

## Education Report: Funding for workplace-based learning and standard-setting in vocational education and training

<b>To:</b>	Hon Penny Simmonds, Minister for Tertiary Education and Skills		
<b>Date:</b>	7 March 2024	<b>Priority:</b>	High
<b>Security Level:</b>	In-Confidence	<b>METIS No:</b>	1324004
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<b>Seen by the Communications Team:</b>	No	<b>Round Robin:</b>	No

### Purpose of Report

This report seeks your decisions on the design of funding for workplace-based learning through Industry Training Boards. These decisions will then be incorporated into the draft Cabinet paper to be lodged on 21 March 2024 [METIS 1322910 refers].

### Alignment with Government priorities

Decisions about work-based learning are necessary as part of giving effect to the Government's 100-Day Plan commitment to "begin disestablishing the Te Pūkenga polytech mega-merger and restoring local decision-making."

### Summary

1. Disestablishing the Unified Funding System (UFS) and Workforce Development Councils (WDCs) requires a re-design of funding for workplace-based learning and standard-setting in vocational education and training (VET).
2. Funding for arranging workplace-based learning could be based on a sector-neutral system with two rates for apprentices and trainees, or a series of industry-based rates. We recommend the two-rate approach, which is simpler to develop and implement and recognises the different requirements for apprentices and trainees.
3. Formerly, standard-setting was assumed to be subsidised through volume-based funding for Industry Training Organisations (ITOs). We recommend providing separate funding for the standard-setting function to build improved transparency and accountability for this function. We estimate \$30 million per annum as an appropriate amount for this funding.
4. We have also included \$10 million for a fund to incentivise provider engagement with industry in our estimates, based on recent discussion with you.

5. From 2025, the total funding for workplace-based learning and standard setting could be based on current funding available for work-based learning modes (fiscally neutral) or on former Industry Training Fund rates with adjustment for recent funding increases (likely to cost less, with lower per-learner rates). We recommend using existing funding, to support higher-quality programmes and improved learner support and outcomes. We have also provided estimates for some options that could provide savings.

## Recommended Actions

The Ministry of Education recommends you:

### *Funding rates*

- a. **agree** to set funding rates for workplace-based learning as either:

- i. **Option 1:** multiple rates based on industry sectors

Agree / **Disagree**

or

- ii. **Option 2:** two sector-neutral rates, for trainees and apprentices respectively (*recommended*)

**Agree** / Disagree

### *Standard-setting*

- b. **agree** to either:

- i. **Option 1:** standard-setting to be funded from enrolment-based volume funding

Agree / **Disagree**

or

- ii. **Option 2:** standard-setting to be funded separately (approx. \$30m per annum) (*recommended*)

**Agree** / Disagree

### *Industry engagement funding*

- c. **agree** to reprioritise \$10 million from funding for workplace-based learning to create a fund for incentivising providers to engage with industry

**Agree** / Disagree

*Overall available funding*

- d. **agree** to base the overall available funding for workplace-based learning and standard-setting on one of the following:

- i. **Option 1:** current allocations for work-based delivery in the UFS to fund both training subsidies and standard-setting (*recommended*)

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or

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Agree / Disagree

- ii. **Option 2:** the rates of the former Industry Training Fund (2022), adjusted to include funding increases since 2022, with an additional standard-setting fund

or

Agree / Disagree

- iii. **Option 3:** the overall allocation amount of the former Industry Training Fund (2022), adjusted in line with funding increases since 2022 to fund both training subsidies and standard-setting

Agree / Disagree

*Proactive Release:*

- e. **agree** that the Ministry of Education proactively release this paper only after full Cabinet consideration of the issues, and as part of a communications strategy associated with Government announcements on the proposed VET changes

Agree / Disagree

Vic Johns  
**Policy Director**  
**Tertiary and Evidence Group**

07/03/2024



Hon Penny Simmonds  
**Minister for Tertiary Education and Skills**

11/3/24

## Background

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1. The current Unified Funding System (UFS) for Vocational Education and Training (VET) has different funding rates for provider-based and workplace-based learning (WBL). We have provided you with advice [METIS 1320350 refers] and a draft Cabinet paper [METIS 1322910 refers] on disestablishing the UFS and returning provider-based funding to a system similar to the former Student Achievement Component (SAC).
2. This paper provides advice on the remaining funding matters, for inclusion in the Cabinet paper 'Implementing our commitment to disestablish Te Pūkenga' [METIS 1322910 refers]. It addresses two issues: funding for work-based learning (i.e. apprenticeships and traineeships delivered primarily in the workplace), and funding for standard-setting (following the disestablishment of Workforce Development Councils [WDCs]).
3. Our advice in this report follows the decisions you have made on the approach to WBL and standards-setting [METIS 1321429 refers], which are:
  - a. WBL will be overseen by Industry Training Boards (ITBs)<sup>1</sup> on a similar model to former Industry Training Organisations (ITOs);
  - b. providers will deliver off-job training but will not be able to arrange WBL;
  - c. the role of ITBs will be to arrange training, not to deliver training; and
  - d. ITBs will take over the standard-setting function for VET.

## Funding for arranging workplace-based training

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4. We consider that funding for WBL could be organised on one of two models:
  - a. a sector-neutral system similar to the former Industry Training Fund (ITF), with two funding rates (for trainees and apprentices); or
  - b. a multi-rate system similar to the UFS, with funding rates based on industry or sector groupings.
5. The UFS model was developed to incentivise integrated programmes of delivery that mix learning in provider, online and workplace settings, in an environment where WBL was arranged by providers. WBL funding rates were divided into industry categories and established as a proportion of the rates for provider-based learning for the same industry, with work-based funding rates set lower (but higher than previous ITO rates). This was intended to incentivise greater support for learners and transitions between provider- and work-based learning, while recognising the lower cost to providers of WBL programmes.
6. With your decision to return to a separation of provider-based and workplace-based education and training, the rationale for this approach is less relevant. Establishing sector-based funding categories that accurately reflect the diverse business models and approaches to training of different industries, rather than using provider-based costs as a starting point, would also be difficult.
7. We therefore recommend returning to the previous, two-rate, funding system as most appropriate for the arranging of training for work-based learning by and through ITBs.

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<sup>1</sup> 'Industry Training Board' is a placeholder name for these organisations to distinguish them from former ITOs, and may change as system and/or legislation design progresses.

This approach provides a higher funding rate for apprentices over trainees, in recognition of the additional expectations and requirements involved for apprenticeships. Annex 1 provides the former and current WBL funding rates.

8. A two-rate system is significantly simpler than the current UFS settings, and would be able to be implemented in the desired timeframe. As with the restored SAC funding rates, the learner component of the UFS (to enhance success for key groups of learners) would continue as part of this funding option.
9. Providers and WDCs have reported that some vocational education is not financially viable under the current funding model, and there is a risk that not accounting for industry differences through funding rates will continue this. Training that is geographically isolated or small-scale (e.g. forestry and agriculture training) is most at risk. This issue also existed under the previous system, with greater issues due to the lower funding rates. Preserving higher per-learner funding rates than existed for ITOs and establishing ITBs with enough scale to cross-subsidise will help to mitigate this.

### Funding for standard-setting in vocational education

10. Formerly, ITOs had responsibility for standard-setting for their industries and funded these activities through their volume-based funding for enrolments and other income (e.g. fees and industry contributions). This had some negative consequences, notably:
  - a. ITOs focusing on the development and maintenance of qualifications and credentials they were receiving more enrolments for (rather than those most needed by industry); and
  - b. some ITOs doing minimal qualification and credential development and maintenance (rolling over existing qualifications) to reduce costs.
11. To emphasise that this is a core function of ITBs, we recommend establishing a separate funding mechanism that would directly support the standards-setting role. This would allow you to set clear performance expectations and improve transparency and accountability for this function compared to the previous ITO system. It would also help to further improve the direction and industry responsiveness of the standard-setting, as begun by WDCs. To ensure that this is cost-neutral, funding could be sourced from some reductions in the current WBL subsidy rates.
12. We estimate the cost of standards-setting (as part of an ITB) to be \$30 million per annum. This estimate is based on WDCs' staff costs and costs directly related to qualifications and quality assurance. It is also in line with the loose guideline that has been used in the past for standard-setting activities, which is approximately 10% of the total cost of funding WBL.
13. This cost is lower than our earlier estimate for continuing standard setting as an independent function. This is because some of the engagement activities required for standard-setting are also required for the ITBs' function of arranging training. We expect that ITBs would maintain regular contact with individual employers, apprentices and trainees in their roles as arrangers of training. However, there will still be a need to seek other input from industry bodies, regulators, and employers who do not currently have trainees.
14. If ITBs receive both standard-setting funding and volume-based funding to arrange WBL, we would expect ITBs to use their overall funding flexibly, including cross-subsidisation. Income from fees may similarly be used to support both functions. This

acknowledges that while standard-setting should include a process of continual review and improvement, the costs can fluctuate over time and with industry changes.

## Funding to incentivise industry engagement

15. We recently discussed with you the possibility of setting aside \$10 million per annum for a fund to incentivise Institutes of Technology and Polytechnics (ITP) engagement with industry. This funding would be available to ITPs with the purpose of supporting their engagement with employers in their regions, and with ITBs. We have not yet explored the administration of this funding but would seek relatively simple options.
16. This would have the effect of moving a small amount of funding currently invested in WBL into provider-based learning. However, this would be a small part of the total WBL investment, which has increased significantly since 2022. We have included this fund in our estimates below.

## Setting funding levels for arranging training and standard-setting

17. The remaining question is the overall level of funding to be invested in work-based learning. We have explored three options:
  - Option 1: allocate all the funding for work-based learning currently in the UFS, with rates derived after an amount is set aside for standard-setting and the industry engagement fund;
  - Option 2: the rates of the former Industry Training Fund (2022), adjusted to include funding increases since 2022, with the two additional funds; or
  - Option 3: the overall allocation amount of the former Industry Training Fund (2022), adjusted for funding and volume increases since 2022, with both standard-setting and subsidy rates deducted from this pool.
18. These options are designed to provide a range, with Option 1 being the most costly feasible option, and Option 3 the least expensive. Table 1 shows estimated rates for these options. The amounts reflect the proportionate impact of the options but are preliminary numbers only.

Table 1: Estimated funding rates<sup>2</sup>

	2022	Option 1	Option 2	Option 3
Apprentice rate	\$5,716	\$7,100	\$6,170	\$5,220
Trainee rate	\$3,517	\$4,370	\$3,800	\$3,210
Average rate per STM <sup>3</sup>	\$4,870	\$6,130	\$5,330	\$4,520
Standard-setting funding	-	\$30 million	\$30 million	\$30 million
Industry engagement fund	-	\$10 million	\$10 million	\$10 million
<b>Total funding</b>	<b>\$270 million</b>	<b>\$340 million</b>	<b>\$300 million</b>	<b>\$260 million</b>

<sup>2</sup> Total funding estimates are calculated assuming 2023 learner volumes with 2024 funding rates, including a 5% cost adjustment. For these estimates we have assumed the ratio between trainee and apprentice rates remains the same as under the ITF in 2022.

<sup>3</sup> Standard Training Measure, equivalent to the amount of training required to achieve 120 credits of learning.

19. Using the current total allocations for both functions (Option 1) would be fiscally neutral. This would provide apprentice and trainee funding rates that are higher than previous ITF rates. Under the UFS, higher WBL rates were set in part to support an improvement in pedagogical and learner support (where it has been lacking) and this remains a relevant goal. WBL rates which are closer to provider-based funding rates would also support greater use of providers by ITBs. If this option is chosen we would recommend including quality and monitoring requirements when establishing ITBs, to ensure that the funding is supporting better experiences for learners.
20. Basing funding on adjusted ITF rates (Option 2) would require less funding overall than current UFS funding for WBL. Separate funding for standard setting would effectively come out of the savings from lower per-learner rates, but we expect there would still be funding 'left over' from the current total funding for WBL. Under this option funding for WBL would be lower than under the UFS, and while rates would be higher than for the former ITOs this does not account for inflation. There is a risk that this funding would be insufficient for ITBs to provide quality pedagogical and learner support, and learner achievement could suffer as a result.
21. Option 3 would constitute a reduction in WBL funding compared to both the UFS and previous ITO systems. While public expenditure on WBL and standards-setting would parallel that of 2022, the amount of funding available to support individual apprentices, trainees, and employers would decrease with the creation of a separate standard-setting mechanism. Inflation also means the value of rates has effectively reduced in real terms since 2022. This is likely to discourage the use of best-practice, high contact WBL models, and would discourage the use of off-job components (given the very large difference between provider-based/SAC and WBL rates). It could also incentivise ITBs to focus on short, lower-level, and comparatively low-value training programmes where high volumes could counteract the lower per-learner rate.
22. On balance, we recommend Option 1 as the most likely to maintain and continue to encourage quality in WBL, including support for learners. This option does not provide savings, but is fiscally neutral (with the commitment to return funding for WDCs providing some savings).
23. Once you have made decisions about the structure of funding for WBL, we will undertake more detailed modelling to advise you further on funding rates for arranging training and standard-setting. We could also explore apprentice and trainee funding rates that fall between the options indicated here, depending on your preferences and how other fiscal pressures are balanced against incentivising high-quality WBL.

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## Risks

24. The estimates provided in this report are preliminary and need further development. As a new funding mechanism is developed over the coming months they will be refined for a more accurate view of costs, savings and impacts on learners.
25. While our analysis draws on historical data and the current funding system, we have not discussed funding models with providers, WDCs or industry representatives as part of this analysis. There is a risk that our assumptions about industry costs and appropriate funding levels may not be accurate. Specific industries are likely to have distinct needs which may not be fully represented in generalisations.

## Next Steps

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26. We will incorporate your decisions on this paper into the final version of the Cabinet paper to be lodged on March 21 [METIS 1322910 refers].
27. Incorporating these decisions into the upcoming Cabinet paper would also allow you to publicly announce your intentions for funding both work-based training and standard-setting alongside your intentions for provider-based funding.

## Annexes

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The following are annexed to this paper:

Annex 1: 2024 funding rates for the UFS work-based mode



## Annex 1: 2024 funding rates for the UFS work-based mode

- The following table shows the funding rates for learning in the 'work-based' mode of the UFS in 2024:

Funding categories	Work-based mode rate (\$ / STM)
Humanities, Business and Social Service Vocations (F1)	\$5,526
Trades, Creative Arts, Information Technology and Health-related Professions (F2)	\$7,634
Agriculture, Engineering, Health Sciences and Science (F3)	\$8,335
Pilot Training and Priority Engineering (F4)	\$9,740
Foreign-going Nautical and specialist Agriculture (F5)	\$12,585
Mātauranga Māori and Te Reo Māori (F6)	\$7,376

- While there are six rates listed here, the first three (F1, F2 and F3) cover the majority of provision funded through the UFS. The F4 and F5 rates are specialised to provider-based delivery and rarely used for work-based learning.
- In 2023, the average rate was \$6,674. The funding rates for apprentices and trainees in 2022 are shown below for comparison.

Apprentice rate	\$5,716
Trainee rate	\$3,517
Average rate per STM	\$4,870