MINISTRY OF EDUCATION
TE TĀHUHU O TE MĀTAURANGA

Education Report: Proposed changes to Vote Tertiary Education to implement the unified funding system for vocational education

To:	Hon Chris Hipkins, Minister of Education		
Date:	15 February 2022	**Priority:**	High
Security Level:	Budget Sensitive	**METIS No:**	1280588
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Purpose

This report recommends changes to the appropriation structure of Vote Tertiary Education, primarily to implement the unified funding system for vocational education.

Summary

In December 2021, Cabinet noted, alongside design of the unified funding system for vocational education, that you intended to progress significant changes to the Tertiary Tuition and Training multi-category appropriation in Vote Tertiary Education as part of a technical initiative in Budget 2022.

Changes to Vote Tertiary Education are necessary to implement the unified funding system efficiently. Currently, funding within scope of the unified funding system is contained within three different appropriations.

We also recommend progressing changes to Vote Tertiary Education to consolidate funding for the wānanga, aligned with the work on Te Hono Wānanga, and to remove the Fees-free Payments category from the Tertiary Tuition and Training Multi-Category Appropriation (MCA).

We have developed a set of recommendations changing the appropriation structure of Vote Tertiary Education. These recommendations are fiscally neutral, and supported by the Tertiary Education Commission and the Treasury. The four key changes are:

- revising the categories of the Tertiary Tuition and Training MCA;
- setting up a new appropriation which will contain both elements of the strategic component of the unified funding system;
- consolidating funding for wānanga by bringing the Wānanga Research Capability Fund into the Support for Wānanga appropriation;

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- setting up a new appropriation for Fees Free outside of the Tertiary Tuition and Training MCA.

If you agree to the proposals, we will work with Treasury to include this as part of the technical initiatives package to be considered by Cabinet for Budget 2022.

Recommendations

The Ministry of Education recommends that you:

a. **agree** to seek the following changes to Vote Tertiary Education as part of a technical initiative in Budget 2022:

   i. Revise the categories of the Tertiary Tuition and Training multi-category appropriation, including moving the Access to Tertiary Education appropriation into the multi-category appropriation;

   ii. Set up a new appropriation which will contain both elements of the strategic component of the unified funding system;

   iii. Consolidate funding for wānanga by bringing the Wānanga Research Capability Fund into the Support for Wānanga appropriation;

   iv. Set up a new appropriation for Fees Free outside of the Tertiary Tuition and Training multi-category appropriation;

Agree / Disagree

b. **agree** this paper will be proactively released after Cabinet decisions have been made, in accordance with the provisions of the Official Information Act 1982.

Agree / Disagree

Katrina Sutich
Group Manager
Tertiary Education

16/02/2022

Chris Hipkins
Minister of Education

27 / 2 / 2022

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Background

The implementation of the unified funding system requires changes to appropriations

1. The current structure of Vote Tertiary Education (the Vote) has largely been in place since 2016, when the Tertiary Tuition and Training multi-category appropriation (the tertiary MCA) was created, alongside other changes [EGI-16-MIN-0078 refers]. This structure needs to be rearranged to allow for an efficient implementation of the unified funding system.
2. As part of Budget 2021, $279.5 million was appropriated to ensure the viability of vocational education [CAB-21-MIN-0116.29 Initiative No: 13359]. The majority of this funding was appropriated into the Vocational Education and Training Component - a new category of the tertiary MCA, in anticipation of future appropriation change to implement the unified funding system for vocational education.
3. In December 2021, Cabinet agreed to the design of the unified funding system for vocational education, part of the Reform of Vocational Education (RoVE) [CAB-21-MIN-0525]. Cabinet noted that you intended to progress significant changes to the tertiary MCA in Vote Tertiary Education as part of a technical initiative in Budget 2022.
4. The design of the unified funding system brings together provider-based and work-based training for vocational education. Currently, this funding is in different categories of the tertiary MCA: the 'Tertiary Education: Student Achievement Component' and 'Training for Designated Groups' respectively.
5. The learner component of the unified funding system is intended to build on current Equity Funding for vocational education. Equity Funding sits in the Access to Tertiary Education appropriation – separate from the tertiary MCA.
6. You previously agreed that the Qualification Development Fund would be repurposed to support programme development as part of the unified funding system [METIS 1275119 refers]. The Qualification Development Fund currently sits in the Tertiary Sector / Industry Collaboration Projects appropriation.
7. These changes also present an opportunity to take a more holistic look at the categories of the tertiary MCA to make it more efficient and effective. This includes assessing the structure of wānanga funding and the best location for funding for the Fees-free Payments category of the tertiary MCA.

Our recommended structure consolidates funding to create a more efficient structure

8. We recommend the following suite of changes to Vote Tertiary Education. These have been developed with the Tertiary Education Commission (TEC) and the Treasury.
9. We have aligned this work with the TEC's work on their Investment Function Redesign, to ensure that the appropriation structure of Vote Tertiary Education provides the right balance of operational flexibility for the TEC and accountability for appropriated funding. You will receive more information about the Investment Function Redesign shortly.

We recommend a revised category structure within the tertiary MCA

10. The four major changes to the tertiary MCA (discussed in further detail below) are:
    a. creating one category for all tuition funding above level three and all training;
    b. bringing the Access to Tertiary Education appropriation into the tertiary MCA;
    c. consolidating Foundation and Community Education funding; and

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d. removing Fees Free from the tertiary MCA into a separate appropriation.

11. Table 1 shows the current structure of the tertiary MCA, Table 2 shows our proposed new structure for the tertiary MCA.

Table 1: Current tertiary MCA structure

Category	**Scope**
Community Education	*This category is limited to funding for adult and community education and literacy, numeracy and English language provision.*
Tertiary Education: Student Achievement Component	*This category is limited to funding for teaching and learning services for enrolled students in approved courses at tertiary education organisations to achieve recognised tertiary qualifications.*
Training for Designated Groups	*This category is limited to the purchasing and arranging of training linked to the New Zealand Qualifications Framework and the purchase of both on-job and off-job training places, including delivery of fully or partially funded training places and other industry-training related projects.*
Fees-free Payments	*This category is limited to ensuring fees-free study for eligible students, apprentices and trainees.*

Table 2: Proposed tertiary MCA structure[1]

Category	**Scope**
Foundation and Community Education	*This category is limited to funding for foundation education, including adult and community education and literacy, numeracy and English language provision.*
Qualification Delivery	*This category is limited to funding for teaching, training and learning services that support enrolled students at tertiary education organisations to achieve recognised tertiary qualifications and credentials.*
Access to and Success in Tertiary Education	*This category is limited to improving access to and success in tertiary education and training for learners underserved by the tertiary system, including those identified in the Tertiary Education Strategy.*

12. One category for all provision at levels 3-10 (Qualification Delivery) enables TEC to easily manage funding and make investment decisions across the majority of volume-based provision. This will remove the need for transfers between funding for industry training and provider-based provision, as the economic cycle shifts.

[1] Specifics of the names and scope statements of these categories may change as they are further reviewed by the Treasury as part of the Budget process.

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13. We recommend that funding for provision at levels 3-7 (non-degree) and funding for provision at level seven and above remain separate fund lines within the large appropriation category. This will allow for more transparency of funding in the delivery component of the unified funding system, but not in a way that limits the TEC's ability to shift small amounts of funding to reflect changes in demand and investment priority.

14. Bringing the 'Access to Tertiary Education' appropriation into the tertiary MCA supports setting up the learner component of the unified funding system within the tertiary MCA. This allows for more flexibility as the unified funding system is established and mitigates the risk that funding for the delivery and learner components are not balanced correctly in the first instance. We recommend broadening the category name to 'Access to and Success in Tertiary Education' to better reflect the aims of the learner component.

15. Equity Funding (currently in the Access appropriation) is similar to the learner component in both aim and method of allocation. As Equity Funding comprises the majority of funding within the Access to Tertiary Education appropriation, it is therefore logical to move the entire appropriation into the tertiary MCA alongside the learner component of the unified funding system. Equity Funding for level 7 and above will continue as a separate fund line alongside the learner component.

16. Consolidating funding for foundation and community education in a single category in the tertiary MCA allows for more deliberate decisions about investments across these areas. Most of this provision is focused on basic skills acquisition, which should not necessarily be traded-off against other volume-based provision.

We recommend setting up the strategic component as a separate appropriation

17. The strategic component of the unified funding system supports a different type of output to other expenditure within the tertiary MCA. Its allocation will also not be directly linked to volume, with parts of the strategic component to be allocated competitively. These two factors make it distinct from not only the other components of the unified funding system, but also the rest of the tertiary MCA, which is primarily focused on volume-based funding. Therefore, we recommend establishing a separate appropriation containing both elements of the strategic component. This also supports the position that strategic component funding is not intended to be traded-off to fund volume pressures.

18. Our recommended settings for this new appropriation include ensuring the scope statement could allow for funding for initiatives similar to the strategic component of the unified funding system to subsequently be added to the appropriation. For example, the High Proficiency Fund component of the 'Growing Māori Medium and Māori language provision across the education system' Budget bid align well with the aims of the strategic component, and if successful, funding could be incorporated into this new appropriation.

Consolidating wānanga funding supports Te Hono Wānanga

19. Officials are working with the wānanga to develop a future funding framework that best supports the educational delivery and outcomes of wānanga.

20. Non-volume funding supporting the wānanga is currently in three places within the Vote:

    a. $2 million per year for each wānanga from the Wānanga Research Capability Fund, in the Tertiary Education Research and Research-Based Teaching appropriation,

    b. $2 million per year for each wānanga in ongoing stop-gap funding along with $4 million per year for Te Wānanga o Raukawa for its Whakatupu Mātauranga medium-term fund from the Support for Wānanga appropriation (having been drawn down from the 'Addressing Inequitable Funding of Wānanga' tagged contingency [METIS 1277793 refers]), and

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c. stop-gap payments for Te Wānanga o Raukawa are currently contained in a separate appropriation which expires at the end of the 2021/22 financial year.

21. The Ministry is in the process of finalising co-designed medium-term fund proposals for both Te Whare Wānanga o Awanuiārangi and Te Wānanga o Aotearoa. Once these proposals are approved a further $4 million per calendar year per wānanga will be drawn down from the 'Addressing Inequitable Funding of Wānanga' tagged contingency into the Support for Wānanga appropriation.

22. We recommend moving the Wānanga Research Capability Fund from the Tertiary Education Research and Research-Based Teaching appropriation to the Support for Wānanga Appropriation. This would reflect the shared underlying purpose of these different funding streams (i.e., supporting the growth and development of wānanga), and allow for future work on their funding to include options to further consolidate their funding into a single funding stream.

23. As the Support for Te Wānanga o Raukawa appropriation expires at the end of the current financial year, we do not recommend any changes to this appropriation.

Moving Fees-free Payments out of the MCA

24. We recommend moving the category Fees-free Payments, containing funding for the First year Fees-free Payments and the Targeted Training and Apprenticeship Fund (TTAF), out of the tertiary MCA and setting it up as a separate non-departmental other expense appropriation.

25. As with the strategic component of the unified funding system, Fees Free funding purchases a different kind of output to the rest of the funding in the tertiary MCA – in this case, an entitlement for eligible learners. The Treasury has long held that this difference means Fees Free funding is not meant to be used to fund tuition and training volume without Cabinet approval.

26. Fees Free funding was initially placed in the tertiary MCA in part as a risk management approach due to uncertainty of uptake. We expect that the funding appropriated for Fees Free will be significantly reduced in Budget 2022 to better reflect forecast expenditure. However, the reduction will be effective from the 2023/24 year, as any Fees Free underspends are funding TTAF through to its December 2022 end-date.

27. A new, separate Fees-free Payments appropriation will better match the type of expense it is, and focus the tertiary MCA on tuition and training expenditure. We are working with the Treasury to develop and agree an approach to managing fluctuations in forecast Fees Free expenditure (including whether it should shift to a demand-based appropriation).

9(2)(f)(iv) [redacted]

Financial implications

29. These proposals are fiscally neutral. However, we will have to use incomplete data to estimate the amount of funding in each component of the unified funding system. We are confident that any subsequent adjustments that may be required can be managed through regular financial processes.

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30. If you agree to the proposals in this paper, the Estimates document for 2022/23 contain a number of consequential changes, including updated performance measures associated with each appropriation.

Next steps

31. If you agree to the proposals, we will work with Treasury to include this as part of the technical initiatives package to be consider by Cabinet for Budget 2022.
32. We recommend proactively releasing this education report after Cabinet decisions have been made, in accordance with the provisions of the Official Information Act 1982.

Annexes

Annex One: Appropriation Map

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Annex One: Vote Tertiary Education Appropriations Map

Current Appropriation Structure Mapped

Appropriation	Category	Line	Change/location in new structure
Access to Tertiary Education			Appropriation moves into the MCA as a new category.
		Equity Loading	Renamed 'Equity Funding for level 7 (degree) and above', funding for sub-degree moved to new line 'Learner funding for levels 3-7 (non degree) and industry training'.
		Māori and Pasifika Trades Training (MPTT) Top-up	No change
		Group Training Schemes	Funding for the 20/21 financial year only, therefore removed from the estimates.
		Student Hardship Grant	No change
		Grant under section 556 of the Education and Training Act 2020 to Southern Institute of Technology to operate Telford	Funding for the 20/21 financial year only, therefore removed from the estimates.
Support for Wānanga			Gains funding from the Wānanga Research Capability Fund, funding currently in this appropriation stays a single line 'Additional funding for wānanga'.
Tertiary Education Research and Research-Based Teaching			
		Performance-Based Research Fund	No change
		Wānanga Research Capability Fund	Moved into the Support for Wānanga appropriation as a separate fund line.
Tertiary Sector / Industry Collaboration Projects			
		Centres of Asia-Pacific Excellence	No change
		COVID-19 Response Projects	No change
		Māori and Pasifika Trades Training	No change
		National Centre for Tertiary Teaching Excellence	No change
		Quality Teaching Agenda	No change
		ICT Graduate Schools (Development and Delivery)	No change
		Establishment of Centres of Vocational Excellence	No change
		Support the establishment of Workforce Development Councils (WDCs)	No change
		Other Funding	This line contains the Qualification Development Fund and funding for ACE Aotearoa. The Qualification Development Fund funding ($800k) will move to be part of the Programme Development and Maintenance line of the new appropriation 'Strategic funding for national and regional priorities' (this is part of the strategic component of the unified funding system).
Tertiary Tuition and Training (MCA)			
Vocational Education Component			Moved into the new 'Qualifications at levels 3-7 (non-degree) and industry training' line in the MCA. Some funding used to create the new appropriation 'Strategic funding for national and regional priorities' (funding split equally between the two lines), and some funding into the line 'Learner funding for levels 3-7 (non-degree) and industry training' in the 'Access to and Success in Tertiary Education' category of the MCA.
Community Education			Category renamed 'Foundation and Community Education'.
		Adult and Community Education	No change
		Literacy and Numeracy	No change
		ESOL	No change
		Immigration Levy	No change
		Emergency Management Pool	No change
Tertiary Education: Student Achievement Component (SAC)			Category renamed 'Qualification Delivery'.
		SAC levels 1 and 2	Moved to the new 'Foundation and Community Education' category, merged with Youth Guarantee funding, renamed 'Foundation Education'.
		SAC level 3+	Sub-degree funding moved to new 'Qualifications at levels 3-7 (non-degree) and industry training' line in this category, this line renamed 'Qualifications at level 7 (degree) and above'.
		ICT Graduate Programmes	Incorporated into the 'Qualifications at level 7 (degree) and above' line.
		Grants under section 556 of the E&T Act 2020	Incorporated into the 'Qualifications at level 7 (degree) and above' line.
Training for Designated Group			Category disestablished.
		Industry Training Fund	Moved into the new 'Qualifications at levels 3-7 (non-degree) and industry training' line in the MCA.
		Youth Guarantee	Moved to the new 'Foundation and Community Education' category, merged with SAC 1-2 funding, renamed 'Foundation Education'.
		Gateway	Moved to the new 'Foundation and Community Education' category.
Fees-free Payments			Moved into a new appropriation separate from the MCA.
		First-year Fees-free Payments	
		Targeted Training and Apprenticeship Fund	

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New Appropriation Structure Mapped[1]

Appropriation	Category	Line	Change
Support for Wānanga			
		Additional funding for wānanga	
		Wānanga Research Capability Fund	Moved from the Tertiary Education Research and Research-Based Teaching.
Tertiary Education Research and Research-Based Teaching			Wānanga Research Capability Fund moved to Support for Wānanga.
		Performance-Based Research Fund	
Tertiary Sector / Industry Collaboration Projects			
		Centres of Asia-Pacific Excellence	
		COVID-19 Response Projects	
		Māori and Pasifika Trades Training	
		National Centre for Tertiary Teaching Excellence	
		Quality Teaching Agenda	
		ICT Graduate Schools (Development and Delivery)	
		Establishment of Centres of Vocational Excellence	
		Support the establishment of Workforce Development Councils (WDCs)	
		ACE Aotearoa	This line contained the Qualification Development Fund and funding for ACE Aotearoa. The Qualification Development Fund funding ($800k) moved to be part of the 'Strategic funding for national and regional priorities' appropriation.
Strategic funding for national and regional priorities			New appropriation – non-departmental output expense. Funding out of the Vocational Education Component and the Qualification Development Fund (from the 'Other Funding' line of Tertiary Industry / Sector Collaboration appropriation).
		National and regional skills priorities	The first element of the strategic component of the unified funding system.
		Programme Development and Maintenance Fund	The second element of the strategic component of the unified funding system.
Fees-free Payments			Moved out of the MCA – remains a non-departmental other expense.
		First-year Fees-free payments	
		Targeted Training and Apprenticeship Fund	
Tertiary Tuition and Training (MCA)			
Category: Foundation and Community Education			Gains SAC 1-2 (previously in the SAC category of the MCA) and Youth Guarantee (previously in Training for Designated Groups).
		Adult and Community Education	
		Gateway	
		Literacy and Numeracy	
		ESOL	
		Immigration Levy	
		Emergency Management Pool	
		Foundation Education	SAC 1-2 (previously in the SAC category of the MCA) and Youth Guarantee (previously in Training for Designated Groups).
Category: Qualification Delivery			
		Qualifications at level 3-7 (non degree) and industry training	Funding from SAC3+, the Industry Training Fund, and Vocational Education Component.
		Qualifications at level 7 (degree) and above	Funding left from SAC3+, ICT Graduate Schools funding, and section 556 grants for the Schools of Dance and Drama.
Category: Access to and Success in Tertiary Education			
		Equity Funding for level 7 (degree) and above	Sub-degree funding moved to 'Learner funding for levels 3-7 (non degree) and industry training'.
		Learner funding for levels 3-7 (non degree) and industry training	The learner component of the unified funding system (funding redistributed from Equity Funding, Vocational Education Component).
		MPTT (Top-ups)	
		Student Hardship Grants	

[1] Specifics of the names and scope statements of these categories may change as they are further reviewed by the Treasury as part of the Budget process.

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