



Education Report: How to pursue change in the VET system

To:	Hon Chris Hipkins, Minister of Education		
Date:	11 October 2018	Priority:	High
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Messaging seen by Communications team:	No	Round Robin:	No

Purpose

This note seeks direction from you on how you would like to achieve a vocational education and training (VET) system in which tertiary education organisations (TEOs) collaborate within “one VET system”. It also seeks your agreement to a timeframe for Cabinet and consultation processes for the VET system review.

Summary

1. This paper sets out options to achieve “one VET system” in two different ways.
2. **Option 1** creates a VET system that would *necessitate* collaboration between industry training organisations (ITOs) and providers, where collaboration would be driven *from the centre*. ITOs would become standard-setting bodies (SSBs): their standard-setting role would be strengthened and they would lose their current arranging training function. SSBs and providers would have distinct and complementary roles, and they would not be able to perform their own roles without collaborating. This option would be achieved via an up-front redesign of the roles in the system through significant legislative and funding change. It could push reforms further than option 2, but comes with higher costs of change.
3. **Option 2** creates a VET system that would *incentivise* collaboration between ITOs and providers, where collaboration would be driven *locally*. Higher funding rates for provision that combines the best of on- and off-job learning would be available for providers and ITOs that show they are collaborating. ITOs and providers would retain their current roles, and they could continue to perform their roles with minimal or no collaboration, but lower funding rates would disincentivise this. This option would be achieved through significant funding reform to create a common funding model for VET. This would have lower risks and costs of change than option 1, but might mean reform does not progress as far.
4. The choice between the two options essentially comes down to a consideration of: how to drive reform and over what timeframes; how much change you and your Cabinet colleagues think the system needs and can absorb; and, how much risk and cost of change you want to incur. We would like to discuss the two options with you.

Recommended Actions

The Ministry of Education recommends you:

Direction of change for the VET review

- a. **note** that at your meeting with officials on 17 September you signalled to us that the model we presented in our previous paper for changes to the functions of tertiary education organisations (TEOs) within the vocational education and training (VET) system was broadly what you were looking for (METIS 1151257 refers)

Noted

- b. **note** that this paper sets out two options for significant change to the VET system, with both involving TEOs collaborating as “one VET system” to achieve improved outcomes for learners and employers, and with the key differences between options being:

- i. the manner in which TEO collaboration is achieved
- ii. whether ITOs retain their current arranging training function

Noted

- c. **agree** that we develop one of the following options for you to propose to Cabinet and for sector and public engagement as your preference for achieving “one VET system”:

- i. **EITHER** option 1: achieving “one VET system” via structural change to the roles of TEOs that necessitates collaboration

Agree / Disagree

- ii. **OR** option 2: achieving “one VET system” via funding reform that creates a common funding model for VET and incentivises collaboration (preferred)

Agree / Disagree

- d. **note** that on balance, we tend towards preferring option 2 as a change that could significantly improve the VET system while maintaining its strengths and requiring less costly implementation processes

Noted

- e. **agree** that we include the option that is not your preference as an alternative option in the Cabinet paper and for our next set of sector and public engagement

Agree / Disagree

Cabinet and consultation processes for the VET system review

- f. **agree** to signal to Cabinet your intended direction for the VET system in the oral item that the Tertiary Education Commission (TEC) proposes you take to Cabinet on the ITP Roadmap 2020 project

Agree / Disagree

- g. **agree** that we prepare a paper on the VET system review for you to take to Cabinet in late November to help us shape documents for sector and public engagement and to provide a framework for decisions in Budget 2019

Agree / Disagree

Proactive release

- h. **agree** that this Education Report will not be proactively released until you have agreed a consultation approach for the VET system review with your Cabinet colleagues.

Agree / Disagree



Claire Douglas
**Deputy Secretary, Graduate
Achievement, Vocations and Careers**

11/10/2018

Hon Chris Hipkins
Minister of Education

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Background

1. You have previously signalled to us that you are seeking a vocational education and training (VET) system in which tertiary education organisations (TEOs) collaborate within “one VET system”.
2. On 6 September, we provided you with a briefing (METIS 1151257 refers) confirming your proposed direction of travel for the VET system (see Annex 1 for the diagram from this paper). That briefing set out your proposal for how the roles of TEOs within the VET system could shift towards standard-setting bodies (SSBs) and providers:
 - a. **SSBs** would provide the “bookends” to the system, setting expectations at the outset of the education and training process about the scope of knowledge and skills learners are expected to achieve (e.g. setting standards and developing qualifications), then assessing learners at its conclusion (“capstone” assessment). They could provide skills leadership by coordinating industry efforts to identify and plan to address future skills needs. They could also provide advice to employers about training options for their staff. Industry training organisations (ITOs) would be the main SSBs, and there could be other SSBs (occupational regulators, professional peak bodies, etc.). SSBs would not arrange training – i.e. they would not purchase training from providers on behalf of employers or support workplace delivery.
 - b. **Providers** (institutes of technology and polytechnics (ITPs), wānanga, and private training establishments (PTEs)) would deliver education and training to enable learners to achieve the standards set by industry, with delivery being on-job or work-integrated where possible, including the arranging and support of industry training.
 - c. **SSBs** and **providers** could collaborate to develop programmes leading to the award of qualifications.
3. You responded to our paper of 6 September at our meeting with you on 17 September confirming that our understanding of how you would like to see TEOs’ roles shift was correct. You also asked how funding would flow between organisations within a newly shaped VET system, noting that the funder/purchaser pathway will be the critical pathway in terms of incentivising behaviour and that ITOs will need to see a role for themselves in the funding flows.
4. This paper provides you with more information about how funding could flow through a reshaped VET system. It also identifies an alternative option for achieving “one VET system”.
5. The next section explains how the two options would achieve “one VET system”. The sections after that set out more details about how you could achieve each option and analyse the options against each other.

Definition of VET and connections across the education system

6. For the purposes of this review, VET is defined as:
 - a. all industry training
 - b. provider-based provision at levels 3 to 7 (non-degree) excluding te reo and tikanga Māori, English for speakers of other languages (ESOL), and university provision.
7. The VET system review is strongly inter-linked with decision-making around the ITP Roadmap 2020. It is informed by the Future of Work initiative and relates closely to the NCEA review, the review of Tomorrow’s Schools, and work on foundation education. The VET system review will help inform the Tertiary Education Strategy, ongoing tertiary Fees Free settings, the Review of the New Zealand Qualifications

Framework (NZQF) led by the New Zealand Qualifications Authority (NZQA), and the Careers System Strategy work, including the Careers Action Plan.

8. In our further work on the tertiary education funding system, we will be exploring how some of the concepts we are developing in the VET system review could be applied, at a later stage, to vocational degrees.

“One VET system”

What does “one VET system” mean?

9. We understand that a “one VET system” approach means getting better outcomes for learners and employers by TEOs working collaboratively.
10. Better outcomes for learners means VET prepares all learners to thrive in the changing world of work, and VET significantly improves all learners employment outcomes.
11. Learners not in employment will get better outcomes from learning that is more directly related to the workplace – i.e. more work-integrated learning that better meets the needs of employers. Learners in employment will get better outcomes from more rigorous structured workplace learning, and from increased learning and pastoral support tailored to their particular needs.
12. Better outcomes for employers means that employees are skilled and work-ready when firms need them.
13. Employers will get better outcomes from learners with provider-based qualifications if employers are more involved in provider-based learning to ensure that learners will have the skills and experience they need to thrive in the workplace. Employers will get better outcomes for their employees in industry training if they have more support from pedagogical experts for on-job learning, and if their employees have their unique learning and pastoral needs met.

Two options for achieving “one VET system”

14. This paper sets out two options for significant change to the VET system to achieve these improved outcomes for learners and employers. Both options involve TEOs collaborating to achieve these improved outcomes – working as “one VET system” – but the manner in which this collaboration is achieved differs for each option.
15. **Option 1** reflects the proposal from our paper of 6 September (see paragraph 2 and Annex 1). It would necessitate collaboration between providers and ITOs. ITOs would become SSBs: their standard-setting role would be strengthened, and they would lose their current arranging training function.
16. SSBs and providers would have distinct and complementary roles, and they would not be able to perform their own roles without collaborating. In this option, the manner in which TEOs would collaborate would be largely fixed, would be driven by the centre, and would require all TEOs in the VET system (including PTEs and wānanga) to change.
17. **Option 2** is an alternative that we suggested in our paper of 5 July (METIS 1126645 refers). It would incentivise collaboration between ITOs and providers. It would involve creating a common funding model for VET. Higher funding rates for provision that combines the best of on- and off-job learning would be available for providers and ITOs that show they are collaborating.
18. ITOs and providers would retain their current roles, and they could continue to perform their roles with minimal or no collaboration, but lower funding rates for provision that does not combine on- and off-job learning would disincentivise this. In this option, the

manner in which TEOs would collaborate would be flexible, would be driven by TEOs, and would not require all TEOs in the VET system to change.

19. The next section explains in more detail how each option would be achieved.

What is involved in achieving each option?

Option 1: achieving “one VET system” via structural change to the roles of TEOs that necessitates collaboration

Shifting purchasing decisions from ITOs to the Tertiary Education Commission (TEC)

20. Under option 1, one of the biggest changes to the functions of TEOs would be that ITOs would lose their current arranging training function. The arranging training function consists of a number of roles, including purchasing training from providers on behalf of employers and supporting firms to train their employees. Restructuring the roles of ITOs and providers would involve shifting purchasing decisions to TEC, who would purchase directly from providers for both on- and off-job delivery. It would also involve shifting the role of supporting firms to train their employees to providers.
21. Shifting the purchasing role from ITOs to TEC could strengthen the focus in the system on standard setting, as this would become a more central activity for SSBs than it is currently for ITOs. Additionally, for employers who currently feel their ITO does not give them choice about training, they might find they have more choices if their ITO is not incentivised to select options that minimise their costs, rather than maximise quality and convenience for the employer.
22. But there is a risk that shifting the purchasing role away from ITOs gives ITOs, and hence employers, less influence over providers’ delivery.
23. One way to mitigate this risk would be for SSBs to retain some influence over purchase decisions to ensure delivery will meet employers’ needs and learners will be work-ready upon completing qualifications. This could occur by SSBs providing advice to TEC to inform their purchase decisions. Among other things, this advice could include information about:
 - a. industry and employers’ skills needs
 - b. the quality of collaborations between SSBs and providers
 - c. the amount of, and quality of, engagement between providers and employers
 - d. employers’ views on providers’ offerings
 - e. learners’ readiness for capstone assessments, work placements, work, etc.
24. SSBs would also ensure that delivery meets employers’ needs and that learners are work-ready through their collaboration with providers on programme development, and most importantly through undertaking or moderating capstone assessments, which would ensure that SSBs maintain a direct oversight of provision.
25. Figures 1 and 2 in Annex 2 show in more detail how funding flows through the current industry training and provider-based VET systems. Figure 3 in the same annex shows how funding would flow in the VET system if TEOs’ roles are reshaped, and SSBs influence TEC’s funding decisions.

Policy changes required to shape the roles of SSBs and providers

26. Reshaping the VET system by shifting purchasing decisions from ITOs to TEC, and making other changes to the functions of TEOs, would require **system change driven by legislative reform**, with supporting funding and other changes occurring alongside.

27. This option would reform the system significantly, and would require substantial change from providers and ITOs.
28. The following is a list of *some* of the simultaneous changes that would be required (in addition to establishing new funding rates):
 - a. legislative change to both the Education Act 1989 and the Industry Training and Apprenticeships Act 1992 to reshape the roles of SSBs and possibly providers (we do not expect that legislative change to the functions of operational agencies would be required)
 - b. separate funding for SSBs' activities, to unbundle these activities from current funding rates
 - c. regulatory changes for the New Zealand Qualifications Authority (NZQA) to enforce standard-setting roles
 - d. support for ITOs to become SSBs and for providers to shift their programme development and delivery (for ITPs, this can be done via the ITP Roadmap 2020 project) – support could include funding for change programmes, funding to help facilitate the transfer of staff between ITOs and providers and the upskilling of staff, and guidance about government's intentions and expectations
 - e. an underpinning programme of change to culture and capability at providers and SSBs, and changes to some of the operational work undertaken by TEC and NZQA.
29. It will also be important to redesign funding rates and funding requirements so that providers are incentivised to deliver effectively to employers and their employees. Funding system reform would be required to create a common funding model for VET, and could involve three sets of funding rates:
 - a. The highest funding rates would subsidise VET that combined the best of workplace- and provider-based learning with a higher funding rate. TEOs could access it for learners in both provider- and workplace-based arrangements.
 - b. Mid-level funding rates would support learning that is primarily provider-based.
 - c. Lower funding rates would subsidise self-directed learning, credentialing, recognition of prior learning (RPL), and learning that is primarily workplace-based with little off-job learning.
30. Figure 3 in Annex 2 reflects the flows of these funding rates.

Option 2: achieving “one VET system” via funding reform that incentivises collaboration and creates a common funding model for VET

31. We have also considered whether there is a way to shift the behaviours of TEOs towards “one VET system” without affecting ITOs' current role in arranging training. This could be achieved by significantly reshaping the incentives in the system through funding reform to create a common funding model for VET. ITOs would retain their arranging training function for now, but their standard-setting role would not be directly strengthened. Funding for VET would shift to the three new sets of funding rates set out in paragraph 26, and in doing so, would significantly address existing concerns with overlapping provision.
32. The higher funding rates would be designed to incentivise provision that combines the best of on- and off-job learning. We would expect that providers and ITOs would collaborate to achieve this, and we could incentivise this through funding design. You would have a choice to make during funding design about whether you would require ITO-provider collaboration in order to be eligible for the higher funding rates, or

whether ITOs and providers could also be eligible for the higher funding rates without collaborating across subsectors.

33. This option would not reform the system to the same extent that structural change to the roles of TEOs could. However, it could be designed to have a substantial impact on the VET system and could result in significant behavioural shifts from providers and ITOs.
34. Figure 4 in Annex 2 shows how funding would flow in a VET system where TEOs retain their current roles and new funding rates are introduced.

Policy changes required to use funding to drive change in the VET system

35. Incentivising TEOs to collaborate within “one VET system” could be achieved through **system change driven by funding reform** and other supporting changes. This could allow opportunities for testing, evaluating and improving. For example, funding change could start with a “project fund” to support joint programmes while the three new funding rates are designed.

How do the options compare?

Addressing problems with the current system

36. In our paper to you on 5 July (METIS 1126645 refers) and from our subsequent feedback from you, we identified six main problems with the current VET system. The stakeholder engagement we undertook in May and June with a variety of stakeholders and across New Zealand was significant in helping us identify these problems. We have attempted to analyse the two options set out above against these six problems to estimate which option would better improve the VET system – see Table 1.
37. Our analysis in Table 1 shows that both options would improve the VET system against five of the six problems we have identified with the current system. Our analysis also suggests that option 1 could achieve greater improvement against the six problems than would option 2.
38. However, given the scope of change that each option sets out, it is very difficult to accurately predict the likely outcomes of change or the level of improvement on the status quo. Our analysis in Table 1 is our best judgement.
39. International examples that we have explored as part of our review show that separating roles in the VET system between SSBs and providers can result in strong systems. (New Zealand’s VET system is unique in giving ITOs the role of arranging training.) The most successful systems overseas have strong industry-driven elements in determining training.

Financial implications of both options

40. We are working on models to help us better understand the financial implications of both options *excluding costs of change* which are discussed below. There are a number of funding design choices that you could make about both options that would have implications for: the incentives on providers and ITOs to collaborate; shifts in money between subsectors; shifts towards a blend of the best of on- and off-job learning; etc.
41. Our preliminary assessment suggests that both options would require some additional funding above current baselines. Under option 1, all learner-based funding would flow to providers, thereby significantly increasing their revenue across the business cycle, and possibly lessening the amount needed for base or adjustment grants for providers. Under option 2, funding flows between ITOs and providers would shift, but ITOs would

retain a significant proportion of VET-system funding, thereby possibly increasing the amount that could be needed for base or adjustment grants.

42. We are currently developing a Budget 2019 initiative to cover any ongoing funding required by the ITP sector to operate viably following the restructure and based on its new configuration. This is currently in the form of base and adjustment grants for the purpose of creating more stability over time, and to help ITPs deliver important programmes in regional areas where class sizes are small. Some of the additional money that could come from this Budget 2019 initiative could, in the future, contribute to the additional money that may be needed for a new VET funding model (i.e. the base and adjustment grants could be decreased and funding rates could be increased).

Change processes for each option

43. We have also analysed the likely impacts of the change processes required to implement each option – see Table 2.
44. Our analysis in Table 2 shows that option 1 would be more disruptive and costly to implement than option 2, and it would require significant up-front design from government, and a longer time to implement. Option 1 would, however, give the sector greater certainty during the change process about the final state of the VET system.
45. While option 1 would require significant change, we can learn from international examples to help design a process that is as smooth and cost-effective as possible.

Recommendation

46. Our analysis shows that both options could achieve “one VET system”, but via different means. It also shows that option 1 may result in more improvement on the status quo (Table 1), but that this difference may not be substantial given uncertainties in our analysis.
47. The substantial difference between the two options comes through in our analysis of the impact of the change processes that would be required to implement each option (Table 2).
48. Through the VET system review so far, we have seen a system that has a mix of strengths and weaknesses (the six key weaknesses are set out in Table 1 above). The strengths of the system include substantial improvements in system efficiency and value for money over the past decade (the number of learners completing qualifications has remained steady, while the number of learners has decreased), and some great examples of TEO-industry collaboration. The VET system contributes to New Zealand’s highly skilled, highly qualified workforce compared to OECD countries.
49. If you choose to keep the strengths of the current system while improving on the weaknesses, you may wish to progress with option 2. Implementing option 2 would be less disruptive and costly than option 1, and the scope of change may be more appropriate to the scope of problems in the current VET system.
50. If you consider that the weaknesses in the current system require reforming the roles of TEOs, you may wish to progress with option 1. Implementing option 1 may be more costly and disruptive, but it may result in more significant improvements than option 2.
51. We consider it is a finely balanced call between these two options in terms of likely gains versus the costs of change. On balance, we tend towards preferring option 2 as a change that could significantly improve the VET system while maintaining its strengths and requiring less costly implementation processes.
52. Regardless of which option you choose to progress, public consultation will be key to testing whether it will significantly improve on the current system and to gauging the support needed to manage change in the sector. We discuss timeframe and processes for sector and public engagement below.

Table 1: Comparing the estimated outcomes for change, after change is embedded, from two options for achieving “one VET system”

Key: ✓ = better than status quo ✓✓ = better than status quo *and* better than the other option

Issues in the current VET system	Option 1 compared to Option 2		Conclusion for each issue
	achieving “one VET system” via structural change to the roles of TEOs that necessitates collaboration	achieving “one VET system” via funding reform that incentivises collaboration and creates a common funding model for VET	
Poor skills matching	✓✓ SSBs’ strengthened standard-setting, programme development and assessment roles would help ensure all programmes meet employers’ needs and learners are more workplace ready.	✓ More work-integrated provider-based VET would increase employers’ involvement in provider-based VET and help ensure learners in provider-based VET are workplace ready.	Option 1 would be a more significant improvement on the status quo than option 2.
Inequitable outcomes for some learners	✓	✓	There does not appear to be significant differences in each option’s improvement on the status quo.
	Learners not in employment would have more work experience earlier in their training. Learners in employment would benefit from more rigorous structured workplace learning, and from increased learning and pastoral support tailored to their particular needs. Funding design could incentivise TEOs to ensure all learners’ unique needs are well supported.		
Unproductive, system-driven competition	✓ SSBs and providers would have distinctively different roles, thereby eliminating competition between ITOs and providers and requiring SSBs and providers to collaborate in improving the quality and relevance of VET. Eliminating all competition between ITOs and providers could also eliminate productive competition.	✓ ITO and providers would be incentivised to work more collaboratively to improve the quality and relevance of VET. Unproductive competition could remain, but productive competition would not be eliminated.	Each option would improve the status quo in different ways, but there are pros and cons to each approach. It is difficult to assess whether one option would be better than the other.
Insufficient access to VET in some regions	✓	✓	There does not appear to be significant differences in each option’s improvement on the status quo.
	Providers would support more learners, including those in employment, thereby expanding their revenue sources. This could strengthen providers, help manage changes in the business cycle, and improve regional access.		
Lack of role clarity for TEOs and lack of system leadership	✓✓ Legislation change would clarify providers’ and SSBs’ roles and strengthen system leadership by eliminating current overlapping responsibilities between providers and ITOs. SSBs would provide system leadership by strengthening the focus on standard setting and by collaborating with providers on programme development. Providers would provide leadership for pedagogy and pastoral care across the system by taking on the role of supporting workplace-based delivery and learners. TEOs’ roles would be driven by the centre with less flexibility for innovation from TEOs.	✓ Over time, funding incentives could encourage shifts towards clarifying TEOs’ roles. ITOs could strengthen their focus on standard setting. Providers’ roles as learning experts could strengthen and expand to include supporting workplace-based delivery and learners. Clarity of roles and system leadership would emerge from the funding incentives and could allow for flexibility from TEOs’ according to their unique collaborative arrangements.	Option 1 would be a more significant improvement on the status quo than option 2, but would be driven by the centre with little flexibility for innovation from TEOs.
Insufficient links across the education system	The proposal for an education-to-employment hub (see Annex 1 and paragraph 50) would directly address this problem.		

Table 2: Comparing estimated impacts of change processes prior to change embedding (two to three years for option 2, longer for option 1)

Key: higher, lower, longer, shorter, same = compared to other option **green** = better option

	Option 1 achieving “one VET system” via structural change to the roles of TEOs that necessitates collaboration	Option 2 achieving “one VET system” via funding reform that incentivises collaboration and creates a common funding model for VET
Level of disruption	higher Change would be system-wide and would require significant transformation from TEOs and government.	lower Change would be incremental and would require less substantial change from TEOs and government.
Level of up-front, centralised design	higher Government would need to make significant design decisions and support TEOs to adapt.	lower Government could test TEOs’ responses to change and adapt designs over time.
Level of certainty for TEOs about the final state	higher Government could set out a clear vision for TEOs’ roles from the outset.	lower Government could explain its intended direction for TEOs, but the iterative approach means the final state is not clear from the outset.
Time to achieve change	longer Change would require significant time to design, prepare for, and implement. Legislative reform and change programmes for government and TEOs would be required.	shorter Pilots or spearhead projects could be introduced with only minor change required, and changes to funding rates would not require legislative reform or other significant change programmes.
Level of transition costs	higher Funding would be required to support change programmes.	lower Minimal, or no, funding would be required for transition costs.
Level of ongoing costs	same	same
	We are working on a financial model to better understand the likely ongoing costs of changes to funding rates. At this stage, we do not expect there to be a significant difference in the ongoing costs of each option.	

53. We suggest that the option that is not your preference is included as an alternative option in the Cabinet paper and for public consultation. This could help give context for your preferred option and could result in more nuanced feedback.

Other changes to the VET system and connections across tertiary education

54. In our advice on the VET system in July, August and September (METIS 1126645, 1146248 and 1151257 refer), we proposed a number of other possible changes to the VET system. These changes roughly fall into three categories:
- significant changes related mainly to the VET system, including funding and planning for stable regional VET provision, Centres of Vocational Excellence (CoVEs), and Education-to-Employment Hubs
 - s 9(2)(f)(iv)
 - more targeted changes, including improving information on regional and national system quality and on regional and national skill needs, resetting reputation of VET, requiring credit transfer arrangements between TEOs, and a number of other changes.

55. There are also a number of changes going on in the wider tertiary education and skills systems that impact the VET system, like microcredentials and improving industry engagement through active coordination and demand-side funding. These are consistent with the desired direction of change for the VET system.
56. As part of our next advice to you, we will provide more details on these changes. We have not included more details here, because your choice in developing these proposals will depend on whether you choose to lead with legislative reform or funding reform, as set out above.
57. For those changes that may need decisions through Budget 2019, we will set out your choices and a process for getting to Budget decisions. For changes that are not part of Budget 2019, we will seek your direction on which changes you would like to signal to Cabinet and seek feedback on through public consultation as part of the VET system review.
58. We are working across the tertiary education work programme to identify common principles that can drive policy decisions across the system. s 9(2)(f)(iv)
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
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Cabinet and engagement processes for the VET system review

Oral item to Cabinet in October

59. You have recently received advice on the ITP Roadmap 2020. TEC suggests you seek Cabinet approval in October for further consultation. TEC proposes an oral item to gain this approval.
60. The ITP Roadmap 2020 project and the VET system review are closely connected. We believe there is value in signalling to your Cabinet colleagues your intended direction for consultation on the VET system as part of this oral item. This will help provide context for the changes to ITPs. We will work with TEC to prepare an aide memoire for you to support your Cabinet discussion.

Cabinet paper in late November

61. After your oral item about the Roadmap, we suggest that we prepare a paper on the VET system review to reach Cabinet in late November. This could provide Cabinet with the context for, and more details about, your proposed direction of travel for the VET system. Seeking Cabinet's support for your intended direction for the VET system will help shape sector and public engagement and provide a framework for decisions in Budget 2019.

Sector and public engagement

62. At this stage, TEC expects to be doing further co-design with ITPs before the end of the year. Our view is that ITPs will need to see further information about the direction of the VET system review as part of this process. This will also give us an opportunity to test the direction of travel for the review. At the same time, we would need to engage with other subsector peak body organisations to similarly test the direction of travel for the VET system.
63. We are considering options for further sector and public engagement early next year. This could involve taking a new innovative approach, adapting co-design techniques to

support a participative process that engages with a wide range of stakeholders, including learners, employers and schools. This could be followed by formal consultation on final proposals for change.

- 64. We will report to you in November with choices for public consultation.
- 65. We are also working with TEC to prepare a paper for you on funding for the remainder of the ITP Roadmap programme.

Release of this paper

- 66. We do not recommend releasing this paper until you have discussed a consultation approach with your Cabinet colleagues.

Annexes

- Annex 1 Key roles and processes in a reshaped VET system
- Annex 2 Funding flows through the VET system

Annex 1: Key roles and processes in a reshaped VET system

Key roles (colours) and processes (arrows) in a reshaped VET system

KEY

Standard-setting bodies

- ITOs
- Occupational regulators: eg Plumbers, Gasfitters and Drainlayers Board
- Professional peak bodies: eg Engineering NZ
- Other standard setters

Could be sited with CoVEs

Providers

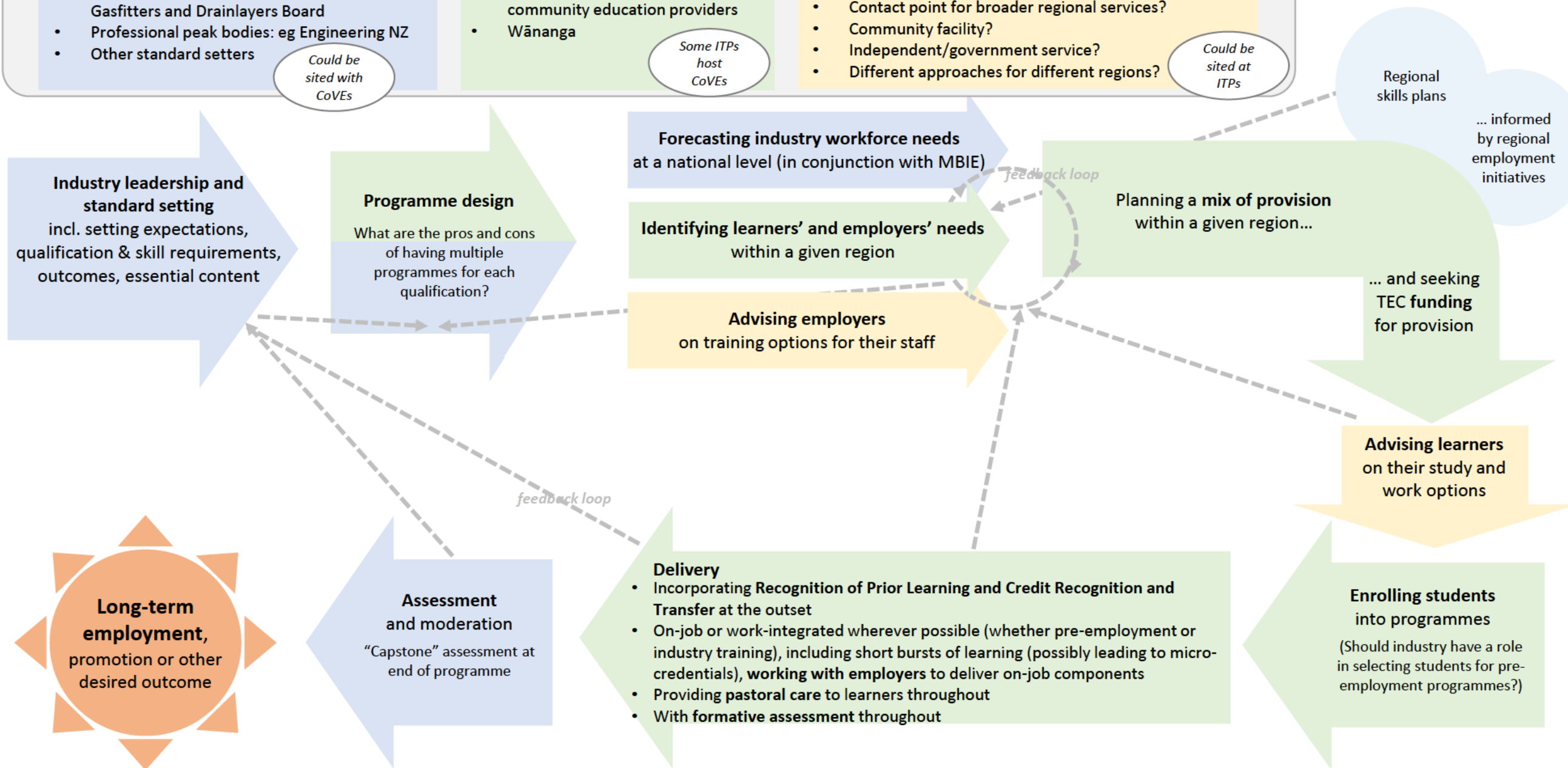
- ITPs (with strengthened links to sec. schools)
- Private training establishments & community education providers
- Wānanga

Some ITPs host CoVEs

One-front-door education-to-employment hub?

- Offers careers advice to learners – and training advice to employers?
- Contact point for broader regional services?
- Community facility?
- Independent/government service?
- Different approaches for different regions?

Could be sited at ITPs



In this model, what might the ITP network look like?

TEC will provide advice via ITP Roadmap 2020 at the end of September about potential ITP sector structures. TEC's proposals are likely to encompass some or all of:

- "full service" ITPs as per current format, some hosting Centres of Vocational Excellence (CoVEs), potentially with standard-setting bodies co-sited at CoVEs
- Regional Ownership Model (ROM) ITPs for sparsely populated areas like the West Coast and Northland
- a central entity providing shared services to the network
- a specialist nationwide provider of non-blended distance education

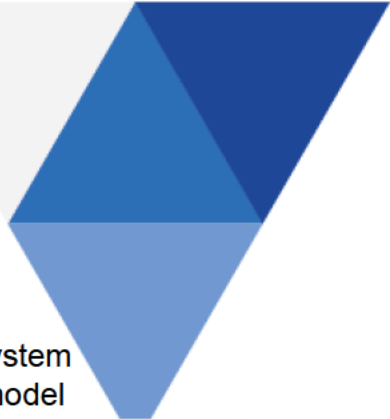
Some big questions still to work through

- How can we ensure the system is driving relevant learning and employment outcomes?
- What about foundation education?
- What about degree- and postgraduate-level education?
- How should standard-setting bodies and providers work together?
- How much should government pay for work-integrated delivery?
- What role should employers play in selecting students for enrolment into vocational programmes?
- What's the role and status of CoVEs?
- How can we ensure the system is responsive to the needs of learners and industry?
- How would standards be set for industries that don't have an ITO or a professional or regulatory body?
- How would funding flow?

Annex 2: Funding flows through the VET system

VET is:

- all industry training
- provider-based provision L3-7 (non-degree) excluding te reo and tikanga Māori, ESOL, and university provision



FUNDING FLOWS through the VET system

and key sources of information that influence investment decisions

Status Quo

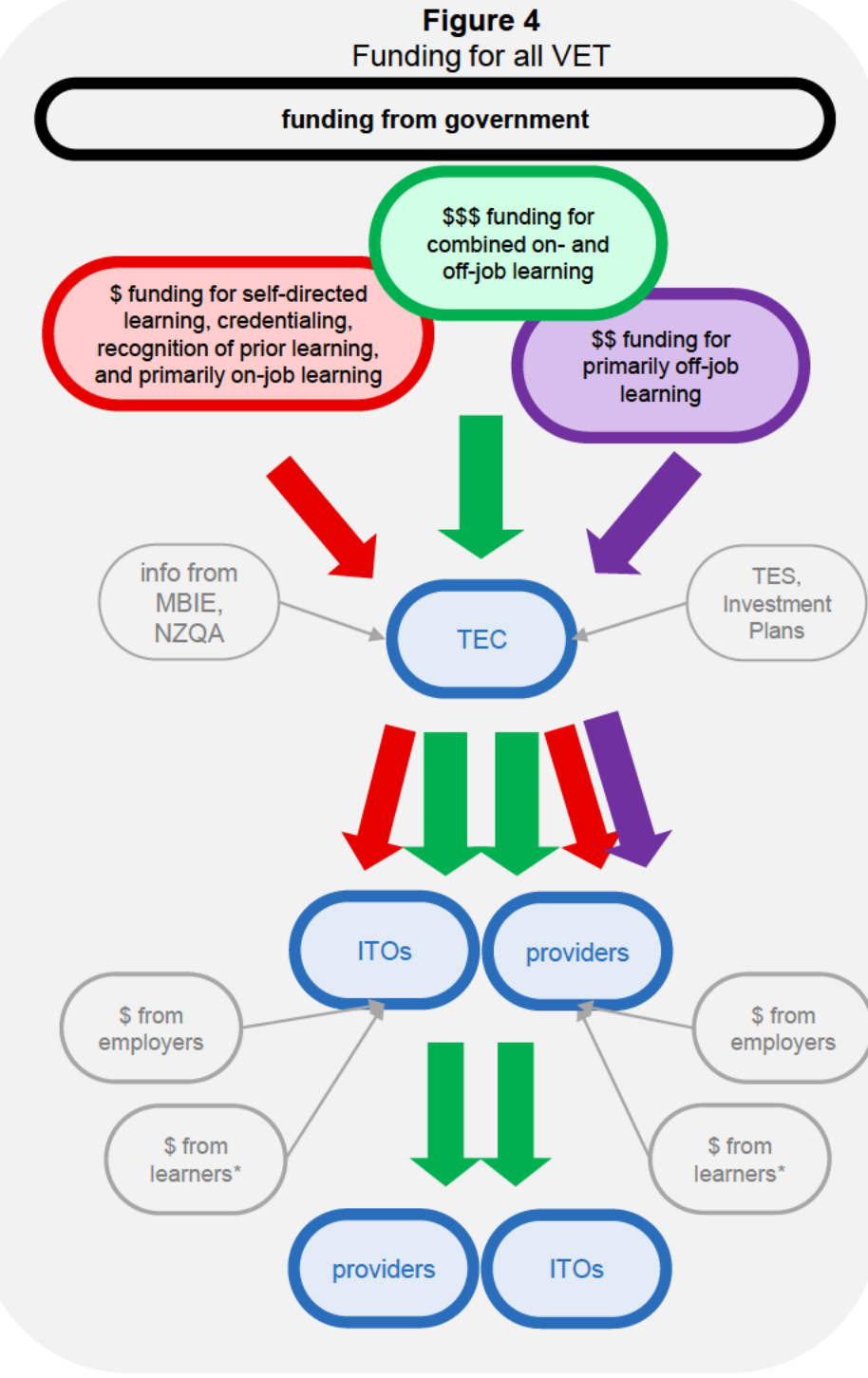
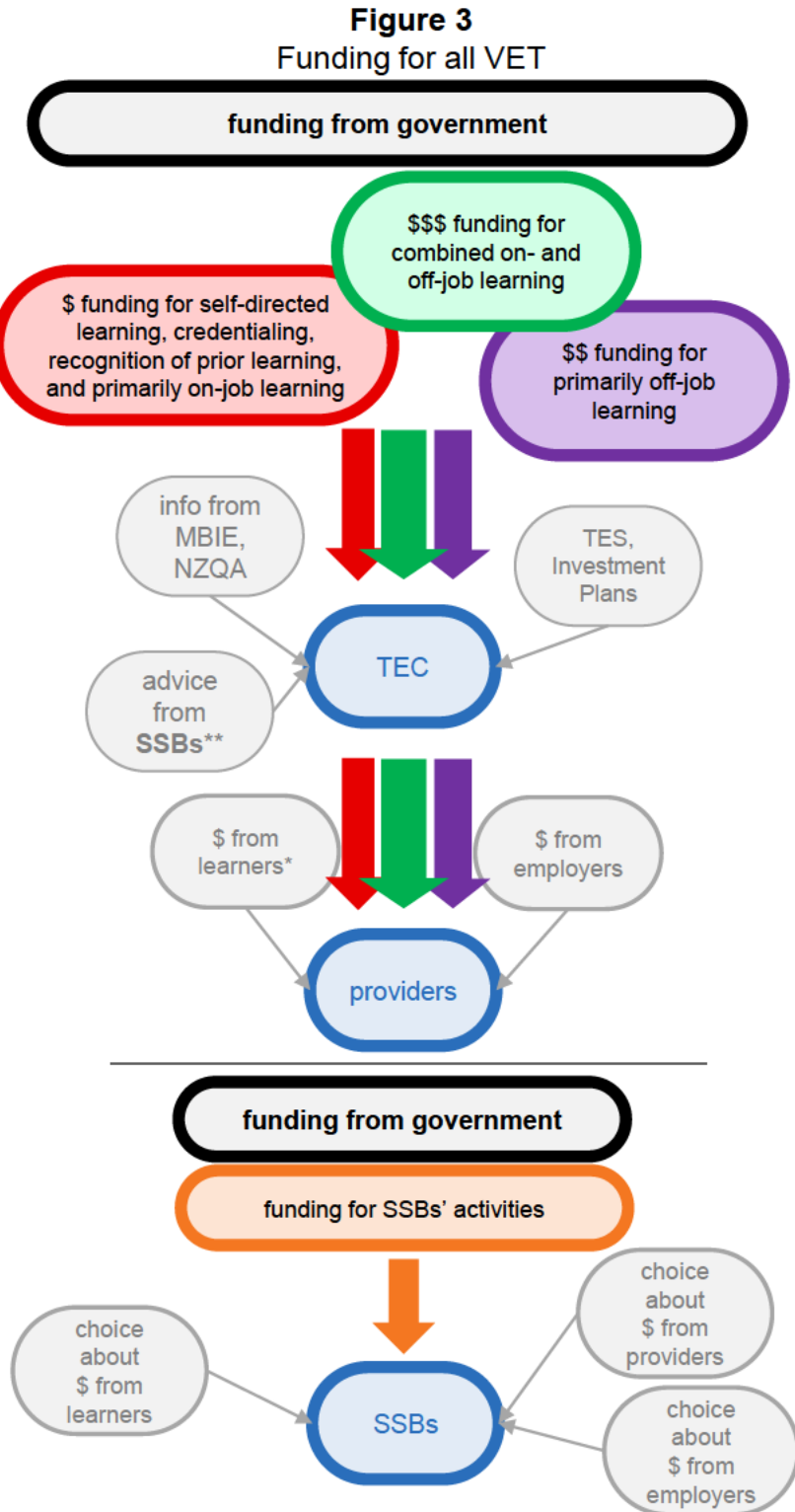
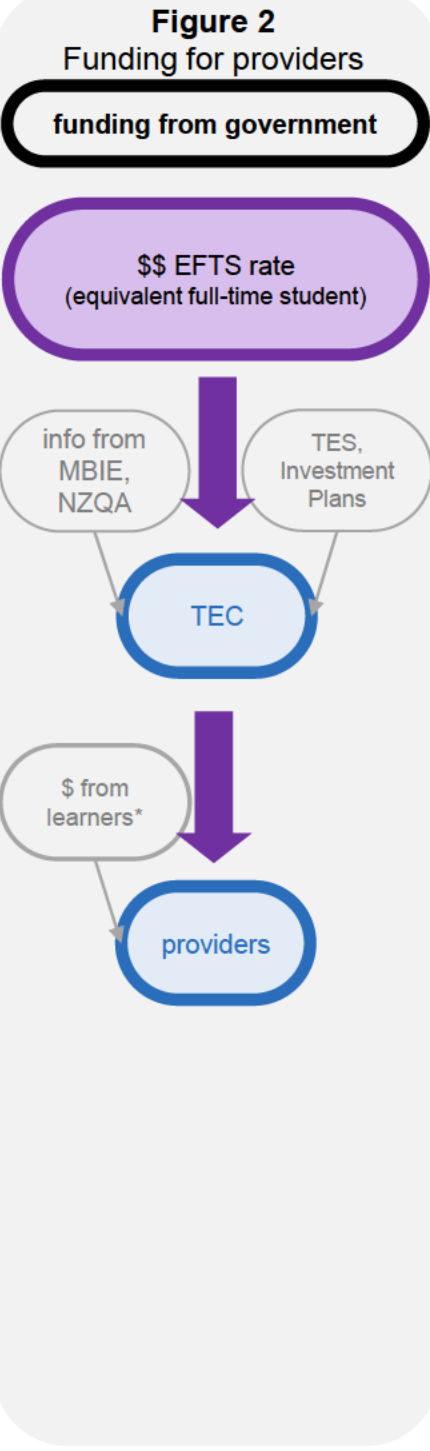
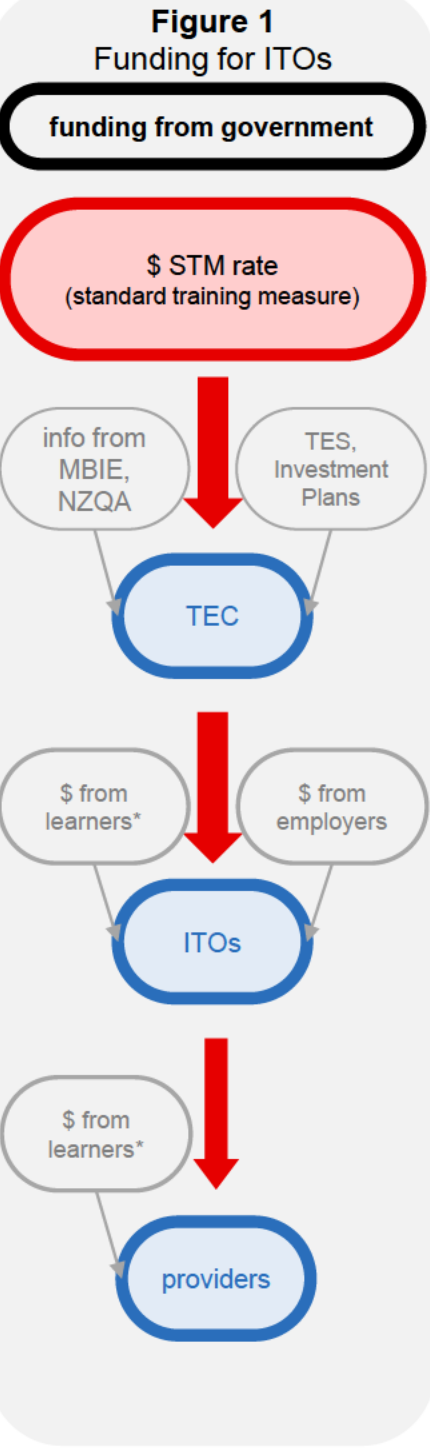
Funding flows in the current VET system

Option one

Funding flows in a VET system with TEOs' roles restructured

Option two

Funding flows in a VET system with a common funding model



* or from government for learners entitled to Fees Free

TES = Tertiary Education Strategy

SSBs = standard-setting bodies