SAC to the Future?

Benchmarking NZ's Student Achievement Component (SAC) vocational education resourcing against the VET Excellence Framework.

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List of Acronyms

Acronym	Description
CoVE	Centre of Vocational Excellence
ITF	Industry Training Fund
ITO	Industry Training Organisation
ITP	Institutes of Technology and Polytechnics
ITR	Industry Training Register
NZQA	New Zealand Qualification Authority
RoVE	Reform of Vocational Education
SAC	Student Achievement Component (the main fund subsidising tertiary training and tuition)
STM	Standard Training Measure – the unit of funding subsidy applied to traineeships and apprenticeships.
PTE	Private Training Establishment
TEC	Tertiary Education Commission
TEO	Tertiary Education Organisation. Used here to refer collectively to ITPs, PTEs, and Wānanga, but not ITOs.
UFS	Unified Funding System
WDC	Workforce Development Council

Introduction

Food and Fibre CoVE has a strong interest in the outcomes of the VET Redesign process, particularly in terms of the government's decisions about how vocational education and training is to be resourced.

August 2024's VET Redesign consultation included proposals to reform the funding system for vocational education in New Zealand.

This signals a change from the 'Unified Funding System' (UFS), introduced as one of the 'Reform of Vocational Education' (RoVE) proposals in 2019 (and implemented in 2023).

Shortly after its establishment in 2020, the Food and Fibre Centre of Vocational Excellence developed and published its VET Excellence Framework. This was a crucial initial step for its constituent organisations in terms of core purpose: to define what Vocational Excellence means and looks like. That Framework, unsurprisingly, included a 'funding models' rubric, which outlined a set of attributes and indicators around the financing of vocational education in ways that support excellence. That rubric is reproduced in full as Appendix 1, and its content underpins the structure of this report and analysis.

The first part of this review outlines the current state of play in terms of New Zealand's general approach to subsidising formal tertiary education, and particularly the two main approaches to funding vocational education in the 21st century.

Unfortunately, one part of the intended scope of this review is impossible to fulfil. Decisions about the VET redesign were scheduled to be announced in November 2024, but this has not transpired. As at the date of this report (12 December 2024), details of the structure and model of the replacement funding system are not known, beyond what was signalled through the consultation proposals, in terms of a reversion to the previous "SAC-based" system, including also reverting to the previous balance of rates applying to provider-based and work-based training.

As a result, this paper:

1. Sets out the previous state for VET resourcing, through the former industry training and provider-based funds and associated resourcing policy.
2. Compares the Unified Funding system against the attributes of the VET Excellence Framework, and
3. Concludes with some reflections about future state funding. These are necessarily speculative but intended to provide 'things to watch out for', when decisions and/or details become available.

This review has been undertaken predominantly desk-based, drawing on my own professional experience in tertiary education policy and the vocational education sector. I have relied on published information, particularly from the Tertiary Education Commission, and several other references including those listed at the end of this report. I want to acknowledge all those authors, while reserving responsibility for any errors. Some informal discussions with external informants have also provided highly valuable input.

I want to stress this is a review not research, and full of "reckons". Given the state of play for vocational education policy, there is significant guesswork involved, and, when it comes to questions of "who should pay for what" in vocational education, it is not possible to be entirely value-free.

The 'Funding Models' Rubric itself is also not value-free. For example, it assumes in the first place that government should contribute financially to upgrade the skills and qualifications of the nation's workforce. Thankfully, this is not an assumption debated by many: 'we should have a skilled and productive workforce' is one of the very few things these days people are not terribly polarised about. Nonetheless, it is an assumption.

Similarly, while the Rubric suggests that costs are shared by stakeholders in a good or excellent system, it overlooks the role of industry as a whole to contribute to the cost of training. While firms contribute financially and otherwise to upskilling the workforce, this effort is largely not linked to formal education and training, and both effort and contribution are unevenly spread. Many benefit from the work of the few, and the Rubric as it stands is silent on the role 'industry at large' plays in the financing of an excellent VET system.

Similarly, some of the analysis that follows includes editorial and judgement that reflects personal opinions and some professional experience through some of the relevant events. In that regard I want to thank Skills Group, for the opportunity to express opinions that are mine but should not necessarily be construed as theirs.

Finally, and most of all I want to thank Food and Fibre Cove for providing the vehicle to air many of these thoughts, for what they are worth. Once the current VET Redesign decisions are taken, and assuming sufficient detail about the replacement funding model, it is recommended this report be re-evaluated, and an addendum developed to confirm or correct the findings as appropriate.

1. Previous state: EFTs and STMs: The "Split" Funding System

The shudder quotes are deliberate. At the point of the RoVE reforms, part of the identified problem definition included that separate or "split" systems for vocational education existed: a provider-led model, and the industry training and apprenticeship system. Vocational education was being supported through provider-led "SAC" funding system (to the tune of ~$600m in 2018), and an Industry Training Fund was also subsidising work-based traineeships and apprenticeships for workers in industries covered by Industry Training Organisations (approximately $180 million at the point of the RoVE review in 2019).

Why had this occurred? Partly an accident of different histories, particularly in terms of ITOs and ITPs. Add in weak enforcement of qualifications policy, especially in terms of allowing providers to sidestep the industry standards set by the ITOs, who were not just arrangers of training but statutorily recognised as the standard setting bodies for their industries. But the symptoms were clear: there was competition for students, overlapping provision, and most certainly yes, two different funding streams and models.

Although "split system" was an overly simplistic description, "parallel" was certainly true. While there was a great deal of interaction and quite a lot of cooperation between ITOs and vocational education providers, there were also inequities and operational policy glitches which actively mitigated against productive collaboration in the system and created unfair competition. For many years, stakeholders across the sector 'acronyms' have rightly pointed to the funding system as at the core of the issue, and that perhaps the best (and first) thing RoVE should do was fix the funding system, if it wanted to see more joined up and collaborative behaviour in the system and create a sustainable system too. More on this later.

It's worth noting that, up until the RoVE, New Zealand's tertiary education system didn't refer specifically to a "vocational education system" per se. Instead, sometimes quite proudly, NZ noted that it had adopted a highly integrated model for tertiary education (all post-school education), with TEOs and TEIs variously delivering a range of foundational, vocational, and higher education. New Zealand's Tertiary System eschewed hard distinctions between "Vocational and Higher" education (such as in Australia) or "Further and Higher" education (such as in the UK), or even "TVET" as a separate system, as it is administered in many jurisdictions around the world. Philosophically, a significant influence on this was those *Learning for Life* reform premises that understood that learning occurs lifelong (and needs to), happens beyond classrooms (and needs to), and notices that workplaces are places where learning occurs every day (and needs to).

What is "SAC funding"?

One fund, formally, was a multi-category Budget appropriation in Vote Tertiary Education called Tuition and Training Subsidies. This was then sliced into the key funds TEC administered under parameters set by the Minister for Tertiary Education. SAC, the "student achievement component", was language from an earlier era, but remained the vernacular for these funds. In turn, the SAC was allocated thricely: "SAC 1 and 2" – supporting foundation level education at Levels 1 and 2 of the NZQCF.

"SAC 3+" referring to NZCQF Levels 3 to 7 (non-degree), capturing much of what was retrospectively defined as "Vocational" Education. And last but in no sense least was SAC 7+ - degree level, or higher education provision.

The Industry Training Fund

Meanwhile, through a separate history of policy manoeuvres – notably making industry training a part of the formal education system via the Learning for Life reforms of the late 1980s – the industry training (and apprenticeship) system had its own fund, formally provided under the "Training for Designated Groups" appropriation, also in Vote: Tertiary Education. The Industry Training Fund was sliced into standard training measures, or STMs, to support Industry Training Organisations to manage and arrange traineeships and apprenticeships for workers in industries, and to purchase off job training from quality assured providers, as part of making those arrangements.

An STM roughly speaking, was about one-third of an EFT – approximately $3,000 per STM compared with $9,000 per EFT – depending on the rate and category of the SAC-based provision.

The STM was also, for many years, a simple flat rate, irrespective of industry or qualification level – this "standard" training measure was itself distilled from a much more complicated system of components that derived the STM in the 1990s. See Green *et al* for the definitive take on all this.

But this difference between EFT-based and STM-based funding reflected that these subsidies were designed and intended to pay for quite different things: an EFT needed to support institutional costs, such as capital and infrastructure associated with managing and operating education providers, including employing and paying teachers and tutors. An STM on the other hand, was designed to cover the 'administrative' costs of managing and arranging training - including assessment and verification processes and supporting (but not teaching) trainees and apprentices. As described above, STMs were also expected to be used to fund off-job *components* of programmes, not entire programmes.

A key shift occurred following a review of Industry Training in 2010. This led to the establishment of New Zealand Apprenticeships, funded at a higher rate than Traineeships ($5,200 compared with $3,200), in return for better levels of service and support, such as mentoring and coaching, for apprentices. The difference between traineeship and apprenticeship was formalised mechanistically at that point, in terms of a resulting qualification at Level 4 of at least 120 credits equals apprenticeship.

The ITOs themselves did not deliver training and were precluded from doing so, as this was seen as conflicted with their standard setting role. This preclusion deserved a review of its own, both a) in terms of sizing the problem, and b) given the increasing difficulty of defining "delivery" in a technologically enabled education sector, the increasing requirements to support, mentor and coach apprentices (but not teach them), as noted above.

In 2018, at the point that RoVE was announced, approximately $55 million of the $180 million in the Industry Training Fund was used to purchase training from providers.

"70:30"

The balance of public and private contribution to tertiary education has been the focus of a number of reviews, impacted by changes in emphases in response to successive Tertiary Education Strategies and investment approaches, and subject to shifts along political and ideological lines. Over the years this has included the capping and uncapping of enrolments in particular areas, and the equalisation or rebalancing of rates between public and private training providers.

However, the underlying foundations of the funding system have remained relatively stable since the creation of the TEAC (subsequently renamed TEC) in 2000. The core concept empowers its Board of Commissioners, as a single national funding body, to invest in all forms of quality assured education provision. Investments are made at arm's length from the Minister and government of the day, albeit within the parameters of Ministerial funding instructions applying to each of the funds that TEC administers, and within the overall funding envelopes established through Budget appropriations.

Roughly speaking however, the overall balance of subsidies provided by TEC reflects around 70 percent of the financing for that provision, with the learner responsible for the other 30 percent in the form of course fees. In practice, the amount of fees charged, and the annual increase on those fees is regulated through the Annual Maximum Fee Movement Policy (AMFM)[1]. The inflation adjustments and/or increases to the tuition and training funds is the first page everyone in the sector looks for on Budget Day.

In the former industry training system, the 70:30 public-private split also played out, but in a different way. Alongside the STM funding that ITOs received to support trainees and apprentices, the ITO was also required to show a further 30 percent of its revenue coming by way of industry financial contributions. This could come via learners (or employers) paying fees, but industries established a range of ways to contribute. This 30 percent was also a key check and balance for government in terms of the ITO's mandate to be recognised as the ITO (and standard setting body) for the industry, but it also

[1] The AMFM policy sets limits on fees that tertiary education organisations (TEOs) can charge learners. Its purpose is to promote affordable study for learners while allowing TEOs some flexibility in setting fees. The 2024 AMFM for 2024 was 2.8%, The 2025 AMFM is set at 6.0%. (https://www.tec.govt.nz/funding/funding-and-performance/funding/fee-limits-and-regulations/annual-maximum-fee-movement)

reflected a similar balance of public and private contribution in terms of overall resourcing of the system.

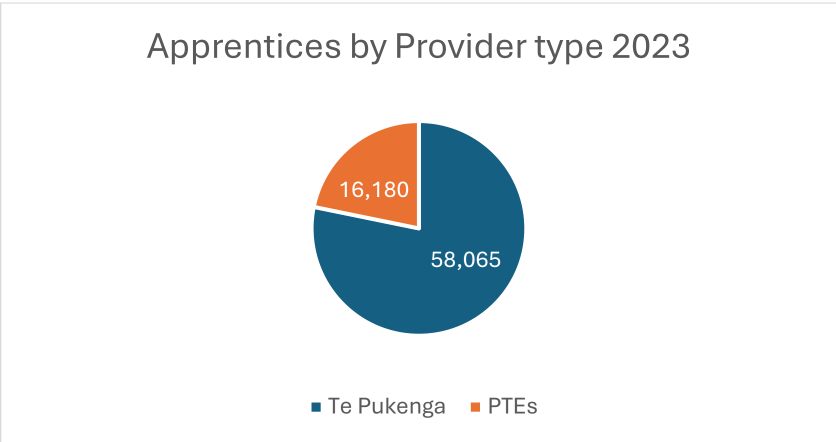
Managed Apprenticeships (or "overlapping provision", depending on your point of view...)

Another symptom of the parallel pathways operating in the system was the issue of "managed apprenticeships", whereby ITPs used SAC-based EFTs designed to support domestically enrolled students to support work-based programmes for employees. ITOs viewed this extremely negatively, particularly given the difference in the relevant subsidy rates. This led to accusations of taxpayer rort, but also a principled objection that managing and arranging traineeships and apprenticeships were ITOs' job, and could point to legislative backing for that view. On the other hand, providers, in the rightful pursuit of being more connected with their local employers (which they were also encouraged to do) were able to offer work-integrated learning as part of their programmes, right through to effectively using EFTs funding, designed to support 'valid domestic enrolments' for what was effectively an apprenticeship.

The ITOs called this overlapping provision, and it certainly interfered with cross-sector relationships.

However, this practice was not widespread. At the end of the ITO era, ITOs were managing 55,000 apprenticeships, and 75,000 traineeships. At best, TEC data suggested that ITPs were supporting 1,500 "managed apprenticeships". This suggests that managed apprenticeships were not a particularly serious threat to market share, or at a scale that would worry Ministers in terms of the price government was prepared to pay to qualify someone for an industry. Put another way, if that ITP-managed apprentice had undertaken their learning in the provider's premises, that EFTs subsidy would have been paid out anyway.

In hindsight, this issue was overblown, especially if one believes that work-integrated learning (as a mode of provision) should not be monopolised by one part of the tertiary sector, which is certainly what RoVE concluded, and what the 2024 Redesign is again questioning.



2. Current State: “Unified” Funding System

What was Unified?

“Unified” referred to the fact that, as described above, VET in New Zealand was previously funded from two main pots. RoVE proposed to bring this together, via an underpinning approach to price the funding for vocational education by establishing rates for different modes of delivery, and subsidising programmes accordingly, augmented by further funding relating to learner attributes, and strategic importance.

What did UFS include?

The UFS included three main components: Delivery, Learner, and Strategic

1. The Delivery component established a series of rates to fund provision according to its mode of delivery.

   This was a key step forward. Rather than pricing provision according to assumptions about provider types and their underlying cost structures, funding rates were instead linked to the nature of the training, each with pricing attached, and the associated concept was that NZQA approved programmes themselves would attract funding subsidies based on its typical mode (or balance of modes) of delivery.

   These were:

   a. provider-based

   b. provider-based: extramural

   c. work-based

   d. work-based: pathway to work

   e. assessment and verification.

Notable shifts in the above included:

- Significantly diminished funding for online and distance delivery.
- An increase for work-based learning, compared with previous rates for NZ Apprenticeship
- A decrease in provider-based deliver, compared with previous EFTS rates for TEOs.
- A more generous “pathway to work” rate for brokerage and support for learners between training and employment.

But in practice, what was actually unified? For example, in 2024, vocational education providers still provide their results to TEC via the Single Data Return (SDR) for provider-based programmes and Industry Training Register (ITR) for work-based programmes. The pots of money may well have been combined, but operational processes and procedures still largely operate in parallel between provider-based and work-based education, despite the funding system having been "unified" two years ago, not to mention the three-year run-up between announcement and implementation.

These operational databases were built for the previous system, and so unification in that respect has not occurred, and in fact compliance costs on providers have increased, with a third additional report reconciling their ITR and SDR input. Behind the scenes at ITPs and PTEs, the parlance remains "SDR programmes and ITR programmes" – a pre-RoVE hangover which goes to show the undue level of influence that TEC's databases have over decisions about provision, but more critically, that well-intended policy based on sound principles can come unstuck when core systems are not updated to reflect the policy change.

Currently, TEC has a 'Data System Refresh' underway to modernise its data collection processes from 2025 and it is hoped that refresh will both adequately address current deficiencies and be able to accommodate the new system following the VET Redesign, to avoid a repeat of core systems constraining the resulting changes required of providers. More pessimistically, it's fair to say that undertakings to modernise (or merge) the ITR and SDR have been made several times over the years.

The effect of the UFS was stimulatory with respect to work-based learning, with New Zealand Apprentices now attracting approximately $2,000 per apprentice per 120 credits over and above the former NZA rates, while their classroom-based colleagues saw a similar decrease in their rate.

The "75 credit rule", which previously applied to ITO learners, referring to the maximum number of credits an ITO could be funded per year to support an apprentice, was also quietly dropped. That policy was based on the idea that a worker could not also be a fulltime student (where a full time EFT is calculated at 120 credits, or 1,200 study hours).

The introduction of the UFS had consequences:

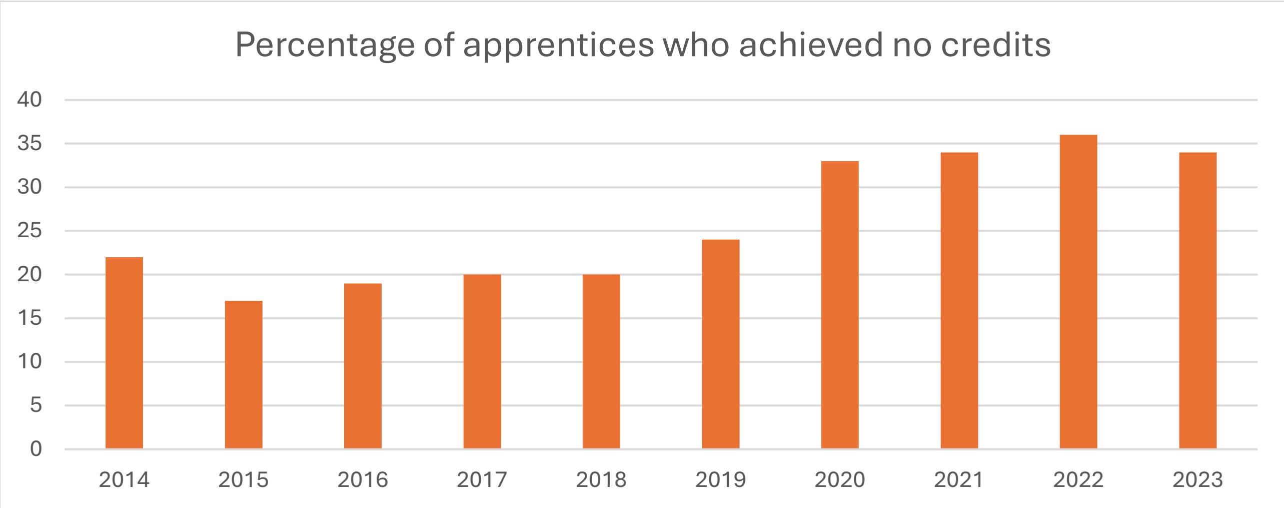
- The government had calculated around 190,000[2] tertiary learners in vocational programmes, based on its definition, of which approximately 60,000 were ITP enrolments. The other 130,000 were made up of 75,000 ITO trainees and 55,000 New Zealand Apprentices. On that basis, the funding rate shift from provider-based to work-based reflected more money into the system, and what Education Minister Chris Hipkins described as a "gravitational pull" towards work-based learning. In September 2021 the Ministry of Education provided detailed modelling under three main scenarios to model the effect of applying UFS rates to estimated delivery that year, and the resulting percentage increase or decrease by subsector.
- Longer term, the effect of the UFS would be stimulatory: while work-based enrolments were going up, and provider-based enrolments were going down, the provider-based rate was still the higher of the two. Subsequently combining this with the proposal to bring most vocational learning under one Te Pūkenga roof, the situation would remain that off-job provision attracts more funding than on-job, such that maintaining and justifying staffing and infrastructure would rely on keeping the off-job side of provision alive and well.

Out of scope but simultaneous and utterly influential, was Apprenticeship Boost. A COVID relief policy to ensure apprentices were not all let go in a COVID-driven shedding of the workforce (that did not eventuate), a policy of direct wage incentives to employers of apprentices unsurprisingly led to a sudden increase in the number of apprentices. Not at all a bad thing, presuming that these were high

[2] Following the establishment of Te Pūkenga, the learner enrolment figure was often given as 240,000 students, which included the ITP network's foundational and degree level learners, not just those caught by the Level 3 to 7 definition of 'vocational'.

quality arrangements, hopefully mostly new entrants to the industry, and most importantly, leading to qualified people.

Unfortunately, in the haste of the rollout, few such guardrails were there, and the current inactivity statistic for apprentices (those achieving no credits in a year) is sitting around one-third of the total according to the Ministry of Education.



Source educationcounts.govt.nz

3. Future State: SAC to the Future?

“Begin to disestablish Te Pūkenga” was included in the Coalition government’s 100-day plan following its election in October 2023. By December 2023, the Minister for Tertiary Education and Skills, Penny Simmonds, had made several public statements outlining her views on this, and what had occurred because of the mega-merger. This included that the financial position of the ITP sector had collectively worsened and expressed support for reverting to the previous funding system. At that time, the Minister noted she had asked officials to plot a pathway from the UFS to the SAC by 2025 “so that will resolve some of the financial pressure”.

On August 1, 2024, consultation proposals by the government confirmed that replacing the UFS would be part of the process. It noted, that the UFS had bolstered already profitable work-based delivery but depleted the financial situation of provider-based delivery across the sector.

This depletion particularly applies to PTEs, since most of the former work-based learning had been drawn into the Te Pūkenga network, where those surpluses could offset losses elsewhere. More to the point though, and to give the previous government credit, this was exactly the ‘gravitational pull’ Minister Hipkins had predicted and intended.

The August 2024 Consultation proposals provided no detail on specific proposals or funding rates but stated that the intention of the redesign was to “fully restore vocational education funding rates to what they would have been under the previous Student Achievement Component (SAC) system”.

It is assumed the reference to the SAC is for stakeholder familiarity: the proposal is to rebalance the *rates*, not necessarily to return to the SAC *system*. This is the logical deduction, especially given interdependence with other VET redesign proposals.

The consultation was also issued after the announcement of changes for 2025 funding, via Ministerial funding determinations, which included removing the 'strategic component' of the UFS. In my reading of proactively released documents, its not clear this was the originally intended chronology.

The government received 1,055 submissions on the Redesign proposals and was due to announce decisions (or at least next steps) in November 2024. An announcement was made on December 20 2024, which made no reference to decisions regarding the specific funding proposals. To be fair these are somewhat consequential to final decisions on the structure and functions of bodies supporting and delivering work-based learning, which are yet to be settled. A final noteworthy point is that despite the protestation that the decrease in the provider-based rate was exacerbating the financial issues in Te Pūkenga, it is forecasting a much stronger financial result across its network for academic year 2024.

I offer some further thoughts about how the strengths of UFS might be maintained in a "reversion to previous rates" in the conclusion to this review.

Comparison of VET Excellence Attributes

So, with all the above said, how do the two main models shake out with respect to the VET Excellence Framework?

It should be noted that the rubric was developed with reference to both international and New Zealand experience and stakeholder validation, but it was developed prior to the implementation of the UFS.

A further point of interest for this rubric is to consider the locus of control. With respect to some of what follows, the Tertiary Education Commission, the New Zealand Qualifications Authority, and today's WDCs are the only entities with the power to implement the models in ways that better reflect the rubric indicators.

For example, the adaptation of funding levels and models to changing circumstances has not been seen by many in an affected sector as a strength – operational processes and systems tend to lag behind policy intent, because operational setting are designed for the policy settings of the time.

Finally, any future funding model will require some time to bed in – at 'good' and 'excellent' levels the rubric points to ongoing monitoring and evaluation to make informed adjustments and prioritisation. It will be interesting to see what the next iteration of the funding system advertises in this regard, but the proof will, as always, be in the final design and implementation.

In the next section, each of the three core attributes in the VET excellence framework are assessed with respect to the "SAC" approach and the "UFS" approach.

What is Funded?

SAC

Attribute	Acceptable	Good	Excellent
How much is funded. The total level of funding reflects both: • The cost • The value of training.	• Costs are fully funded but there is no recognition of value or understanding of outcomes.	• Costs are fully funded and there is some recognition of value and outcomes. • Funding is stable enough to allow for longer term value and outcomes to be realised and provide long-term certainty to support workforce development.	*As for Good, plus* • There is full recognition of value and outcomes (e.g., the cost and value of supporting underserved learners is calculated and reflected in funding, provision is evaluated for return on investment).

UFS

Attribute	Acceptable	Good	Excellent
How much is funded. The total level of funding reflects both: • The cost • The value of training.	• Costs are fully funded but there is no recognition of value or understanding of outcomes.	• Costs are fully funded and there is some recognition of value and outcomes. • Funding is stable enough to allow for longer term value and outcomes to be realised and provide long-term certainty to support	*As for Good, plus* • There is full recognition of value and outcomes (e.g., the cost and value of supporting underserved learners is calculated and reflected in funding, provision is evaluated for

		workforce development.	return on investment).

Against the current rubric, both SAC and UFS are assessed as ‘**good’**, in respect to the link between delivery and an understanding of outcomes, namely the Education Performance Indicators (EPIs) for retention, completion of qualification, and progression.

However, this is in the context of fundamentally input-driven or capitation-based funding under both SAC and UFS approaches. The system has some strong controls, such as caps on enrolment, and parameters around providers diverging from their approved investment plans to an extent many providers would describe as inflexible. EPIs also provide some ongoing assurance of return on investment and provide for useful metrics like cost per qualification.

Providers with unacceptable EPIs will eventually see their funding diminished or defunded altogether, but only as a lag indicator reflecting a lack of support or learner success. There is no corollary reward in the system linked to longitudinal learner outcomes. Both SAC and UFS fundamentally reflect a “bums on seats” approach in terms of funding for the input (an enrolling learner - which generates the delivery component - and their attributes - which generates the learner component). No funding is directly linked directly to qualification completion, employment outcome, or value-add metrics to any demand-side factor (such as industry need or economic driver), or other performance-based approach. Informally, officials raise eyebrows at absurd levels of over-supply, when they observe numbers of trainees well beyond an industry’s capacity to absorb them. Conversely, officials (and various Ministers) worry when enrolment numbers are dropping in areas where there is industry shortage or a clear emerging workforce need.

WDCs’ investment advice to TEC is a potential mitigation, by influencing (but not directing) where TEC ought to target its future investments. But the day-to-day performance management of the vocational sector has no systematic mechanism to match between training supply and industry demand. Centralised workforce planning has several arguments against it of course, and perfection in this regard would be both undesirable and unobtainable. Professor Ewart Keep (SKOPE, Oxford) authored a number of country-based reports advocating for an integrated and multi-stakeholder approach to matching qualifications with labour market needs, but equally strongly against constraining a system to that match, given inherent labour market change and uncertainty.

Therefore, in terms of the ‘value’ side of the rubric, both models are quite weak. Current EPIs are limited in terms of long-term learner outcomes, which in *vocational* education, pertains to their labour market outcomes. There is little systematic analysis or publication of longer-term learner outcomes, at least not that directly connects to ongoing investments at the programme level. The Ministry of Education, on an annual basis, publishes the earnings outcomes of tertiary learners, according to fields of study and qualifications level – and misleadingly and deleterious to vocational education in my view, ascribes earnings to a learner’s highest qualification, rather than their most recent one, or the one that contributes most to their current role. They should analyse all three.

“Fully funded” is clearly also a debatable point of course: the government is providing subsidies, and learners (and/or employers) are also contributing. Provision is occurring, and people have opportunities to complete programmes and achieve qualifications. In that respect, it is “fully funded” and indeed, New Zealand’s student support policies are generous, internationally speaking. The government is stumping up significantly to meet the financial and opportunity costs of study, and is paying upfront, at some cost, to offset the private contributions.

But "fully" is not the same as "sustainably". Providers, particularly ITPs, have been running significant deficits in recent years, and Tertiary Education subsidy rates have not maintained pace with inflation.

This financially parlous situation, particularly in the ITP sector, was indisputably a larger driver of RoVE than the 'split system' of SAC and STM, and is arguably even more the primary driver of the VET Redesign currently underway. The Ministry of Education's Regulatory Impact Statement's answer to "the policy problem to be solved" was "the number and structure of Polytechnics in New Zealand's vocational education sector" as its core policy problem, rather than, say, "how does New Zealand's vocational education system most effectively contribute to the development of a skilled and qualified workforce?"

Who Pays?

SAC-ITF

Attribute	Acceptable	Good	Excellent
Who pays the funding? The share of funding contributed by stakeholders (learner, employer, government...) strikes an appropriate balance between: • Encouraging participation • Reflecting how the benefits are shared.	• The share of funding paid by each stakeholder is largely set by a funding formula and/or what stakeholders are willing to pay.	• The share of funding paid by each stakeholder is weighted on outcomes (e.g., employers and learners both pay fees alongside the government contribution).	*As for Good, plus* • The share of funding paid by each stakeholder can be adjusted to encourage participation (e.g., government scholarships are available to support learner participation where needed).

UFS

Attribute	Acceptable	Good	Excellent
Who pays the funding? The share of funding contributed by stakeholders (learner, employer, government...) strikes	• The share of funding paid by each stakeholder is largely set by a funding formula	• The share of funding paid by each stakeholder is weighted on outcomes (e.g.,	*As for Good, plus* • The share of funding paid by each stakeholder can be adjusted to

an appropriate balance between: • Encouraging participation • Reflecting how the benefits are shared.	and/or what stakeholders are willing to pay.	employers and learners both pay fees alongside the government contribution).	encourage participation (e.g., government scholarships are available to support learner participation where needed).

In this case, It's UFS, by a nose, alongside a question mark about the content of the rubric.

The share of funding paid by each stakeholder is, under both schemes, relatively fixed in terms of funding formulae, especially on the government side. However, 'good' here implies contribution by employers and learners paying fees alongside the government contribution, which is the case under both models. Under both funding models, this clearly is the case: there is both a private and a public contribution to supporting vocational training. In the case of Food and Fibre, this is being delivered in several ways – for example levying in the Dairy industry, direct financial contributions from Food and Fibre Industries to its residual ITO, and through the payment of course fees by learners and/or their employers.

However, the difference here is in targeted adjustments: it is certainly true that under the previous SAC system, there was some targeted funding to support learner participation by various groups: Youth Guarantee, Māori and Pasifika Trades Training, – indeed many of the 'other' funds TEC administers are targeted training for various groups. Outside tertiary education funding, there have also been many initiatives designed to encourage and support training, or address barriers to access to education, for example through wider social or economic development policies: e.g. Apprenticeship Boost, Māori Trades and Training, Youth Services.

However, UFS, with its built-in learner component, brings this learner-targeted component funding into the core calculation of vocational education funding itself. For that reason, it shares more in common with that component of the 'excellent' indicator, than the SAC-based system. This is not to say that the next iteration of the funding system will not do the same – it should.

What is Funded?

SAC-ITF

What is funded? The activities that are funded strike an appropriate balance between:	• Most funding is allocated to delivery and assessment costs.	• Funding covers actual training costs, such as enhanced levels of pastoral care,	*As for Good, plus* • Funding is weighted to support training costs that demonstrably

• Giving providers flexibility to respond to learners' needs • Providing a good value to funders.		RPL and marketing. • Funding models consider adverse effects of incentivising (e.g., incentivising one mode over another irrespective of which will be best for the learner). • Funding models ensure equitable access for all learners.	deliver value (e.g., RPL is funded for a career changer to progress into a high value course of study; an underserved learner is funded for additional pastoral care to enable completion of the programme).

UFS

What is funded? The activities that are funded strike an appropriate balance between: • Giving providers flexibility to respond to learners' needs • Providing a good value to funders.	• Most funding is allocated to delivery and assessment costs.	• Funding covers actual training costs, such as enhanced levels of pastoral care, RPL and marketing. • Funding models consider adverse effects of incentivising (e.g., incentivising one mode over another irrespective of which will be best for the learner). • Funding models ensure equitable	*As for Good, plus* • Funding is weighted to support training costs that demonstrably deliver value (e.g., RPL is funded for a career changer to progress into a high value course of study; an underserved learner is funded for additional pastoral care to enable completion of the programme).

		access for all learners.	

Against this attribute, both models meet the acceptable standard of directing funding to the core activities of teaching and assessing learners – in the Aotearoa New Zealand context, towards the award of formal credentials and qualifications on the NZQCF. But here is where UFS, in theory at least, is far more nuanced.

Firstly, UFS introduced the notion that assessment and verification (for the purpose of qualifications, the UFS was itself a valid activity that could attract funding, separately from the teaching and learning process). This makes good sense, particularly if we want the system to encourage RPL (or RCC) type processes, and in workplace-based learning, where skills and knowledge have been developed on-the-job, through the workplace. In this case, any costs of teaching and learning have been already borne, usually by an employer, and we don't need to pay for that again.

SAC-based delivery made no such separation or allowance for "assessment only" activity, which thoroughly disincentivised RPL. Providers were not being unethical, but when confined to provider-based approaches, their direct funding incentive would have people enrolled for as long as possible, irrespective of what they already knew and could do when they arrived.

Let's be clear, the five deliver models defined as part of the UFS 'delivery component' were clunky, and fuzzy around the edges, and some of the rates ascribed were eyebrow raising: the funding rate for online and distance learning seemed shockingly low, not to mention retrograde, given the massive acceleration in terms of online learning. By the time UFS was implemented, providers had lived through COVID and been required to be able to 'pivot to online' for their courses within 24 hours. There was certainly an argument that the economies of scale and distributive power of online learning was such that it seemed very blunt to fund it as 'full' EFTS, given those major differences in cost structure.

The second strange one, in my view, was "pathway to work". This rate was the most generous of them all, and yet only intended to apply in the interregnum between concluding a programme of learning and getting a job, involving a process of supporting or brokering a learner to find work. This seems a very industrial and provider-centric approach to vocational education in the first place: "first you do the learning, then we give you to the labour market", but from an incentives point of view even stranger: why apply generous subsidies to a period between learning and work? Why would we want such a period? Why would we incentivise it to be as long as possible to maximise subsidies?

Bigger picture, my view of vocational education is that it is always and only a collaboration between educators and employers. Any period, of any length, between one and the other is suggestive of a lack of such collaboration.

Conclusion

Considering all of the above, the **UFS** is the clear front runner, on the principled basis that funding on the basis of vocational education and training *activity* is more valid and efficient than funding institutions based on assumptions about their operating models and, adding to that, an inherent flexibility to cater for learner and workplace circumstances – at least in theory, and assuming operational systems and processes exist that support that.

From everything in the public domain, the main or sole impetus for the "return to SAC" is to rebalance between provider-based and work-based subsidy rates the way it was pre-UFS, to relieve pressure on classroom-based provision. However, it would be perfectly possible to 'reverse the rates" for provider-based and work-based provision back to what they were, without dispensing with the UFS's underlying concept of pricing provision based on mode.

But critically, these models were creatures of the regimes they were designed to serve. Under the current redesign proposals, under most options, ITPs and PTEs will still be involved in the management and/or delivery of work-based education. That being the case, a "return to STM" makes little sense from a pricing perspective, since the STM was designed to subsidise the management and arranging (and purchase) of off-job components of trainee or apprentice training, not to fully cover costs of delivery. That's why it was so much lower!

UFS allows for better links between the activities, price, and cost, and incorporates better targeting for learners. In theory, it allows far better flexibility to adapt to learner and employer circumstances, even as operational policies (such as NZQA programme approval and TEC data collection) struggle to maintain pace with those ideals.

But we also must be clear-eyed about how we got here: the 2019 RoVE gave us the UFS, but unfortunately RoVE overall has been a policy and political failure. It is interesting to imagine what our VET system might be like if the then government had agreed that UFS should have been the first move of the RoVE, perhaps even the only move.

One can never be sure. There have been a lot of confounding variables in the meantime: COVID, global inflation, double-dip recession.   However, this exploration leads me to conclude that "allowing providers to offer (and deliver) work-integrated training and apprenticeships, and funding that delivery equitably" might have been enough all along to fix the 'split system' issue that led to RoVE in the first place.

That funding move alone would have:

- removed the monopoly over work-based provision, where two-thirds of vocational education currently happens
- focussed the sector on meeting the needs of working-age people whose numbers, productivity levels, and literacy and numeracy challenges, all point to them being the target population for skills investments
- focussed the agencies on making necessary procedural and process (and IT) updates to support the new funding model - without grappling first with an enormous structural overhaul,

machinery of government change, rewriting legislation[3], running a programme office to establish new entities, providing Ministers with free and frank advice about how well it wasn't going, all without clear evidence of how that structural change would address the underlying issues in the first place
- enabled both the public and private provider network to provide better and more complete service their local employers and industries
- provided choice and fair competition in the work-integrated part of the system
- encouraged closer links between ITPs and employers, and
- incentivised collaboration between the different parts of the system that had been, up to that point, set up to compete *unfairly* by the funding policy.

Worse, it's not even hindsight. Several submissions on the RoVE proposals encouraged the government to "fix the funding", rather than – or at least before – embarking on massive structural change. Otago Polytechnic's former CEO Phil Ker's media appearances certainly come to mind. Declaring my interest as it's CEO at the time, I also cite the Industry Training Federation, which in its formal submission endorsed the officials' advice that creating one national public institution for vocational education would risk a single point of failure, such that any future instances of governance or management failure would have a significant national impact.

Certainly, it is safe to say that if "fixing the funding" had been the first move of RoVE, rather than the last, we might well have seen a range of new behaviours emerge, and innovation – partly as a result of far less disruption and confusion. We would have saved millions in establishment costs. The level of machinery change – establishment of new entities and merging all ITPs while taking on responsibility for the industry training system, even if wonderfully executed – would have always had a stultifying effect on innovation.

References

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[3] The phrase "this Section does not apply to Te Pūkenga – New Zealand Institute of Skills and Technology" appears 72 times across nine Sections of the Education and Training Act (2020). I am not a lawyer, but it seems to me that is a reasonably good indication of poorly designed legislation.

Appendix One

Funding models Rubric.

Attribute	Acceptable	Good	Excellent
How much is funded. The total level of funding reflects both: • The cost • The value of training.	• Costs are fully funded but there is no recognition of value or understanding of outcomes.	• Costs are fully funded and there is some recognition of value and outcomes. • Funding is stable enough to allow for longer term value and outcomes to be realised and provide long-term certainty to support workforce development.	*As for Good, plus* • There is full recognition of value and outcomes (e.g., the cost and value of supporting underserved learners is calculated and reflected in funding, provision is evaluated for return on investment).
Who pays the funding? The share of funding contributed by stakeholders (learner, employer, government…) strikes an appropriate balance between: • Encouraging participation • Reflecting how the	• The share of funding paid by each stakeholder is largely set by a funding formula and/or what stakeholders are willing to pay.	• The share of funding paid by each stakeholder is weighted on outcomes (e.g., employers and learners both pay fees alongside the government contribution).	*As for Good, plus* • The share of funding paid by each stakeholder can be adjusted to encourage participation (e.g., government scholarships are available to support learner participation where needed).

benefits are shared.			
What is funded? The activities that are funded strike an appropriate balance between: • Giving providers flexibility to respond to learners' needs • Providing a good value to funders.	• Most funding is allocated to delivery and assessment costs.	• Funding covers actual training costs, such as enhanced levels of pastoral care, RPL and marketing. • Funding models consider adverse effects of incentivising (e.g., incentivising one mode over another irrespective of which will be best for the learner). • Funding models ensure equitable access for all learners.	*As for Good, plus* • Funding is weighted to support training costs that demonstrably deliver value (e.g., RPL is funded for a career changer to progress into a high value course of study; an underserved learner is funded for additional pastoral care to enable completion of the programme).
How funding adapts Funding models respond to changing external contexts.	• Funding levels and mechanisms are reviewed periodically to reflect changes in costs.	• Funding levels and mechanisms can be adjusted from time to time to reflect medium to long-term changes in external contexts (e.g., funding reflects changes in technologies used in industry).	• Funding levels and mechanisms can be adjusted dynamically to address short-term changes in external contexts (e.g., pandemic response).