

Chair
Cabinet

TERTIARY-WELFARE INTERFACE: REPRIORITISING FOUNDATION FOCUSED TRAINING OPPORTUNITIES FUNDING

Proposal

- 1 This paper seeks agreement to end the Foundation Focused Training Opportunities (FFTO) programme and redirect funding to an alternative suite of education, training and employment interventions for beneficiaries.
- 2 Instead, funding would be directed into other programmes that evidence shows provide better long-term outcomes for beneficiaries including:
 - fees free Level 1-2 Student Achievement Component provision for 20-24 year olds
 - English for Speakers of Other Languages and Intensive Literacy and Numeracy programmes
 - Ministry of Social Development interventions including shorter duration training providing industry skills for beneficiaries at high risk of being on benefit long term or other employment or training interventions
- 3 It will also provide a sound educational base through literacy and numeracy programmes, English for Speakers of Other Languages (ESOL) training and fees-free foundation education programmes that pathway into higher level training and more highly skilled employment.
- 4 There is a strong link between educational attainment and employment. For some people, further education will provide them with a stepping stone to a higher paid job. For others, different pathways will give them a better chance of securing employment. The outcome we are seeking is access to, and achievement in, high quality education, training and employment interventions to get beneficiaries into work.

Executive summary

- 5 This Government is focusing on better employment outcomes for beneficiaries. For some beneficiaries further education has a role to play in this. Other beneficiaries need different types of support to get a job – some may be able to be supported into employment with a wage subsidy, others may need more intensive support, such as English for Speakers of Other Languages (ESOL) training before being staircased into work.
- 6 While the FFTO programme has helped some beneficiaries move into employment, overall it is not tracking successfully. This being the case, we consider that FFTO funding should be redirected to enable investment in other mechanisms that are better able to support beneficiaries into employment.

- 7 As outlined above, as part of this suite of initiatives we propose that New Zealand Qualifications Framework Level 1-2 Student Achievement Component (SAC) provision for 20-24 year olds be fees free and that beneficiaries be prioritised for some of these places. Concurrently, we are also proposing that the age of eligibility for Youth Guarantee fees-free tertiary provision be extended to the age of 19.¹ This proposal will be addressed in another paper also detailing a proposal to utilise some Youth Guarantee places to pilot a new approach to secondary-tertiary partnerships.
- 8 Ending the FFTO programme requires a transition plan to ensure that high performing providers are maintained as we phase in new approaches to help move, especially high liability, beneficiaries into work.
- 9 Under the Investment Approach, MSD is focusing its investments on interventions for beneficiaries that provide the greatest return – those that are successful at getting beneficiaries into work, particularly for those who are at risk of being on benefit long term. Over time, tools will be developed to measure the return on investment of different interventions which will provide finer grained information on which interventions work best for different beneficiaries. Interventions that are not performing well will be reprioritised to those that are.
- 10
- 11 We propose that funding for fees free Level 1-2 for 20-24 year olds, ESOL and ILN programmes be transferred to Tertiary Education.
- 12 This proposal is the first step in the work to ensure that, for those beneficiaries who would be in a better position in the labour market by undertaking further education or training, there is high quality provision available that is appropriate to their needs and to further align the tertiary and welfare systems where appropriate.

Background

- 13 The policy settings for the tertiary-welfare interface need to be re-examined, given the greater work focus under Welfare Reform and in the context of key goals and priorities in the tertiary education system. This work includes reviewing the FFTO programme, identifying foundation education that supports beneficiaries into work

the first step in this work.

Ceasing FFTO is

- 14 Between 2003 and 2011, the Tertiary Education Commission (TEC) was contracted by MSD to provide the Training Opportunities Programme (TOPs) to individuals at risk of long-term benefit dependency. The programme aimed to move beneficiaries either into employment or into education at higher levels. In 2011, TOPs was split into two parts to try to address the poor performance of the programme:

¹ In 2014, some of the funding may be required for learners under 20 years of age who access Level 1-2 foundation education instead of Youth Guarantee.

- Training For Work (TFW) - short-course training with an employment focus, funded and administered by MSD, targeted to beneficiaries with a medium risk of being on benefit long term
 - FFTO - 26-week foundation-level (including ESOL) training courses where employment or further education are both considered acceptable outcomes, funded by Vote Social Development and administered by TEC on behalf of MSD, targeted to beneficiaries with a high risk of being on benefit long term.
- 15 TEC contracts FFTO provision each year on the basis of providers' past performance and occupancy rates. In 2013, TEC has contracts with 118 FFTO providers at a cost of \$46.784 million for 3,998 full-time equivalent places (EFTS) (approximately 8,000 places). The 118 providers comprise seven institutes of technology and polytechnics (\$2.869 million), 108 private training establishments (\$43.216 million) and three schools (\$0.588 million).
- 16 In Budget 2012, it was signalled that \$20 million of FFTO funding would be reprioritised to help fund Welfare Reform from the 2014/15 financial year. Regardless of other changes, this funding reduction has a significant impact on the future of the FFTO programme.
- 17 A profile of FFTO participants is attached as Appendix One.

Performance of Foundation Focused Training Opportunities and Training for Work

- 18 FFTO has not been meeting the minimum performance targets set for the programme. The performance targets (and results for the 2012/13 financial year) for FFTO participants on benefit who completed the programme were:
- a minimum of 64 per cent of learners will go into employment or further training within 91 days of leaving FFTO:
 - 38 per cent into employment (28 per cent outcomes achieved for those who participated and were on benefit)
 - 26 per cent into further education at Level 2 or above (17 per cent achieved)
 - all learners show an improvement in literacy and numeracy.²
- 19 The performance targets (and results for the 2012/13 financial year) for TFW were:
- a minimum of 64 per cent of beneficiaries will go into employment within eight weeks of leaving TFW (40 per cent of participants to date have moved into employment with a further 21 per cent moving off benefit for other reasons).
- 20 MSD expects TFW outcomes to improve further over time. This is because there has only recently been a retender of TFW contracts as the transition period from TOPs to TFW has taken place over two years. TFW providers that did not have a strong enough employment focus or who were not performing well in terms of employment outcomes were discontinued.
- 21 The effectiveness of interventions is a more important indicator as it shows how participants fared in comparison with people with similar characteristics who did not participate. While it is too soon to fully assess the effectiveness of the FFTO programme (i.e. whether FFTO participants become independent of Work and Income assistance more quickly or for longer periods, compared with beneficiaries with similar characteristics who did not take part in the programme), after one and a half years, participants in FFTO are less likely to become independent of Work and Income assistance compared with a matched group who did not take part in the programme. Based on current trends, it would appear that FFTO would have

² This target was under review during 2012.

a similar long term impact as TOPs (which was reconfigured due to poor performance) and is therefore unlikely to be effective.

Investing in alternative interventions to support beneficiaries into employment

- 22 We need to make sure that the mix of training and education opportunities for beneficiaries, alongside other policies such as wage subsidies, perform well at getting beneficiaries into employment. If interventions are not performing well and do not align well with employment objectives then we should redirect funding to interventions that are.
- 23 Welfare Reform has brought a greater focus to the benefit system and more beneficiaries have work obligations. The Investment Approach requires MSD to focus on those that present a greater risk of long-term welfare dependence. The majority of beneficiaries currently referred (Jobseekers) would not be eligible for assistance into longer-term training.
- 24 At the same time, settings in the tertiary education system have been shifting over time to increase the value of the Government's investment. The Government is placing higher expectations of performance on providers and students. This means more actively steering the system to ensure that tertiary providers respond to labour market demand. The changes place a greater focus on the skills that are in highest demand and providing information to inform students' choices. New foundation education policy objectives which focus on reconnecting people who have been disconnected from the education system have also provided additional information on what constitutes quality foundation education. This was not available when FFTO was designed and introduced as a programme.
- 25 We think that we can get better results by ceasing FFTO by the end of December 2013 and introducing other interventions.
- 26 There needs to be a range of pathways available to help move beneficiaries into work to ensure that different barriers to work can be addressed. The suite of interventions outlined below offer different types of support depending on the diverse needs of beneficiaries, for example, refugees may require a specific ESOL course before staircasing to employment or to an intervention closer to employment such as a short duration, employment-focused training course. Other beneficiaries may need training or further education to get a certificate or licence that can make them more marketable to an employer.

Education focused programmes funded by the Tertiary Education Commission

- 27 We propose to reprioritise part of the FFTO funding (\$7.251 million from January to June 2014 and \$14.5 million from 2014/15 ongoing) for the following education focused programmes, with funding to be transferred to Vote Tertiary Education:
 - fees free Level 1-2 provision for 20-24 year olds
 - ESOL and ILN courses.

Demand for foundation education

- 28 The cessation of FFTO will reduce the number of foundation- level education places to be offered in 2014 by approximately 3,500 EFTS from 2013 levels. In the context of all foundation-level education, this is a reduction of approximately 13%³.

³ But is partially offset by increases in other funds.

- 29 The majority of MSD referrals to FFTO programmes are beneficiaries in receipt of the unemployment benefit. With the introduction of the Investment Approach, the volume of Jobseeker referrals to education programmes is expected to reduce from current levels, as the majority of beneficiary demand will be met by MSD-funded training and employment interventions. That is an ongoing requirement for approximately 950 - 1,300 EFTS of foundation-level education for traditionally referred beneficiary groups.
- 30 Excluding the volume reduction that relates to the proposed cessation of FFTO, the number of funded foundation education places is expected to increase by 1,300 EFTS equivalents in 2014,⁴ compared with the forecast number of delivered places in 2013. This includes the growth path for Youth Guarantee (which rises up to 10,400 places by 2015).
- 31 On the basis of the latest forecasts reported in the April Single Data Return and TEC's engagement with foundation education providers, there is expected to be a modest under-delivery of SAC Level 1-2 provision (around \$1.75 million or 240 EFTS out of a total of \$109.2 million) for the 2013 academic year.

Withheld under s9(2)(b)(ii)

- 32 The growth in the number of available Youth Guarantee places for 2013 has yet to be matched by a commensurate increase in learner demand, in part because secondary schools have been more successful at retaining their senior students in study, but also because students that would otherwise be eligible for Youth Guarantee are opting to pay fees in other foundation level programmes in order to gain access to the Student Loans Scheme.

Withheld under s9(2)(f)(iv)

- 33 The proposed changes to extend the age of eligibility for Youth Guarantee fees-free tertiary provision to 19 years can be expected to increase demand for this programme, as around 20 per cent of the learners currently enrolled in SAC Level 1-2 provision are 19 years old or younger. With all foundation level education set to become fees-free for New Zealanders up to the age of 24, young learners can be expected to make choices based on the programmes that suit them rather than differences in eligibility and entitlements. While an additional 1,300 Youth Guarantee places will become available in 2014, it is estimated that around 40 per cent of eligible learners will opt for a fees-free SAC Level 1-2 programme instead.
- 34 Overall, it is expected that the change in the age of eligibility for Youth Guarantee will result in increased demand and uptake up of the 10,400 places to be allocated in 2014. That year will be the second in which the defined funding pool for education at Level 1-2 has been in place and where foundation education providers are transitioning towards enrolling no more than 10 per cent of learners who already have qualifications at Level 2 or above⁶.
- 35 There will be two policy changes in play for 2014; greater targeting towards learners that are most in need of foundation skills and lowered barriers to access through fees-free foundation education for under 24 year olds. It can be expected that greater targeting of a learner population that is difficult to reach and difficult to teach will result in a drop-off in demand as providers adjust accordingly. At this stage, the extent to which this may be offset by the fees-free changes cannot be estimated.
- 36 The defined funding pool for education at Levels 1-2 was established in order to ensure that funding is appropriately directed towards need at these levels. Should demand for foundation education exceed the current appropriation, we will consider whether to seek Cabinet

⁴ Incorporating the transfer from FFTO to fund additional ILN and ESOL places.

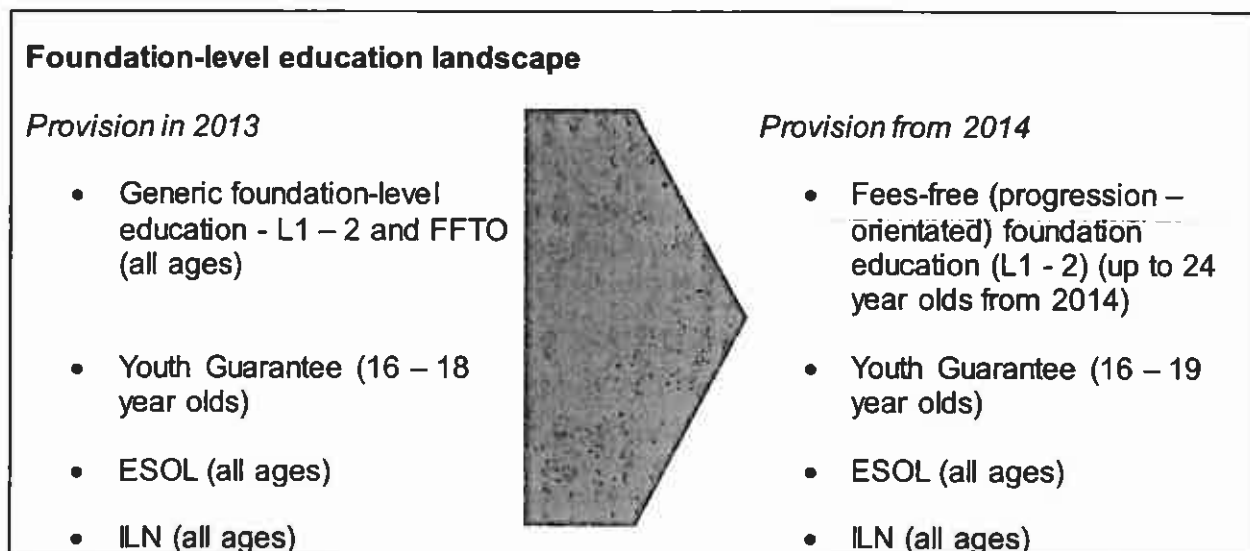
Withheld under s9(2)(b)(ii)

⁶ For 2014, the transitional target is 30% for enrolments in Mā tauranga Mā ori qualifications at wānanga and 20 per cent for all other enrolments.

approval for funding from the tagged contingency for Better Public Service targets and the Business Growth Agenda.

The future foundation education landscape

- 37 The following figure illustrates the current and proposed changes to foundation-level education provision following the proposed cessation of the FFTO programme.



- 38 Generic foundation-level education programmes currently funded through FFTO and the non-competitive proportion of SAC Level 1 and 2 are expected to be phased out in favour of programmes that are more clearly aligned to vocational pathways and focused on progression to higher level study or more skilled employment.
- 39 Competitively purchased Level 1 and 2 provision is already aimed at these progression outcomes. The wind down of FFTO followed by the next competitive procurement round for Level 1 and 2 programmes will see all foundation-level education similarly orientated and provided fees-free to all learners.

Fees free Level 1-2 provision for 20-24 year olds

- 40 As part of a suite of initiatives, we are proposing that Level 1-2 SAC funded provision be made fees-free for all 20-24 year olds and that beneficiaries be prioritised for some of these places - noting that programmes would not be able to be ring fenced for beneficiaries.
- 41 Level 1 – 2 provision delivers core foundational skills that provide students with the skills required to staircase into higher level vocational study, training and employment. Most students gain these skills, and the corresponding levels of qualification, at no cost in a school setting, but we still have significant numbers of young New Zealanders who are not gaining these skills by the age of 18.
- 42 Youth Guarantee tertiary provision is one response to this, offering fees-free tertiary provision at Levels 1- 3 for students aged 16 – 19 (following an extension in the age of eligibility for that programme proposed in the paper Extending age eligibility and flexibility of the Youth Guarantee scheme). However, 20 – 24 year olds, make up a significant proportion of the current NEET population and participants in FFTO programmes, and many of these young people, lack the basic foundation skills required to engage in higher level study or meaningful

employment and training. In the longer term, our Youth Guarantee initiatives will diminish the number of 20 – 24 year old NEETS, but under current conditions there is a strong argument for extending free foundation-level education to this age bracket – in effect making foundation-level education free for all up to the age of 24 years old.

- 43 In the first instance, the provision of foundation skills will help reduce these students' reliance on the welfare system, by providing them with the skills to transition into higher-level education, employment and training. Fees-free provision will help incentivise their reengagement with education and help minimise the long-term debt burden on these learners, who may not have been served well by the education system earlier in their lives. While these learners are older than the group targeted in the Better Public Services target for NCEA Level 2 or equivalent, ensuring 20 – 24 year olds have good access to foundation-level education will ensure that more 25 – 34 year olds are well placed to achieve a Level 4 tertiary qualification, supporting the meeting of our targets for that level of provision.
- 44 This fees-free provision will very much be focussed on learners who, for whatever reason, have not previously achieved a Level 1 – 2 qualification. Current SAC funding rules require a transition towards a maximum of 10% of Level 2 learners at any provider may already have a qualification at this level – meaning provision will primarily be focussed on those who have previously not achieved in, or been served well, by the education system – minimising the deadweight costs of introducing fees-free provision at this level.
- 45 We have also undertaken considerable amount of work to improve the robustness of foundation-level provision, which will help ensure this investment secures positive outcomes for both students and the economy as a whole:
- We now require all Level 1 to 3 courses to embed Literacy and Numeracy.
 - We have increasingly focussed the foundation-level part of the tertiary system on the delivery of full qualifications that provide students with the best opportunity to gain truly transferable, nationally recognised skills and qualifications.
 - We have reduced the number of qualifications on the New Zealand Qualifications Framework to ensure a more streamlined, navigable and fit for purpose tertiary system at sub-degree level.
 - We have developed vocational pathways which will support learners, providers and employers to ensure qualifications are relevant to industry.
 - The Ministry of Education is currently undertaking work to further clarify the what should be expected of foundation-level education, to ensure that all students achieving a qualification at this level, be it at school, in a tertiary setting, or through some form of mixed-model provision, are ready and capable of progressing into study or employment, and that prospective employers can be confident that their qualification accurately reflects their capabilities.

Costs

- 46 At present there are 1,024 equivalent full-time 20-24 year olds engaged in study at SAC Level 1-2⁷. Extrapolated over the 2014 academic year this number is expected to be 1,475. To ensure this existing provision is fees-free for these students will cost approximately \$5.8 million for 2014. To fund this, this paper is seeking the Committee's agreement to transfer this amount to Vote Tertiary Education.

⁷ These are non-competitively allocated programmes that are not currently required to be fees-free.

Provision of fees free Level 1-2 programmes for beneficiaries

- 47 The purpose of the reform of the benefit system was to create a work first environment for a wider range of beneficiaries. MSD's primary target is the Better Public Service target to reduce the number of beneficiaries who have been on Jobseeker Support for more than 12 months by 30 per cent from 78,000 in April 2012 to 55,000 by 2017. MSD's performance is also measured by its influence on the liability of the benefit system.
- 48 The work first approach of the Jobseeker Support benefit means that MSD must determine the most effective pathway into work for each beneficiary. This means using evidence on the effectiveness of interventions to decide which ones will have the most success at addressing the barriers that a beneficiary has. Jobseekers are unable to be a full time student and qualify for the benefit other than for approved short term courses.
- 49 For the small number of beneficiaries where Level 1-2 programmes could be an appropriate pathway to work, MSD and TEC will work to ensure that these programmes meet the needs of beneficiaries.

Selection of Level 1-2 programmes

- 50 In general, evidence shows that undertaking study at Level 1-3 has little or no impact on beneficiaries' employment, earnings or time spent independent of income support.⁸ International evidence shows that training for beneficiaries is most effective when there is a strong link to local employers (often combined with work experience). Training is also more effective when it leads to qualifications valued by employers. Effective foundation education for capable and motivated students can provide a stepping stone to higher level education.
- 51 While beneficiaries already have access to Level 1-2 programmes, ensuring these are fees free, align well with the local labour market and are suited to beneficiary needs, will mean that TEC and MSD can work to prioritise beneficiaries for places on the most effective programmes.
- 52 Education and training programmes will be carefully selected as evidence shows that the field of study, particularly for lower level programmes, has an important bearing on whether the training will have a positive impact on employment outcomes for beneficiaries. Whether a beneficiary completes and is awarded a qualification also makes a difference.
- 53 Shorter training programmes that can provide beneficiaries with certificates or licences that are of value in the local labour market are likely to be suitable. Shorter programmes will also mean there will be less of a 'lock in' effect (i.e. the time spent studying and on benefit rather than moving into work). Programmes of at least 60 credits (six months full time study or 12 months part time study) will be prioritised, with particular emphasis on those that align with vocational pathways, although few beneficiaries are likely to be referred because of the tension with their benefit obligations. Shorter 40 credit programmes that have less of a 'lock in' effect and that more clearly meet beneficiaries' needs will also be able to be purchased where these can seamlessly pathway into industry training at higher levels or to employment. 40 credit programmes can include licences (e.g. Certificate in Road Transport), although few do. In the short term, programmes that are designed to meet industry needs for the Canterbury rebuild may be suitable for purchase.

⁸ Crichton S (forthcoming). *The Impact of Further Education on the Employment Outcomes of Beneficiaries*, Ministry of Business, Innovation and Employment, Wellington.

Further work

- 54 The changes to make Level 1-2 programmes fees free to all 20-24 year olds are being planned to come into effect from the beginning of 2014. Given the lead-in time required to make substantive changes to provider and agency systems, it will be necessary in 2014 to use a number of work-arounds to enable this to occur. These work-arounds place significant and complex requirements on both providers and TEC, will require TEC to invest around \$150,000 in short term changes to its systems for 2014, and are not sustainable beyond 2014 due to the inherent risks involved. For 2015, an investment in systems will be required as part of Budget 2014 to fully integrate the new approach into existing systems. Ministers will be receiving advice shortly on the scope and cost of these changes.
- 55 Several efforts are currently underway to ensure that Level 1-2 tertiary provision is robust and provides clear pathways to further study and employment. The new Vocational Pathways are a key new component of this, showing students how their credits towards NCEA (and other) qualifications relate to employment possibilities across five major sectors of the economy. The qualifications reforms are continuing to reduce the proliferation of qualifications at this level. As part of the wider Youth Guarantee work programme, the Ministry of Education will report to Education Ministers in September on a stock take of Level 1-2 programmes and qualifications, and on definition work to develop a "graduate profile" for Level 1-2 courses. This will ensure that programmes approved and funded at foundation level are underpinned by the foundation skills required for successful transitions to employment, and be used to support TEC's investment guidance, New Zealand Qualifications Authority (NZQA) programme approvals, and further qualifications reviews.
- 56 Over time, innovative courses tailored to beneficiaries that meet industry needs could be designed. The best crossover between tertiary study and welfare is to incentivise industry-related training while in work in tandem with employment interventions where appropriate.
- 57 Further details for MSD and TEC to work through include:
- processes to identify appropriate Level 1-2 provision for beneficiaries
 - processes to identify beneficiaries to be referred to programmes
 - referral mechanisms – motivation to study is an important determinant of success therefore there would need to be careful consideration of whether to make study part of benefit obligations
 - how to prioritise access to programmes for beneficiaries.
- 58 MSD would measure how these programmes perform for beneficiaries alongside other employment and training interventions available for beneficiaries.

ESOL and Intensive Literacy and Numeracy programmes

- 59 We propose that part of the reprioritised FFTO funding be used for ESOL and ILN programmes for beneficiaries:
- \$2.663 million for ESOL and \$1.688 million for ILN in 2013/14
 - \$5.325 million for ESOL and \$3.375 million for ILN ongoing from 2014/15 which would fund 1,420 and 1,350 places respectively.

ESOL provision

- 60 In 2012, FFTO included 1,420 places on ESOL programmes at a cost of \$5.325 million. FFTO has been an important source of ESOL provision for refugees. ESOL has always been difficult to cater for within FFTO and we consider that better outcomes could be achieved if ESOL providers could focus on improving beneficiaries' English language skills. Beneficiaries could then be staircased to employment or MSD interventions that are closer to employment.

Intensive Literacy and Numeracy provision

- 61 One quarter of FFTO participants who were assessed for reading in 2011 (approximately 1,400 people) had very low skills. ILN programmes would be available for beneficiaries with no qualifications who were not ready to go into formal tertiary study, subsidised employment, or employment focused training. Again, after completing an ILN programme, beneficiaries could move into employment or MSD interventions closer to employment.
- 62 MSD and TEC will work together to work out further details on the types of programmes that would be funded that will meet beneficiary needs and how to prioritise access for beneficiaries. This will include work-based ILN provision delivered to beneficiaries once they are in employment.

Employment and training interventions funded by the Ministry of Social Development

- 63 We propose to reprioritise the balance of FFTO funding (\$16.141 million from January to June 2014 and \$12.284 million from 2014/15 ongoing) for MSD employment and training interventions with the funding to remain in Vote Social Development. Interventions would focus on connecting people to work including:
- shorter duration training providing industry skills for beneficiaries at high risk of being on benefit long term and other employment interventions

Shorter duration, industry focused training and employment interventions for high liability clients

- 64 We propose that shorter duration, industry skills focused training providing certificates or licences that have value to employers, similar to Training for Work, be provided for beneficiaries who are at high risk of being on benefit long term. FFTO providers who were performing well at getting beneficiaries into employment would be potential providers of this type of intervention. The intervention could be combined with a wage subsidy to provide an extra incentive for employers to take on participants.
- 65 The intervention would be suited to Jobseekers with a high likelihood of being on benefit long term (78,633 beneficiaries as at March 2013). MSD provides interventions for a proportion of the beneficiaries that it determines are a priority each year while many continue to be managed via case management only.
- 66 There is also a good case for allocating further funding to Flexi wage (wage subsidies). Wage subsidies work well for beneficiaries at risk of long term benefit receipt. Of those beneficiaries who had a higher likelihood of being on benefit long term who went through a wage subsidy between July 2011 and January 2013, 79 per cent had not returned to benefit as at the end of March 2013. Wage subsidies are also able to contain a training component.

- 71 Under the Investment Approach MSD is focusing on what interventions work for different types of beneficiaries to support them into employment, with a particular focus on those at risk of being on benefit long term. Over time, further tools will be developed to measure the return on investment of different interventions which will enable finer grained information of how interventions perform for different beneficiaries.

75 Reprioritised funding for ESOL, ILN and fees free Level 1-2 for 20-24 year olds would be transferred to Vote Tertiary Education

Allocation of places across interventions

76 The number of places that we propose should be allocated across the suite of interventions outlined above and the total cost, to be funded from reprioritised FFTO funding, is outlined in the tables on the following page:

2013/14 reprioritised FFTO funding (January to June 2014)

Programme or intervention	Places	Cost per place ⁹	Total cost (\$m)
ILN (100 hours tuition)	675	\$2,500	\$1.688
ESOL (200 hours tuition)	710	\$3,750	\$2.663
Level 1-2 – contribution to enable all provision to 20-24 year olds to be fees free			\$2.900 (half year cost)
e.g. training and employment interventions for high liability clients	2,690 – 5,380	\$3,000 - \$6,000 ¹⁰	\$16.141
Total	4,075 – 6,765 (plus fees free places)		\$23.392

2014/15 ongoing reprioritised FFTO funding

Programme or intervention	Places	Cost per place	Total cost (\$m)
ILN (100 hours tuition)	1,350	\$2,500	\$3.375
ESOL (200 hours tuition)	1,420	\$3,750	\$5.325
Level 1-2 – contribution to enable all provision to 20-24 year olds to be fees free			\$5.800
e.g. training and	2,047 – 4,095	\$3,000 - \$6,000 ¹¹	\$12.284

⁹ Places may be filled by more than one participant in the case of early withdrawal.

¹⁰ This is a rough estimate based on potential average costs across the MSD interventions outlined.

¹¹ This is a rough estimate based on potential average costs across the MSD interventions outlined.

employment interventions for high liability clients			
Total	4,817 – 6,865 (plus fees free places)		\$26.784

Managing providers during the change period

- 77 There will be a varying degree of impact on the 118 providers that currently deliver programmes through FFTO funding.

Timing to end FFTO

- 78 While a longer lead in time (i.e. ending the programme in June 2014) might make it easier for some providers to adjust, uncertainty over MSD referral rates, and the timing of TEC's annual Investing in a Plan process means that an earlier timeframe for ending the programme would support a more cost effective and managed withdrawal for providers. It would also avoid potential additional underwriting of providers that will not play a role in the future tertiary education network.
- 79 Signalling the end of the FFTO programme now would enable affected providers to plan and adjust their business model and for TEC to work with each provider to manage their withdrawal from FFTO delivery in the context of any other funded programmes they deliver.

Engagement with affected providers

- 80 Should Cabinet agree to the proposals in this paper, managing providers out of the FFTO programme will be handled carefully, as is always the case when TEC or MSD ends contracts with providers.
- 81 When TFW was retendered MSD was able to signal to providers half way through the previous contracting year that all providers would need to apply for new contracts with a clear story about what MSD was trying to achieve. In this case, once the decision to communicate the cessation of FFTO is communicated to providers, TEC will be nearing the end of its Investment Plan process. Once providers learn that FFTO funding will be unavailable they will need to reconsider their business models and, for some, their Investment Plan may need to be revised and reapproved by TEC. It is therefore imperative that TEC is able to take an active approach to managing providers' transition out of FFTO delivery.
- 82 TEC analysed 2012 delivery across funded programmes to model programme demand and TEC funding providers use to deliver programmes. The analysis was then used to model risk to the delivery of non-FFTO programmes funded through TEC when FFTO ceases. A summary is attached as Appendix Two.
- 83 TEC will meet with each of the 18 FFTO-only providers to talk through with them how they plan to exit from FFTO delivery at the end of the year. Some may wish to exit early to avoid fixed costs of delivery with a declining referral rate. Others may wish to maintain delivery until the end of the year in accordance with their contract.
- 84 TEC will contact each provider to discuss their overall funding situation and how they plan to exit from FFTO delivery at the end of the year whilst maintaining other funded delivery, and meet with them where required.

- 85 Information from TEC discussions with providers, and confirmed FFTO 2012 performance data, will be provided to MSD to inform MSD's future contracting rounds. MSD will consider which high performing providers could be funded to deliver MSD interventions.
- 86 Current FFTO providers will be considered for additional ESOL and ILN funding from reprioritised FFTO funding where they have an existing ILN and ESOL allocation. Funding decisions will consider the quality of provision and maintaining the network of provision.
- 87 TEC will also consider any requests for additional funding for SAC Level 3 and above or Youth Guarantee for those high performing providers who can demonstrate demand. Requests will be considered based on whether there is available funding, regional need, the Government's objectives for economic alignment, and the Investment Plan assessment criteria¹². SAC Level 1-2 funding is already contracted for 2014 and the next contestable round will take place during 2014 (for 2015 contracts).
- 88 Existing FFTO providers would not be able to offer any SAC Level 1-2 funded in 2014 unless they were already approved for an existing programme. This is because of the timeframe involved in gaining approval from the NZQA, although the NZQA could work alongside TEC and providers to speed up the process for particular providers. Approval would nevertheless depend on the application's quality.
- 89 TEC and MSD will continue to work together to ensure that foundation education and employment and training provision that aligns with the Investment Approach and the Government's Tertiary Education Strategy 2010-2015, and meets all other applicable criteria (such as regional need), can be purchased.

Other transition arrangements

- 90 Current course completion requirements are that at least 14 weeks of full time training is required for learners to gain educational value from a programme such as FFTO. Maintaining a 14 week minimum duration would mean that full time learner referrals to the programme will end from September 2013.
- 91 As a result, FFTO providers will not be able to maintain the minimum occupancy levels currently required, which will result in funding recovery under current policy settings. Because occupancy rates would be outside of providers' control, and referral rates by MSD will decrease, a modified arrangement to address the referral shortfall is proposed. Under this arrangement, TEC and MSD would agree to underwrite an occupancy rate for FFTO providers through to 31 December 2013. This will be funded from within existing baselines.
- 92 This will minimise the risk of providers being funded for delivery at a level that they cannot achieve, incurring fixed costs debt liability as a result, and being unable to repay that debt from future revenue.

¹² The Investment Plan assessment criteria is prescribed under section 159Y of the Education Act 1989.

Risks

- 94 A risk with this proposal is that removing FFTO funding may have flow on effects for other programmes. For instance, 85 FFTO providers also offer Youth Guarantee. Some rural or isolated areas may also lose coverage of provision.
- 95 There is a risk that some providers may consider that they have not been given sufficient opportunity to address any concerns about the performance of their programme or that other providers may consider that their programme should not be closed down. Providers may also consider that they will not have enough time to transition out of FFTO delivery, particularly as they have already had discussions on their Investment Plans with TEC.
- 96 TEC and MSD will work closely with the sector and individual providers, to manage the issues that arise through ending FFTO. The possibility for some FFTO providers to transfer to alternative interventions such as a MSD intervention or to other education programmes will mitigate this risk.

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withheld under s 9(2)(g)(i)

- 98 However, system changes to fully integrate the new settings for SAC Level 1-2 provision will be possible for the 2015 academic year. This will require some system investment as part of Budget 2014 to ensure the new system is fully integrated into 'business as usual' practice for the 2015 academic year. Ministers will be receiving advice shortly on the scope and cost of these changes.

Further work on the tertiary-welfare interface

- 99 The objective of the broader work on the tertiary-welfare interface is to ensure that, for those beneficiaries who would be in a better position in the labour market by undertaking further education, there is high quality education provision available that is appropriate to their needs and to further align the tertiary and welfare systems where appropriate.

Consultation

104 The Ministries of Business, Innovation and Employment, The Treasury, the Tertiary Education Commission, the Ministry of Youth Development, the New Zealand Qualifications Authority and Te Puni Kokiri have been consulted on this paper.

Financial implications

- 105 The financial implications for the proposal to reprioritise part of the FFTO funding for ILN, ESOL and SAC fees-free provision at Level 1-2 for 20-24 year olds to be funded through Vote Tertiary Education are outlined in the table below:

	\$m - increase/(decrease)				
	2013/14	2014/15	2015/16	2016/17	2017/18 & Outyears
Vote Social Development Minister for Social Development Departmental Output Expense: Vocational Skills Training (funded by revenue Crown)	(7.251)	(14.500)	(14.500)	(14.500)	(14.500)
Vote Tertiary Education Minister for Tertiary Education, Skills and Employment Non-Departmental Output Expense: Community Education	4.351	8.700	8.700	8.700	8.700
Non-Departmental Output Expense: Student Achievement Component	2.900	5.800	5.800	5.800	5.800

- 106 The financial implications for the proposal to reprioritise part of the FFTO funding for other MSD education, training and employment interventions to support beneficiaries into work are outlined in the table below:

	\$m – increase/(decrease)				
	2013/14	2014/15	2015/16	2016/17	2017/18 & Outyears
Vote Social Development Minister for Social Development Departmental Output Expense: Vocational Skills Training (funded by revenue Crown)	(16.141)	(12.284)	(12.284)	(12.284)	(12.284)
Vote Social Development Minister for Social Development Non-Departmental Other Expense: Employment Assistance	16.141	12.284	12.284	12.284	12.284

- 107 The underwriting of the occupancy rate for FFTO providers through to December 2013 will be funded from within existing baselines.

Human rights implications

- 108 Making foundation level provision fees free for a particular age group, raises a *prima facie* issue of age discrimination under section 19 of the Bill of Rights Act 1990. However, this

proposal targets 20-24 year olds who have not previously achieved a Level 1 or 2 qualification. Research indicates that people who have NCEA Level 2 have better opportunities in terms of further education, employment and health outcomes and a better quality of life. The fees free policy for 20-24 year olds at Level 1-2 positively targets this age group to enable future success.

Legislative implications

109 There are no legislative implications.

Regulatory impact and compliance cost statement

110 A regulatory impact statement is not required.

Gender and disability implications

111 We do not anticipate that these proposals will have any gender or disability implications because those currently accessing FFTO will be able to access other MSD or foundation education interventions in its place.

Communications

112 A communications strategy is being developed by MSD and TEC. If Cabinet agrees to the proposals in this paper, TEC intends to communicate the decision to end FFTO as outlined in this paper to providers as soon as possible.

Recommendations

113 It is recommended that the Committee:

- 1 **note** that the Foundation Focused Training Opportunities programme does not align well with employment objectives or with foundation education objectives and is not performing well overall
- 2 **agree** to end the Foundation Focused Training Opportunities programme from 31 December 2013
- 4 **agree** that reprioritised Foundation Focused Training Opportunities funding will be allocated to other education and Ministry of Social Development interventions including:
 - 4.1 fees free Level 1-2 Student Achievement Component provision for 20-24 year olds
 - 4.2 English for Speakers of Other Languages and Intensive Literacy and Numeracy programmes

Ministry of Social Development interventions including shorter duration training providing industry skills for beneficiaries at high risk of being on benefit long term or other employment or training

- 5 **approve** the following fiscally neutral adjustments to provide funding for beneficiaries to be referred to specialist English for Speakers of Other Languages providers or to address intensive literacy and numeracy needs and for Student Achievement Component fees-free provision for 20-24 year olds at New Zealand Qualifications Framework Level 1-2, with no impact on the operating balance:

	\$m – increase/(decrease)				
	2013/14	2014/15	2015/16	2016/17	2017/18 & Outyears
Vote Social Development Minister for Social Development					
Departmental Output	(7.251)	(14.500)	(14.500)	(14.500)	(14.500)
Expense:					
Vocational Skills Training (funded by revenue Crown)					
Vote Tertiary Education Minister for Tertiary Education, Skills and Employment					
Non-Departmental Output	4.351	8.700	8.700	8.700	8.700
Expense: Community Education					
Non-Departmental Output					
Expense: Student Achievement Component	2.900	5.800	5.800	5.800	5.800

- 6 **approve** the following fiscally neutral adjustments to provide funding for other education, training and employment interventions to support beneficiaries into work, with no impact on the operating balance:

	\$m – increase/(decrease)				
	2013/14	2014/15	2015/16	2016/17	2017/18 & Outyears
Vote Social Development Minister for Social Development					
Departmental Output	(16.141)	(12.284)	(12.284)	(12.284)	(12.284)
Expense:					
Vocational Skills Training (funded by revenue Crown)					
Vote Social Development Minister for Social Development					
Non-Departmental Other	16.141	12.284	12.284	12.284	12.284
Expense: Employment Assistance					

- 7 **agree** that the proposed changes to appropriations for 2013/14 in the recommendations above be included in the 2013/14 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply

- 10 **agree** that decisions on the Foundation Focused Training Opportunities programme are communicated to the sector as soon as possible
- 11 **note** that the Tertiary Education Commission will contact each of the Foundation Focused Training Opportunities providers and meet with each of the 18 Foundation Focused Training Opportunities-only providers, and with other Foundation Focused Training Opportunities providers where required, to discuss how they plan to exit from Foundation Focused Training Opportunities delivery at the end of the year
- 12 **note** there are IT system issues in having age-related student support eligibility for students on the same course and that 2014 will be a transition year, with the Tertiary Education Commission and StudyLink to undertake work on system changes to take effect from 2015, with costs to be sought in Budget 2014

Hon Steven Joyce
Minister for Tertiary Education, Skills and Employment

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Hon Paula Bennett
Minister for Social Development

____ / ____ / ____

Appendix One: Profile of FFTO participants

All data relates to the 2012 calendar year.

Benefit type

The benefit types of FFTO participants were as follows, approximately:

- 73 per cent were on Unemployment Benefit
- 12 per cent on the Domestic Purposes Benefit
- 6 per cent on Sickness Benefit
- 2 per cent on Invalid's Benefit.

Ethnicity

The ethnicity of FFTO participants was as follows, approximately:

- 41 per cent Maori
- 39 per cent European / Pakeha.
- 17 per cent Pacific Peoples.

Age profile

Age	FFTO	
	No.	%
16-17 years	65	1%
18-19 years	2,350	25%
20-24 years	2,548	27%
25-34 years	1,560	17%
35 years+	2,856	30%
Total	9,379	100%

Employment history

Employment history	FFTO	
	No.	%
Worked full time for 1 year or more	1,876	20%
Worked full time for less than 1 year	2,439	26%
Only worked part time	1,313	14%
Never worked in paid employment	3,752	40%
Total	9,379	100%

Prior education attainment and age group

Age Group	Prior attainment	Number	% of total	% of age group
16-24 year olds	No quals / less than 12 credits	1,353	14%	27%
	12-80 credits / School Cert	1,630	17%	33%
	NCEA L1 / 81+ credits	948	10%	19%
	NCEA 2 or higher	840	9%	17%
	Unknown	192	2%	4%
	<i>Total</i>	<i>4,963</i>	<i>53%</i>	<i>100%</i>
25-39 year olds	No quals / less than 12 credits	838	9%	38%
	12-80 credits / School Cert	663	7%	30%
	NCEA L1 / 81+ credits	245	3%	11%
	NCEA 2 or higher	320	3%	15%
	Unknown	138	1%	6%
	<i>Total</i>	<i>2,204</i>	<i>23%</i>	<i>100%</i>
40+ year olds	No quals / less than 12 credits	925	10%	42%
	12-80 credits / School Cert	604	6%	27%
	NCEA L1 / 81+ credits	146	2%	7%
	NCEA 2 or higher	329	4%	15%
	Unknown	208	2%	9%
	<i>Total</i>	<i>2,212</i>	<i>24%</i>	<i>100%</i>
Total		9,379	100%	

Appendix Two:

Withheld under section 9(2)(f)(iv) of
the Official Information Act 1982