**Education Report: Decision on participation in the Programme for the International Assessment of Adult Competencies**

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<th>To:</th>
<th>Hon Chris Hipkins, Minister of Education</th>
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<tr>
<td>Date:</td>
<td>26 October 2018</td>
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<td>Priority:</td>
<td>High</td>
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<td>Security Level:</td>
<td>Budget Sensitive</td>
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<tr>
<td>Drafter:</td>
<td>David Earle</td>
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<td>Key Contact:</td>
<td>Shona Ramsay</td>
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**Purpose of Report**

This report seeks your agreement to fund New Zealand’s participation in the second cycle of the Programme for the International Assessment of Adult Competencies (PIAAC), and asks you to sign the attached letter to the Minister of Finance for his agreement.

**Summary**

1. PIAAC provides unique information on the skills of the adult population and how these skills are used in work and everyday life. It is the most comprehensive international study of adult skills ever undertaken, and provides information that cannot be found from other sources.

2. It provides valuable data on how well our education and skills systems are working. It will provide robust data on how these systems are contributing to improving the well-being of New Zealanders, and how to improve their performance and contribution. PIAAC also forms an important part of the Ministry of Education’s contribution to cross-government understanding of how skills relate to social outcomes.

3. PIAAC is coordinated by the OECD and is run every ten years. The information in PIAAC is comparable across the OECD and other countries. PIAAC involves a nationally representative household survey of adults aged 16 to 65, and directly tests their literacy, numeracy and problem solving skills. It also collects a wide range of information on how people develop and use their skills at work and in everyday life, and the relationship of their skills to their material and social well-being.

4. New Zealand participated in the first cycle of PIAAC in 2014, with results released in 2016. The information from PIAAC has been used to inform a wide range of policy questions.

5. The next cycle will involve a field trial in 2019/20, followed by data collection in 2021/22 and results in 2023. The survey will include new information on socio-emotional skills. A survey of employers will also be run in parallel.
Participating in the next cycle of PIAAC will cost $6.930 million over 4 years. Funding was sought in Budget 2018, but was not secured. The Ministry of Education can meet $1.3 million of the cost from its existing baseline, leaving $5.630 million required in additional funding. The Ministry has continued to participate in the development programme for the next cycle of PIAAC while other potential funding options were explored.

We are now at the point of needing to make a firm decision on whether to continue our participation. Seeking funding through Budget 2019 is not an option. To participate, we must start work on the field trial in July 2019. To do so we need to procure a contract with a research company, with the process starting early in 2019. There is no option from the OECD for a delayed start.

We have approached the Ministry of Business, Innovation and Employment (MBIE) and the Tertiary Education Commission (TEC) for contributions to the cost. MBIE has agreed to work with Statistics NZ to deliver the new employer survey within their existing baseline funding for the Business Operations Survey. The TEC is not in a position to contribute from its operational funding.

The August Single Data Return (SDR) has shown that there will be underspends and recoveries in the Tertiary Tuition and Training Multi-Category Appropriation (MCA) in 2018/19 that could be reprioritised to fund participation in PIAAC.

The TEC has advised the cost of participating in PIAAC could be funded by reprioritising 2018/19 Youth Guarantee funding, which the August data indicates will be underspent by approximately $24 million in the six months to the end of 2018. You will receive further detail on underspends in Vote Tertiary Education as part of Budget 2019 advice.

We therefore seek your agreement, subject to the agreement of the Minister of Finance, to reprioritise 2018/19 funding within the Tertiary Tuition and Training MCA to fund New Zealand’s participation in the next cycle of PIAAC. The funding and contractual arrangements for New Zealand’s participation in the next cycle of PIAAC would be administered by the Ministry of Education.

The Treasury has indicated it supports Ministers agreeing to fund New Zealand’s participation in the next cycle of PIAAC through reprioritisation of surplus 2018/19 funding in Vote Tertiary Education.

We note that you will also soon receive a joint TEC and Ministry paper proposing reprioritisation of 2018/19 funding to meet the cost of the ‘detailed design phase’ of options for the potential restructure of the polytechnic sector. This paper is currently being updated to reflect your feedback to TEC and the Ministry on the integration of the TEC-led ITP Roadmap 2020 and Ministry-led review of the Vocational Education and Training (VET) system.
Recommended Actions

The Ministry of Education recommends that you:

a. **note** that $5.630 million is required to ensure New Zealand’s participation in the next cycle of the Programme for the International Assessment of Adult Competencies (PIAAC), which will provide unique information on the performance of our education and skills systems

b. **note** that seeking funding through Budget 2019 would be too late to meet the OECD timeline for the survey as participation in PIAAC requires the Ministry of Education to have engaged a research company to start work on the field trial before July 2019

c. **agree** to reprioritise $5.630 million of 2018/19 funding in the Tertiary Tuition and Training Multi-Category Appropriation (MCA) to fund New Zealand’s participation in the next cycle of PIAAC survey of adult skills

Agree / Disagree

d. **agree** to the following fiscally neutral adjustments to give effect to the decision in recommendation (c), with no impact on the operating balance

<table>
<thead>
<tr>
<th>Vote Tertiary Education</th>
<th>2018/19</th>
<th>2019/20</th>
<th>2020/21</th>
<th>2021/22</th>
<th>2022/23 only</th>
<th>TOTAL</th>
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<td>Minister of Education</td>
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<td>Multi-Category Expenses and Capital Expenditure:</td>
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<tr>
<td>Tertiary Tuition and Training MCA</td>
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<tr>
<td>Training for Designated Groups</td>
<td>(5,630)</td>
<td>-</td>
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<td>Research, Data Analysis and Monitoring</td>
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<td>1.300</td>
<td>0.422</td>
<td>3.777</td>
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<td>Total Operating</td>
<td>(5,630)</td>
<td>1.300</td>
<td>0.422</td>
<td>3.777</td>
<td>0.131</td>
<td>-</td>
</tr>
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</table>

Agree / Disagree

e. **note** that, subject to the agreement of the Minister of Finance, the fiscal implications of recommendations (c) and (d) will be addressed through the 2019 March Baseline Update

f. **agree** that the proposed change(s) to appropriations for 2018/19 above be included in the 2018/19 Supplementary Estimates and that, in the interim, the increase(s) be met from Imprest Supply;

Agree / Disagree
g. sign the attached letter to the Minister of Finance seeking his agreement to fund PIAAC through reprioritisation of 2018/19 funding within Vote Tertiary Education

h. forward a copy of this Education Report to the Minister of Finance with the attached letter

i. agree that this Education Report is proactively released following the agreement or otherwise of the Minister of Finance to your request

Andy Jackson  
Group Manager, Tertiary Education   
Graduate Vocations, Achievement and Careers

26/10/2018

Hon Chris Hipkins  
Minister of Education

3/11/18
Background

1 The Programme for the International Assessment of Adult Competencies (PIAAC) is the most comprehensive international study of adult skills ever undertaken, and provides unique information that cannot be found from other sources. PIAAC helps us understand how adults' skills are developed, maintained and used over a lifetime. It provides information on the interaction between people's skills, material and social well-being, educational attainment, employment, earnings and socio-demographic characteristics.

2 PIAAC is coordinated by the OECD and undertaken across more than 30 countries. The information is internationally comparable and provides benchmarks on how well the education and skills systems are working in New Zealand compared with other similar countries. Fundamentally, it provides an instrument of public accountability and helps us understand our areas of relative strength and weakness.

3 The Survey of Adult Skills is the main activity of PIAAC. It involves the direct measurement of literacy, numeracy and problem-solving skills for the population aged 16 to 65. It also collects a broad range of information on how people develop and use their skills in work and everyday life.

4 New Zealand participated in the first cycle of the PIAAC. Data from the household survey was collected in 2014/15 and reported in 2016. The data from this survey is comparable with that of over 30 other countries, including almost every other OECD country. It is also comparable with the previous adult literacy surveys in 1996 and 2006, providing a 20 year view of skills of the population.

First cycle of PIAAC has provided new insights and is used widely to inform decision-making

5 PIAAC provides valuable insight into whether changes in skills developed at school are translated into skills in the workforce. PIAAC is the only source of information that shows how the performance of our schooling system, in terms of skills development, plays out in adult life across time and between generations. Similarly, it is the only source of information that shows how well our investment in adult foundation education is improving the overall skills across the population.

6 Reports on the skills of the New Zealand adult population, skills and education, and skills and work were released by the Ministry of Education and MBIE in 2016. The Ministry of Education has since published reports on youth skills, financial literacy, and the skills of Māori. A report on the skills of Pacific peoples was recently sent to you. The Ministry has used information from PIAAC to inform the reviews of NCEA, vocational education and training, and foundation education.

7 PIAAC also forms an important part of the Ministry's contribution to cross-government understanding of how skills relate to social outcomes. The Tertiary Education Commission (TEC), MBIE and the Treasury have made extensive use of the data from the first round. The data has also been used by the Productivity Commission, the Industry Training Federation, the Auckland Council, the Commission for Financial Capability and English Language Partners.

8 The PIAAC household survey data has recently been added into the Statistics New Zealand's Integrated Data Infrastructure. This will enable us to follow the changes in the lives of participants over time through the use of linked administrative data.
The next cycle will include new types of information

The next cycle of PIAAC will include several important new areas of information. It will include measuring non-cognitive (social-emotional) skills in the household survey. This will provide new information on how these skills support and complement literacy, numeracy and problem solving in work and everyday life. There is increasing acknowledgement that non-cognitive skills play an important role in how well people succeed in education, employment and general life.

The background questionnaire will also include extended questions on aspects of social well-being.

The next cycle of PIAAC will also include an employer survey. This will be undertaken by including a consistent set of questions in existing national surveys of employers. In the case of New Zealand, it would be possible to include the questions in the Business Operations Survey. This will provide a consistent cross national dataset on how employers value, use and support the development of key skills in the workforce.

Not participating in the next cycle will leave a 17-year gap

The major concern around not participating in the second cycle is that we would have a large time gap in data to inform ongoing policy development in the areas of tertiary education and employment. Our next opportunity to participate in this study would be the third cycle, where the data collection would be in 2031 – leaving a 17-year interval between studies. We would also lose the opportunity to participate in the employer survey.

Planning for the next cycle is already underway

The OECD began work on the second cycle of PIAAC in 2017. The study design will be finalised this year. Countries are required to undertake a field trial in 2019, followed by data collection in 2021/22 and results being released in 2023.

If we are to participate, we will need to contract a research company to undertake the household survey within New Zealand. We need to start the procurement process in early 2019, so that we can have the contract operating by July 2019 at the latest.

We need to secure funding before we start the procurement process. We have also started considerable internal work to quality assure the questionnaires, in early 2019, we will be required to do further work to adapt questions to New Zealand.

Pending decisions on funding, we have made a commitment to the OECD to continue to participate in the PIAAC programme. This requires us to pay an annual subscription of around $150,000 per year, and attend governance and planning meetings. The cost of our subscription is being met from Ministry of Education baseline funding.

Funding for the next cycle has not been secured

The total cost of participating in the next cycle of PIAAC will be $6.9 million over four years from the 2019/20 to 2022/23 financial years. This includes the cost of implementing the employer survey. Funding was sought through Budget 2018, but was not secured.
18 There is no funding specifically allocated within departmental baselines for the costs of the survey. We have identified $1.3 million over four years within the Ministry of Education baselines. This leaves a shortfall of $5.630 million.

19 The Ministry of Education has approached MBIE and TEC to contribute funding. MBIE has agreed to work with Statistics NZ to deliver the new employer survey within their existing baseline funding for the Business Operations Survey. However, they are not in a position to provide further funding from their baseline. The TEC is not in a position to contribute from its operational funding.

20 As we need to start the contract procurement in early 2019, seeking funding in Budget 2019 is not an option to ensure New Zealand's participation. There is no option from the OECD for us to delay our implementation.

We are seeking your agreement to reprioritise unspent 2018/19 funding

21 You were recently advised of what the August Single Data Return (SDR) has shown about tertiary education volumes so far in the 2018 calendar year [METIS 1158144 and TEC B/18/00704 refer]. The August SDR data shows that 2018 volumes are broadly similar to those of 2017, and are below the level initially funded by the Tertiary Education Commission.

22 This means there will be relatively significant underspends and recoveries of the Tertiary Tuition and Training Multi-Category Appropriation (MCA). You will receive further advice on the scale of these as part of advice on Budget 2019. At this stage, the TEC has advised the cost of participating in PIAAC could be funded by reprioritising 2018/19 Youth Guarantee funding, which the August data indicates will be underspent by approximately $24 million in the six months to the end of 2018. You will receive further detail on underspends in Vote Tertiary Education as part of Budget 2019 advice.

23 We therefore seek your in-principle agreement, and the subsequent agreement of the Minister of Finance, to reprioritise $5.630 million to ensure New Zealand's participation in the next cycle of PIAAC.

24 The Treasury has indicated it supports Ministers agreeing to fund New Zealand's participation in the next cycle of PIAAC through reprioritisation of surplus 2018/19 funding in Vote Tertiary Education.

Next Steps

25 Should you agree to progress reprioritising funding to ensure New Zealand's participation in PIAAC, please sign and send the letter attached as Annex 1 (along with this Education Report) to the Minister of Finance for his consideration.

26 If the Minister of Finance also agrees, the in-principle decisions would be confirmed, and the funding would be transferred, via the 2019 March Baseline Update (MBU) process.

27 The funding would be transferred to the 'Research, Data Analysis and Monitoring' category of the 'Stewardship of the Tertiary Education System' Multi-Category Appropriation as participation in PIAAC is managed by the Ministry.
You will shortly receive a further proposal for reprioritisation

28 We note that you will also soon receive a joint TEC and Ministry paper proposing reprioritisation of 2018/19 funding to meet the cost of the ‘detailed design phase’ of options for the potential restructure of the polytechnic sector. This paper is currently being updated to reflect your feedback to TEC and the Ministry on the integration of the TEC-led ITP Roadmap 2020 and Ministry-led review of the Vocational Education and Training (VET) system.

Proactive release

29 It is intended that this Education Report is proactively released as per your expectation that information be released as soon as possible. Any information which may need to be withheld will be done so in line with the provisions of the Official Information Act 1982.

Annexes

Annex 1: Draft letter to Minister of Finance
Hon Grant Robertson
Minister of Finance
Parliament Buildings
WELLINGTON

Dear Minister,

I am seeking your approval to reprioritise 2018/19 funding within Vote Tertiary Education. The reprioritisation will ensure New Zealand can participate in the next cycle of the OECD’s Programme for the International Assessment of Adult Competencies (PIAAC).

PIAAC studies provide valuable information about skills and competencies across population groups, changes in skill utilisation and the interaction between people’s skills, educational attainment, employment, earnings and socio-demographic characteristics. Data from PIAAC helps us to monitor how education and training systems are performing, and to make more effective investments. PIAAC also forms an important part of the Ministry of Education’s contribution to cross-government understanding of how skills relate to social outcomes.

Participating in the next cycle of PIAAC will cost $6.930 million over 4 years. Funding was sought in Budget 2018, but was not secured. The Ministry can meet $1.3 million of the cost from its existing baseline, leaving $5.630 million required in additional funding. The Ministry has approached the Ministry of Business, Innovation and Employment (MBIE) and the Tertiary Education Commission (TEC) for contributions to the cost, but they are not in a position to provide additional funding. MBIE have agreed to work with Statistics NZ to deliver the new employer survey within their existing baseline funding for the Business Operations Survey.

I am at the point where I need to make a firm decision on whether to continue New Zealand’s participation. To participate, the Ministry needs to contract a research company to undertake the field trial and main data collection for the household survey. The Ministry needs to start contract procurement early in 2019 and can only do so if funding is available. This means that seeking funding through Budget 2019 is not an option. If funding is not secured, New Zealand would need to withdraw from participating in the next PIAAC cycle.

Tertiary education enrolment data reported in August show that 2018 volumes are broadly similar to those of 2017, and are below the level initially funded by the TEC. This means there will be underspends and recoveries of the Tertiary Tuition and Training Multi-Category Appropriation (MCA). The TEC has advised the cost of participating in PIAAC could be funded by reprioritising 2018/19 Youth Guarantee funding, which the August data indicates will be underspent by approximately $24 million in the six months to the end of 2018.
I therefore seeking your agreement to reprioritise $5.630 million of this funding to ensure New Zealand’s participation in the next cycle of PIAAC.

I will report on the scale of 2018/19 underspends and recoveries in Vote Tertiary Education available for reprioritisation as part of the Budget process. I will also be reporting to you and Cabinet later in 2018 on the latest estimates of the funding needed to deliver our first-year Fees-Free tertiary education and training policy, which have been updated based on data on Fees-Free uptake to August 2018. Together, I expect these will significantly contribute to the amount I am required to identify as part of the prioritisation exercise for the education portfolio.

An overview of PIAAC and the fiscal implications of my proposal to fund New Zealand’s participation in the next cycle of PIAAC is attached. I look forward to hearing of your decision on this issue.

Yours sincerely,

Chris Hipkins
Minister of Education
Reprioritisation within Vote Tertiary Education

Participation in OECD survey of adult skills

This initiative seeks funding to ensure New Zealand is able to participate in the OECD’s next survey of adult skills, which is part of its Programme for the International Assessment of Adult Skills (PIAAC). Participation in the next survey will provide valuable information about skills and competencies across population groups, help monitor the effectiveness of education and training systems and improve the effectiveness of Government’s investments in education and training.

| Vote Tertiary Education Minister of Education | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 only | TOTAL |
| Multi-Category Expenses and Capital Expenditure: Tertiary Tuition and Training MCA | | | | | | |
| Non-Departmental Output Expenses: | | | | | | |
| Training for Designated Groups | (5.630) | - | - | - | - | (5.630) |
| Multi-Category Expenses and Capital Expenditure: Stewardship of the Tertiary Education System MCA | | | | | | |
| Departmental Output Expenses: | | | | | | |
| Research, Data Analysis and Monitoring | - | 1.300 | 0.422 | 3.777 | 0.131 | 5.630 |
| Total Operating | (5.630) | 1.300 | 0.422 | 3.777 | 0.131 | - |