Briefing Note: Letter from Te Pōkai Tara Universities New Zealand

To: Hon Chris Hipkins, Minister of Education
Date: 6 August 2019
Priority: Low / Medium / High
Security Level: In Confidence
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Phone: Round robin: Yes / No
Messaging seen by Communications team: Yes / No / N/A

Purpose of report

The purpose of this paper is to provide you with information about our current funding policy work programme and a draft letter to respond to correspondence you have received from Derek McCormack, Chair of Universities New Zealand (UNZ).

Note that this Briefing will be proactively released. Agree / Disagree

Summary

UNZ has written to you to follow up on topics the Vice-Chancellors discussed with you at your recent dinner together. You have also received a copy of a letter from Universities New Zealand to the Ministry of Education, providing advice on the tertiary education funding system.

This report comments on the issues raised by UNZ and updates you on the status of all of our current funding review work streams, including our dialogue with UNZ.

Andy Jackson
Group Manager, Tertiary Graduate Achievement, Vocations & Careers
06/08/2019

Hon Chris Hipkins
Minister of Education
27/8/19
Background

1. You have received a letter from Derek McCormack, Chair of Universities New Zealand, following up on topics discussed at your recent dinner with the Vice-Chancellors. You have also received a copy of a letter from Universities New Zealand to the Ministry of Education, providing advice on the tertiary education funding system.

Discussion with the Vice-Chancellors

2. When you met with the Vice-Chancellors on 13 June, you discussed a number of topics which they have now followed up on, via the letter from Derek McCormack dated 27 June.

Differentiation between the university and ITP sectors

3. UNZ provided an excerpt from their submission to the Review of Vocational Education (RoVE) consultation, which states their view that post-graduate research qualifications should be delivered only by universities. Their position emphasises the different roles of vocational and academic qualifications in preparing graduates for employment, but notes their view that the ITP sector lacks the research infrastructure typical of universities.

4. We have provided some analysis of employment outcomes of tertiary education (attached as Annex 1), which shows a generally higher proportion of ITP graduates in employment in NZ, both five and ten years after graduation (although this difference may be partly due to migration), but earning less than their university counterparts. The data varies by field of study, and in some cases ITP graduates earn more than university graduates, but overall the outcomes are broadly comparable. This data provides support for the useful role that ITPs are playing in delivering degree level qualifications.

5. There are no changes proposed to the legislation, which currently does not differentiate by provider type when setting requirements for NZQA approval at degree level and above (s253B).

Membership of students’ associations

6. UNZ is aware that student unions are pushing for a reintroduction of compulsory student union membership as a way of providing for student voice. The universities see value in growing student voice but not through this approach.

7. In April, we provided you with advice that looked at the role and contribution student voice can make within the tertiary education system, stocktakes existing avenues for student voice within New Zealand and other relevant overseas jurisdictions. We provided options for how student voice could be further enhanced in New Zealand’s system of tertiary education as informed by domestic and international best practice [METIS 1175744 refers, see Annex Two].

8. In response, you agreed that officials undertake further work in the following areas:
   a. enhancing the status quo through changes to financial arrangements, increased guidance and support, and student voice audits
   b. structural changes to strengthen student voice
   c. establishing a National Centre for Student Voice.
9. You also signalled to officials that no further work be done around the option of repealing voluntary student membership. Your overall feedback was that these options could form a coherent package that moves away from the notion of “membership” and instead fosters a democratic approach to student voice within institutions and across the sector.

10. You will shortly receive an Education Report from the Ministry that will detail our proposed sector engagement plan on student voice and how to enhance it in the tertiary education sector.

Achieving equitable outcomes for Māori and Pasifika students

11. In December 2018, Universities New Zealand (UNZ) presented proposals to Hon Kelvin Davis, Associate Minister of Education (Māori Education), outlining a comprehensive set of reforms aimed at lifting Māori and Pacific participation and achievement rates in tertiary education in order to achieve parity with other learner groups. These proposed reforms covered both the schooling and the university sectors.

12. s 9(2)(f)(iv)

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Funding issues

Improving the tertiary education funding system

18. Your office has asked the Ministry of Education to work with UNZ on options to improve the funding system. A 9 July 2019 letter to the Ministry outlined their advice on the issues they would like to workshop with us over the next 12 months. The TEC Board also indicated to you in a recent letter that they would like to discuss funding issues with you.

19. In July 2018 you agreed to three year rolling approach to funding reviews, noting a number of work streams underway at that time (METIS 1137552 refers). These have shifted somewhat over the last year, given changes set up by RoVE. We currently have ten funding related policy reviews planned or underway across the tertiary system, summarised in Annex 3. We are planning and sequencing them carefully to ensure sector capacity to adapt and coherence across the funding system. This includes the funding dialogue which we have initiated with both UNZ and TEC.

20. While a volume based funding system can create disincentives for collaboration, and challenges for sustainable delivery throughout the economic cycle, we expect that volume will remain a key determinant of funding. The current enrolment based funding system works reasonably well for institutions which have stability in enrolment trends, and the ability to cross subsidise across a wide range of subject areas and qualification levels, but may not work as well for learners. UNZ’s letter notes that “the Student Achievement Component (SAC) funding system works well in the main... is easy to administer... provides reasonable predictability in funding levels, and has an overall approach that seeks (though imperfectly) to match funding with costs”. They have asked that Government continue to support universities through SAC funding.

21. However it is clear that the original intent of the enrolment based funding system – to fund learners on the same basis no matter where they enrol or how they study – does not seek to balance the costs of different delivery models or the needs of particular groups of learners. It may also reinforce a view that doing things differently requires additional funding. Funding which follows the learner was intended to support student choice, but also creates funding uncertainty for providers.

22. The RoVE unified funding system seeks to address these issues through three new funding design components:

   a. A new funding category system to set funding categories for different modes or types of tuition/training with different underlying costs, and the relative funding weight to assign to each category

   b. A new learner-based funding approach to recognise the higher costs of delivery that responds to a range of students’/trainees’ needs, and to incentivise improved system performance for traditionally underserved learners (especially Māori, Pacific and disabled learners)

   c. A new funding approach for strategically important delivery to support national priorities and to increase responsiveness to regional labour-market demand. This could include sector-specific funding for wānanga and/or the Institute.
23. Once design work on the unified funding system for work-integrated and provider-based learning at certificate and diploma levels 3-7 (excluding degree study) and all work-based learning (currently funded through the Industry Training Fund) is complete, we intend to consider the implications for degree level and postgraduate provision (i.e. levels 7 and above). UNZ understand any changes as a consequence will likely take place after that work is complete, and have agreed to workshop with the ministry on the issues it sees as a priority over the next twelve months.

Work integrated learning (and Study Abroad)

24. UNZ proposes that additional funding be provided to meet costs to the provider of work integrated learning, and that student support and immigration settings also be reviewed to support work integrated learning and study abroad. We see considerable potential in the idea of ‘unbundling’ of support for degree level work integrated learning from core funding rates. This has a parallel in our plans for RoVE, which will consider funding rates for different modes or types of delivery including work integrated learning, from the perspective of the balance of costs across delivery modes. We expect to provide advice on the implications of the RoVE unified funding system to higher education once that work is complete (though it is unlikely to consider study abroad options).

Funding changes arising from RoVE

25. In response to the RoVE technical discussion document on funding, UNZ proposed creating two new funding channels – increased rates to support strategic delivery by universities, and a strategic innovation supplement of 1 percent of SAC funding set aside for each institution, for projects that support TES and institutional priorities.

26. We have previously provided advice on this issue [METIS 1169325 and 1176238 refer], and in April 2019 you signed a delegation enabling TEC to fund initiatives to improve learner outcomes using underspends in Equity funding.

27. While the TEC Board and UNZ agree on the need for greater flexibility within the current funding system, they differ on where decision-making should sit.

Other funding ideas

28. UNZ wishes to discuss a number of other funding ideas with the Ministry. These are detailed in Annex 4.
Next steps

29. We have drafted a response for you to send to Derek McCormack.

30. We have agreed to continue the dialogue with UNZ on the funding issues that are of interest to the universities. The letter they sent on 9 July will provide the basis for our future engagement. s 9(2)(i)(iv)

Proactive release

31. It is intended that this Briefing 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: Employment outcomes of ITP graduates compared with university graduates
Annex 2: Māori and Pacific participation and progression rates
Annex 3: Funding policy workstreams
Annex 4: Other funding ideas
Annex 5: Draft text for letter to Derek McCormack
Annex one: Employment outcomes of ITP graduates compared with university graduates

Table 1: ITP and university graduate employment and earnings 5 and 10 years post study

<table>
<thead>
<tr>
<th>Level of qualification</th>
<th>Sub-sector</th>
<th>Estimated percentage of graduates who are in NZ and in employment</th>
<th>Estimated median earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>5 years post study</td>
<td>10 years post study</td>
</tr>
<tr>
<td>Bachelor’s</td>
<td>ITPs</td>
<td>54–58%</td>
<td>56–60%</td>
</tr>
<tr>
<td></td>
<td>Universities</td>
<td>54–58%</td>
<td>53–57%</td>
</tr>
<tr>
<td>Post-Bachelor Certs and Dips</td>
<td>ITPs</td>
<td>56–60%</td>
<td>55–59%</td>
</tr>
<tr>
<td></td>
<td>Universities</td>
<td>51–55%</td>
<td>52–56%</td>
</tr>
<tr>
<td>Master’s</td>
<td>ITPs</td>
<td>61–65%</td>
<td>53–57%</td>
</tr>
<tr>
<td></td>
<td>Universities</td>
<td>44–48%</td>
<td>49–53%</td>
</tr>
</tbody>
</table>

Note: These figures are based on unpublished analysis

- The data shows a generally higher proportion of ITP graduates in employment in New Zealand, both five and ten years after graduation, but earning less than their university counterparts.

- The figures available are not employment rates. Employment rates are normally based only on those that remain in NZ, whereas the rates above are based on all graduates, not those that just remain in NZ. Hence, lower rates may be more of a reflection of higher percentages of that type of graduate going overseas.

- The table above doesn’t take account of differences in fields studied at ITPs and at Universities (which is explored below). The data also doesn’t adjust for any other differences, such as demographic, ability, or regional.
University graduates at degree level generally have slightly higher median earnings across most fields – except noticeably for building, and also to a lesser extent for radiography, accountancy and some engineering and technology fields.

Similarly at postgraduate levels, graduate earnings – for the fields commonly provided in both settings – again show the slight earnings premium for university graduates 5 and 10 years post study.

Figure 2: ITP and university post-bachelor certificate or diploma graduate median earnings estimates by field, 5 and 10 years post study
Figure 3: ITP and university master's degree graduate earnings by field 5 and 10 years post study

Note: All figures in this Annex should be treated as indicative estimates only.
Annex two: Māori and Pacific participation and progression rates

Māori and Pacific learners are increasingly participating in and achieving in tertiary education. But many of these learners are concentrated in lower levels of study and are more likely to study at ITPs, wānanga and PTEs.

Table 1: Māori and Pacific EFTS in each sector as a percentage of the total Māori or Pacific EFTS compared to the national average

<table>
<thead>
<tr>
<th></th>
<th>ITPs</th>
<th>Wānanga</th>
<th>Universities</th>
<th>PTEs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage of total</td>
<td>29%</td>
<td>28%</td>
<td>24%</td>
<td>18%</td>
</tr>
<tr>
<td>Māori EFTS</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percentage of total</td>
<td>32%</td>
<td>10%</td>
<td>36%</td>
<td>24%</td>
</tr>
<tr>
<td>Pacific EFTS</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>National Average</td>
<td>27%</td>
<td>11%</td>
<td>50%</td>
<td>13%</td>
</tr>
</tbody>
</table>

Working-age Māori and Pacific peoples have the highest participation rate at levels 1 to 7. In 2017, 12 percent of Māori studied at levels 1 to 7, and overall their participation rate was 16 percent. Participation in levels 1 to 7 by Pacific peoples was 7.4 percent in 2017 and their overall rate was 12 percent. In 2017, 5.0 percent of Europeans and 3.2 percent for Asians studied at levels 1 to 7.

The higher participation rates at lower levels of tertiary education in part reflects the experiences of Māori and Pacific learners in the schooling system. Improving the performance of the schooling system is vitally important for Māori and Pacific learner success. An Integrated Data Infrastructure (IDI) analysis of the 2009 school leaver cohort shows:

- 73 percent of Pākehā students, 54 percent of Māori students and 72 percent of Pacific students stayed in school to Year 13
- Of those Year 13 students – 55 percent of Pākehā students, 24 percent of Māori and 21 percent of Pacific students left school with UE
- Of those students with UE – 86 percent of Pākehā students, 85 percent of Māori students and 97 percent of Pacific students entered university degree level study by 2011.

Participation rates for Māori and Pacific learners in higher level tertiary education, however, is slowly increasing.

- For Māori, the participation rate in bachelors or higher qualifications increased from 2007 to 2017 by 0.6 of a percentage point to 4.9 percent. The increase from 2007 to 2017 for Pacific peoples was 1.2 percentage points, up to 5.4 percent. The comparable rates in 2017 were 6.3 percent for Europeans and 6.1 percent for Asians.

Improving the achievement and retention rates of Māori and Pacific learners within higher level tertiary education is also important. The completion rates for Māori and Pacific learners in bachelor’s degrees have been improving but they remain persistently and significantly lower than for all domestic learners. The IDI analysis of the 2009 school leaver cohort shows:

- Of those students that entered university degree level study in 2011 – 73 percent of Pakeha students, 55 percent of Māori students and 42 percent of Pacific learners passed at least 85 percent of their first year courses.
Annex four: Other funding ideas

SAC funding rates for some subjects

There are several programmes leading to professional registration where UNZ sees increased practicum requirements introduced by registration bodies leading to increased costs of provision. They acknowledge the increased funding for initial teacher education provided in Budget 2019, and note the current work underway relating to clinical psychology. They also propose we look at funding rates for social work, counselling and educational psychology, and at the number of places funded for the latter two programmes.

Increases to SAC tuition subsidy rates are generally considered through Budget processes and prioritised within a wide range of potential investments, so require a high level of supporting evidence. Data on delivery costs and funding is collected through the New Zealand Benchmarking Tool (NZBT), but doesn’t disaggregate to qualification level. The NZBT data can tell us that, overall, SAC funding rates for the broad field of society and culture are broadly in line with delivery costs (relative to management and commerce). Within the current funding system, we’re less concerned by a claim that a particular (narrow) field is under-funded if NZBT shows that the overall (broad) field is not under-funded. If you wanted to consider additional funding for the programmes identified by UNZ, you could invite them to provide data to show that current subsidy rates are insufficient.

Regarding the UNZ view that insufficient counselling and educational psychology places are funded, we note that providers are free to agree increased delivery of these subject areas with TEC at any time.

Funding for the humanities

Funding rates for the humanities are a particular concern for UNZ, and they note that the Labour Party’s 2017 manifesto acknowledged the importance of humanities.

The 1.6 percent and 1.8 percent increases to all SAC tuition subsidies announced in 2018 and 2019 were the largest increases in funding for humanities delivery since 2012. The Government has needed to prioritise addressing past constraints on investment in a wide range of public services alongside investments to improve wellbeing and prosperity. In this context, past constraint on per-student funding is not sufficient to secure additional funding. As with the areas of study identified above, clearer evidence of the need to – and benefits of – investing in the humanities would be needed to secure additional funding, just as it would be to influence investment decisions within individual providers.

Performance-Based Research Fund (PBRF)

UNZ notes the importance of international research rankings for New Zealand’s reputation and ability to attract staff and students. They propose growing the amount of funding within the PBRF.

Minister Salesa recently announced the start of a review into the PBRF, led by Professor Linda Tuhiiwai Smith. The review – to continue into early 2020 – will consider ways that the Government can continue to support research excellence by improving the effectiveness and efficiency of PBRF settings and ensuring that it delivers solid outcomes for learners, businesses, communities and New Zealand as a whole. Universities New Zealand will be invited to input into the review, and will also get a chance to comment on review findings.

Any decisions about changes to the PBRF funding mechanism, including any funding changes, will be made following conclusion of the 2019-20 review.