Official Information Act 1982.

**Agree** Disagree



James Campbell  
**Acting General Manager**  
**Te Pou Kaupapahere**

14/02/2025



Hon Penny Simmonds  
**Minister for Vocational Education**

14/02/25


## Annex 1: Summary of funding decisions sought in this report

Funding component	Option	Key considerations	Indicative decision
<b>Provider-based funding rates</b>  <i>(Increase by ~\$22 million reprioritised from the Learner Component)</i>	<b>Option 1</b> – targeted increase of 7 percent to F2 and F3 funding rates only	<ul style="list-style-type: none"> <li>• Strongest increase to provider-based funding in priority subject/industry areas</li> <li>• Strong signalling of priorities for providers</li> <li>• Creates a large differential between these and other funding rates which is not well connected to delivery costs</li> <li>• Could create incentives for gaming or draw providers away from other provision which is also important to their communities ('chasing' funding in reases)</li> </ul>	
	<b>Option 2</b> – an equal increase of 4 percent across F1-F5 funding rates	<ul style="list-style-type: none"> <li>• A moderate, general increase or provider-based learning</li> <li>• Lifts all provider funding rates closer to previous (SAC) levels</li> <li>• Mitigates the risk of specific funding rates growing out of proportion with others in the system</li> <li>• Could be combined with targeting through a Budget cost adjustment</li> </ul>	
	<b>Option 3</b> – a larger increase of 6 percent to F2 and F3 funding rates as well as a small increase of 2 percent to F1, F4 and F5 funding rates	<ul style="list-style-type: none"> <li>• Provides a larger increase to funding rates for priority subject/industry areas, while lifting other provider rates approximately in line with inflation</li> <li>• Could be combined with targeting through a Budget cost adjustment</li> <li>• Allows targeted funding rates to increase higher than others, but somewhat mitigates the risk of other provision being neglected as a result</li> </ul>	


Funding component	Option	Key considerations	Indicative decision
<b>Budget cost adjustment</b>  <i>(targeted increase using ~\$17 million)</i>	<b>Option 1</b> – targeted cost adjustment to all delivery in the F2 and F3 categories (~3%)	<ul style="list-style-type: none"> <li>Signals that delivery in these categories is a Government priority</li> <li>Focuses new funding in these priority areas only</li> <li>Softens the reduction of funding for work-based learning in these categories (the majority of work-based delivery)</li> <li>Compounds any targeting of other increases to provider-based</li> </ul>	
	<b>Option 2</b> – general cost adjustment to all delivery at Levels 3-7 (non-degree) (~1.8%)	<ul style="list-style-type: none"> <li>Provides a small increase to funding for all VET delivery, approximately in line with inflation</li> <li>Could use Budget funding to slightly soften impacts for work-based learning</li> <li>Could be combined with targeted increases to provider-based funding</li> </ul>	
<b>Learner Component</b>  <i>(decrease ~\$22 million)</i>	<b>Option 1:</b> <ul style="list-style-type: none"> <li>Remove funding for Māori and Pacific learners</li> <li>Retain rate of \$1295 for disabled learners</li> <li>Reduce rate for learners with low prior achievement to \$900</li> </ul>	<ul style="list-style-type: none"> <li>Funding for Māori and Pacific learners is removed to align with the Cabinet circular on needs-based service provision (as per previous discussion)</li> <li>Funding is not required to be spent on support for learners in the named groups – they serve as a proxy, and the impact is largely one of signalling</li> <li>Disabled learners require different kinds of support to participate and succeed in VET</li> <li>VET providers will recover at least some of this funding through increased delivery rates, but work-based learning organisations will lose funding overall</li> </ul>	

Funding component	Option	Key considerations	Indicative decision
	<b>Option 2:</b> <ul style="list-style-type: none"> <li>Remove funding for Māori and Pacific learners</li> <li>Reduce rate for disabled learners and/or learners with low prior achievement to \$990</li> </ul>	<ul style="list-style-type: none"> <li>Funding for Māori and Pacific learners is removed to align with the Cabinet circular on needs-based service provision (as per previous discussion)</li> <li>Funding is not required to be spent on support for learners in the named groups – they serve as a proxy and the impact is largely one of signalling</li> <li>This option has a smaller negative impact on funding for the current work-based learning divisions of Te Pūkenga (but a larger impact for work-based learning PTEs)</li> </ul>	
<b>Standards-setting and work-based learning</b>  <i>(\$30 million for standards-setting reprioritised from work-based learning)</i>	<b>Recommended option:</b> Reduce funding for work-based learning in categories F1 – F5 by 10 percent	<ul style="list-style-type: none"> <li>This is a simple approach to provide the required \$30 million savings</li> <li>Due to the distribution of work-based learners, almost half of the \$30 million savings come from the F2 category (which includes trades)</li> <li>Category F6 (Mātauranga Māori and Te Reo Māori) is excluded in line with a previous policy decision that learning in this category should be funded at the same rate regardless of mode</li> </ul>	
Further policy decisions are included in the recommendations for this report			


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## Annex 3: Background information on subsidies for non-domestic learners in work-based learning

74. Before 2023, all individuals working legally in New Zealand and enrolled in work-based learning were eligible for TEC funding under the Industry Training Fund. This meant that all those on a work visa, including those in New Zealand for short periods of time and those not on a pathway to residence, were eligible for funded training. As part of the decisions related to the Unified Funding System, eligibility for training subsidies was removed for legally employed individuals who are not citizens, residence class visa holders, or otherwise classified as domestic tertiary students.
75. Non-resident workers are still able to access training, but international fees apply. A narrow exemptions framework was developed to allow subsidies to be paid for industry training that is considered in the national interest. The immigration Green List (prioritised residence offering) and Sector Agreements (exemptions to paying the median wage for specific industries and roles) were used as a proxy for determining national interest, with non-resident learners undertaking training associated with Green List and Sector Agreement occupations eligible for subsidies.
76. The residency status of industry trainees is not clearly defined in the Industry Training Register. The table below sets out the proportion of industry training enrolments by residential status. Based on IDI data, it is also likely that a significant proportion of the “unknown” category are non-residents. The table shows that the proportion of trainees and apprentices who are not NZ residents or citizens has been declining over the past 5 years, likely due to a combination of the impacts of COVID 19, changes to immigration settings, and a reduction in programmes eligible for domestic subsidies.

*Percentage of ITR equivalent Full-Time Student (EFTS) by NSI Residential Status*

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Australian Citizen	0.8	1.0	0.9	0.9	1.0	1.0	0.9	0.9	1.0	0.9	0.9
Citizen	82.0	80.7	79.7	78.0	78.3	78.5	79.1	78.8	79.4	81.3	80.4
Overseas	4.5	5.3	6.1	7.0	6.9	6.9	6.6	6.5	5.6	4.0	4.2
Permanent Resident	7.8	8.5	8.5	9.0	9.2	9.2	9.5	9.7	10.1	10.9	12.0
Unknown	4.9	4.5	4.8	5.1	4.7	4.4	3.9	4.1	3.9	3.0	2.4