

## Education Report: Strategy session on the vocational education system

<b>To:</b>	Hon Chris Hipkins, Minister of Education		
<b>Date:</b>	29 October 2018	<b>Priority:</b>	High
<b>Security Level:</b>	In Confidence	<b>METIS No:</b>	1163162
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<b>Messaging seen by Communications team:</b>	No	<b>Round Robin:</b>	No

### Purpose

This note provides you with the following material to support your strategy session at 7:30pm on 31 October on the vocational education system:

- an outline of a Cabinet paper (see Annex 1), including discussion points for the strategy session
- a discussion about who should purchase and/or arrange vocational education (see Annex 2)
- options for structural reforms to the ITP sector (see Annex 3)

### Discussion

1. On Tuesday 23 October, you met with officials to discuss the Tertiary Education Commission's paper of 1 October, "ITP Roadmap 2020: Tū Kahikatea, the Strength of a Network" (B/18/00652 refers) and the Ministry of Education's paper of 11 October, "How to pursue change in the VET system" (METIS 1158508 refers).
2. You asked us prepare an outline of a Cabinet paper for a strategy session at 7:30pm on 31 October, which:
  - a. reflects the convergence of work on the VET system review and the ITP Roadmap 2020
  - b. explores a wider range of options for structural change, and
  - c. advances the regulatory and funding options for reform, considering purchase responsibilities across the totality of VET funding.

## Recommended Actions

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The Ministry of Education and the Tertiary Education Commission recommend you:

- a. **note** the contents of this briefing for your discussion with officials at 7:30pm on 31 October about creating a single vocational education system

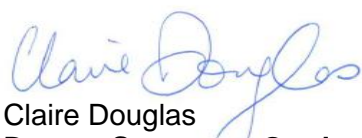
**Noted**

- b. **circulate** this advice to the Minister of Finance and Associate Education Ministers

**Noted**

- c. **agree** that this Education Report will not be proactively released until you have agreed to vocational education reforms (and consultation on these) with your Cabinet colleagues.

**Agree / Disagree**



Claire Douglas  
**Deputy Secretary, Graduate  
Achievement, Vocations and Careers  
Ministry of Education**

29/10/2018



Tim Fowler  
**Chief Executive  
Tertiary Education Commission**

29/10/2018

Hon Chris Hipkins  
**Minister of Education**

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## Annexes

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- Annex 1      Outline of a Cabinet paper, “Designing a single vocational education system for New Zealand”
- Annex 2      Who should purchase and/or arrange vocational education?
- Annex 3      Options for structural reforms to the ITP sector

Annex 1: Outline of a Cabinet paper, “Designing a single vocational education system for New Zealand”

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In Confidence

Office of the Minister of Education

Chair, Cabinet Social Wellbeing Committee

## **DESIGNING A SINGLE VOCATIONAL EDUCATION SYSTEM FOR NEW ZEALAND**

### **Proposal**

1. This paper seeks agreement to open up proposals for fundamental reform to the vocational education system for public consultation and co-design.

### **Executive Summary**

- 2.

### **Background**

3. Vocational education and training is education that has a special emphasis on the skills, knowledge and attributes required to perform a specific role, or work in a specific industry. This is not limited to the traditional trades or professions but can relate to any sector of the economy.
4. In New Zealand, vocational education is delivered by Industry Training Organisations (offering apprenticeships and traineeships), and by providers (typically funded through Student Achievement Component). The review has focussed on vocational education up to diploma level (i.e. excluding degree-level education and above).
5. *[This section will explain the commissioning and convergence of the two reviews, their context within the Education Work Programme, work to date, and the current state of the vocational education sector].*

### **The case for change**

6. There are several key problems in the VET system:
  - Roles are increasingly unclear, with providers and ITOs both wanting to deliver on-job and off-job, while not being sufficiently joined up with each other or with the rest of the education system.
  - The VET funding system is simultaneously overly complex and one-size-fits all, and incentivises ITOs and providers to go their own way rather than collaborate to form a user-focussed system.
  - Industry does not always have enough leadership over the system to control the supply chain for skills, and the skills that people arrive with in employment don't always align well to the skills they will need on the job.

- Many providers are focussed on volume and revenue in order to survive, rather than on value and relevance, particularly in their local area.
  - Many providers are not sufficiently nimble to manage the dynamics of a fast changing world of work where adults need short sharp bursts of skills development, and many are in difficult financial straits.
  - With the result that not all learners are getting the outcomes they deserve.
7. We need to fundamentally reform vocational education and set up a new, single system where:
- Providers and ITOs collaborate to get the best outcomes for learners and employers.
  - Thriving regions are supported by a national network of sustainable, public ITP campuses.
  - We set high standards, so that vocational training is respected as much as academic education.
  - Employers have skilled, productive employees when they need them.
  - Learners are equipped to thrive in the changing world of work.
  - The system as a whole adapts to changes in employment and to new educational models.
8. This requires changes to the roles within the system – in particular, the roles of ITOs and providers. The levers for achieving this change are funding, regulation and structural change, which are stepped through in turn in this paper.

### **What roles need to change to create a new vocational education system?**

9. My objective is to create a single vocational education system. This requires a system in which ITOs and providers have stronger, distinct roles, and act collaboratively to develop the skills that people and industries need to flourish. This system would draw more strongly on both ITOs' industry expertise and providers' expertise in teaching and pastoral care.
10. This requires change to sharpen decision rights for the five core functions in the VET system. These functions are:
- **Skills leadership:** Planning for future skills needed for New Zealand (typically at an industry and/or regional level), and taking leadership of the changes needed to respond to those needs.
  - **Standard setting:** Developing standards and qualifications that address future skills needs, and overseeing the assessment of skills to ensure that graduates meet the standard set.
  - **Purchasing VET provision:** Making decisions about what on- and off-job provision government will fund.

- **Learning design:** Developing the curriculum, programmes, pedagogy and content required to successfully deliver a programme of learning.
  - **Providing education and training:** Teaching and providing other support to learners, in workplaces and/or classrooms.
11. At present, ITOs have a role arranging training. This includes purchasing delivery from providers, as well as supporting employers to train their staff. It would be possible to retain the brokerage aspect of this role without a purchasing function. This is discussed further in paragraph 16 below.

### **Funding reform to support a collaborative vocational education system**

12. At present, industry training and provider-based education are funded through two separate systems, with very different funding rates and rules.

s 9(2)(f)(iv)

*[This section would be expanded with further explanation of the case for change and the implications of such a reform].*

### **Regulatory change to clarify roles for vocational education**

14. I propose several changes to establish strong, distinct roles in vocational education. These are:
- **Skills leadership:** Reinstate the ITO skills leadership role, and support leadership within regions by strengthening ITPs and other public providers.
  - **Standard setting:** Stronger standard setting by ITOs, in both the up-front specification of qualifications and capstone assessments for learners at the end of their study. This will assure that learners are acquiring the skills sought by employers.

#### ***Discussion point 1: Have we understood three key changes correctly?***

The three proposals in paragraphs 12 and 13 (a new funding model, skills leadership, and stronger standard setting) have already been canvassed with you; have we got these right?

15. Changes to **learning design** are closely related to the structure of the ITP sector, which are discussed in the next section. Choices about who **provides education and training** interact with choices about who **arranges or purchases it**.

***Discussion point 2: Who should purchase and/or arrange vocational education?***

At present, ITOs arrange training for employees and purchase off-job provision from providers. TEC purchases other provision (mostly off-job) direct from providers. Annex 2 explores options for these roles in future. This is an initial outline of the issues, and we seek your views on them in advance of more comprehensive advice.

**Structural change to the ITP sector to create a robust regional network of provision**

16. New Zealand needs a robust regional network of publicly funded provision. However, the Institutes of Technology and Polytechnics (ITPs) sector is under significant strain from falling enrolments and rising costs. Some ITPs have fared better than others, but most are unable to make needed investments in buildings, technology and people to protect and maintain the quality and relevance of their provision. As a result, few ITPs are well-positioned, in terms of their staffing or delivery arrangements, to deliver effectively to meet workforce needs.

***Discussion point 3: Options for structural change to ITPs***

Annex 3 sets out options for structural change, showing both endpoints and change pathways to reach them. We seek your views on which of these should be discussed at Cabinet, and which should be proposed for further development with the sector.

**Further proposals**

17. [This section will identify other proposals for reform to vocational education (e.g. boosting the esteem of vocational education, s 9(2)(f)(iv) [REDACTED] and provide context about related reforms (e.g. Future of Work and Provincial Growth Fund). Further advice on the content of this section will be provided with our next paper.]

**Next steps**

18. [This section will set out proposals for sector engagement, including a mix of co-design and broad public consultation, and the timetable for final decision-making].

**Consultation**

19. The following agencies were consulted in the preparation of this paper...

**Financial Implications**

20. [This section will include a discussion of the proposals for changes to ITP funding to be considered at Budget 2019; the implications of wider funding reforms will be considered in subsequent Budgets].



## **Legislative Implications**

21.

## **Impact Analysis**

22.

## **Human Rights**

23. There are no considerations with implications for human rights.

## **Gender Implications**

24.

## **Disability Perspective**

25.

## **Publicity**

26. I plan to release a press statement following this meeting on the broad direction of change I propose for the VET sector and for changes to stabilise the ITP sector. It is likely that there will be discussion of the proposals in the media, but substantive public engagement will occur in 2019.

## **Proactive Release**

27. I propose to release the paper proactively. Release will be subject to redactions as appropriate under the Official Information Act 1982.

## **Recommendations**

The Minister of Education recommends that the Committee:

1. note...
2. agree that...

Authorised for lodgement

Hon Chris Hipkins

Minister of Education

Annex 2: Key decision - who should purchase and/or arrange vocational education?

We seek your initial views on purchase and arranging roles for VET.

Under any approach, it will be important to operate a ‘no wrong door’ system, so that learners can enrol regardless of whether they first approach an ITO or a provider.

**Do you want to bring together purchase decisions about industry training and provider-based education?**  
At present, purchase responsibilities divide between TEC (for SAC) and ITOs. Bringing it together would support a coherent view of needs across on- and off-job provision.

Yes

No

**Who do you want to purchase delivery by providers?**

TEC

ITOs

**Only TEC purchases delivery from providers**

Under this approach:

- TEC would take on ITOs’ purchase role
- ITOs advise TEC about purchase priorities
- Providers have a simpler purchase relationship

Effects:

- TEC’s strength is in balancing investment choices across a range of factors, such as regional and industry need, and social and economic factors.
- But TEC is not as close to the users of the system as ITOs.

**Only ITOs purchase delivery from providers**

Under this approach:

- ITOs taking on TEC’s responsibilities for SAC purchase
- TEC advise on wider priorities
- Providers would have multiple funding agreements

Effects:

- A stronger industry focus for investment decisions, but less focus on regional and social objectives.

**As now, both TEC and ITOs purchase from providers**

Under this approach:

- Two purchase roles continue
- System change achieved through other key changes – ITO skills leadership will help inform TEC as purchaser, and new funding rates will incentivise ITOs and providers to collaborate

Effects:

- A mix of TEC and ITOs strengths

**Providers, as part of TEC funded services (one contract for all)**

**ITOs, via a separate TEC contract**

**Providers, as part of ITO-funded services (one contract for all)**

**ITOs, purchasing their own services**

**Providers, if other changes to skills leadership and funding model create greater risks to manage**

**ITOs, following the current model**

**And who offers services direct to employers?**

**How should this affect ITOs’ role in arranging training?**

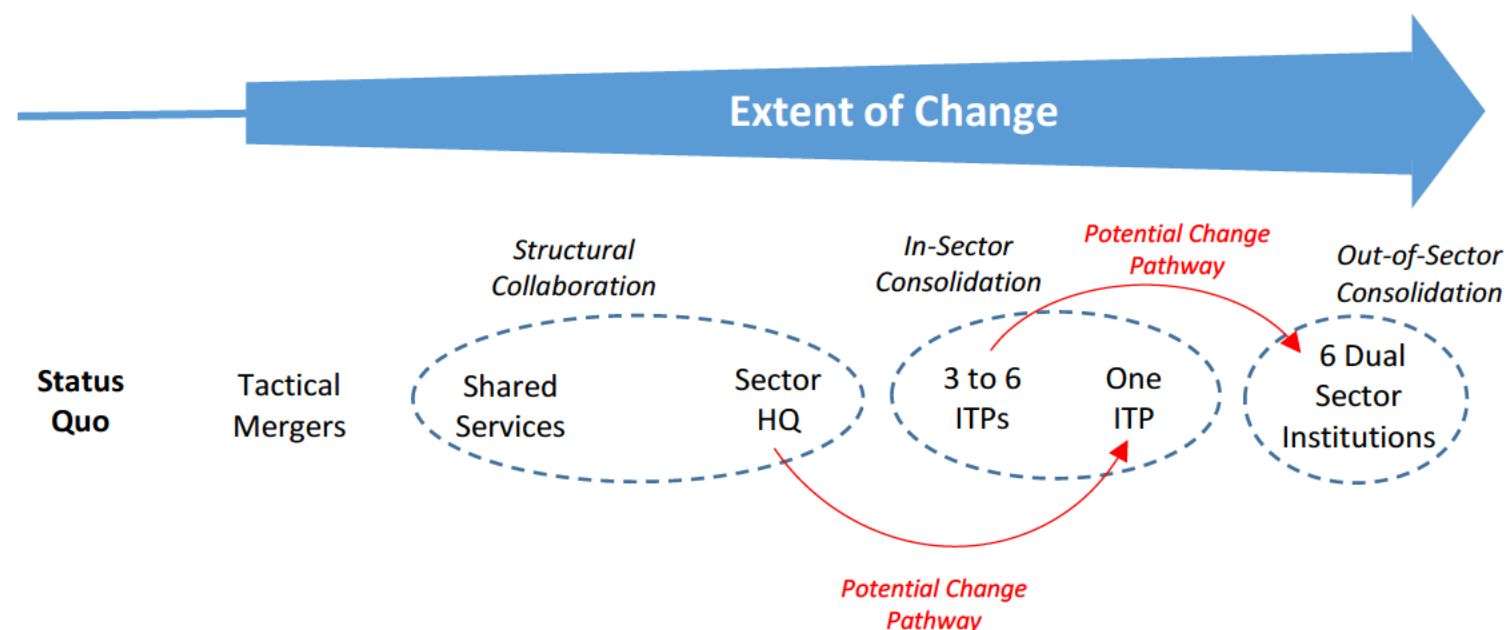
ITOs’ current role arranging training is more than a purchase role. As well as purchasing (i.e. sub-contracting for delivery by providers), it includes services provided directly to employers, such as training workplace assessors, providing learning materials and learning management systems.

- It is a key strength for ITOs, giving them daily contact with employers.
- But it can create conflicts of interest, as ‘arranging’ shades into ‘providing’, bringing ITOs into competition with providers.

This wider employer service function could be continued by ITOs, or transferred to providers. If it were retained by ITOs, and they also take on stronger purchase and standard setting responsibilities, closer management would be required to ensure they make neutral investment choices.

### Annex Three: Options for structural reform to the ITP sector

The diagram at right and tables below set out the major options for structural change for the ITP sector, and their chief pros and cons. They are intended to support a discussion to home in on one or two preferred options.



Option	What?	Main pros	Main cons	Summary comment	Change Challenge
<b>One ITP for all of NZ</b>	Merge ITPs into one organisation	<ul style="list-style-type: none"> <li>Maximises economies of scale</li> <li>Maximises market prominence and brand power</li> <li>Makes good use of central planning power and scarce expertise, including governance capability</li> <li>Easy for students to transfer throughout system</li> <li>Out-of-region provision largely solves itself</li> <li>ITO collaboration simplified (but potentially more prone to single point of failure)</li> </ul>	<ul style="list-style-type: none"> <li>Very high and extended costs of change, particularly focussed on back office functions</li> <li>High risk of loss of regional focus: senior roles centralised; accountability to regional stakeholders; community ownership; responsiveness</li> <li>Weak incentives for agility, innovation: limited competition, and incentives to focus on delivery to mainstream learners on an industrial scale</li> <li>Single point of failure for whole ITP sector</li> <li>Would need to introduce new top-down funding constraints/service obligations to protect regional delivery, given incentive to concentrate delivery in main centres to maximise scale and profitability</li> </ul>	We need a single organisation providing consistent, high quality VET across the country, with maximum capability to invest for the future.	Very High (16 to 1 process). Huge consolidation challenge if done in one leap, and extended if staged (e.g. first six, then add in others over time)
<b>Three to Six large regional ITPs</b>	Merge ITPs into smaller number (between three and six)	<ul style="list-style-type: none"> <li>Offers some potential economies, without creating "single point of failure" risk.</li> <li>Multiple smaller merger processes, rather than one overall process</li> </ul>	<ul style="list-style-type: none"> <li>Still high and extended costs of change</li> <li>Higher risk of not getting consistency, quality gains of "16 to one"</li> <li>Experience of ITP mergers in NZ still indicates high risk of loss of regional presence, responsiveness, connectedness</li> </ul>	We need fewer, bigger ITPs, but we still want the diversity of multiple options.	High (16 to 3) – separate consolidation processes, but each process still likely to be at least three institutions into one

Option	What?	Main pros	Main cons	Summary comment	Change Challenge
<b>Structural Collaboration</b>	Provide range of middle and back office services once for the sector from a central entity [Includes tactical mergers between ITPs where appropriate for the relevant region (e.g. Auckland, Wellington)]	<ul style="list-style-type: none"> <li>• Opportunity to “do once rather than 16 times”, but targeted at best opportunities for gain</li> <li>• Can choose priority, timing and scale of “16 to one” activity</li> <li>• Independent ITPs can still be strongly focussed on region and agile</li> <li>• Improve consistency, quality, transferability and pathways across sector</li> <li>• Opportunity to retain local brands, and have national/international branding of ITP education</li> </ul>	<ul style="list-style-type: none"> <li>• Where participants have veto rights, central entity cannot make decisions that create winners and losers, limiting its strategic effectiveness.</li> <li>• Models with independent central entity avoid this risk, but raise the risk of loss of regional accountability.</li> </ul>	We need ITPs operating as a system and sharing resources, but we don't want to throw the baby out with the bathwater – we want to protect what's special and valuable about regionally-focused institutions.	Medium/High – less extreme organisational process (focussed on limited range of functions, and institutions retaining autonomy), but still involves changes to teaching labour force model
<b>Dual Sector Model</b>	Merge ITPs into 6 Unis (excluding UoA, Lincoln and OPNZ)  <i>NB This could be done in one region initially rather than all. Also could be done on micro scale via CoVE-type models</i>	<ul style="list-style-type: none"> <li>• Improves economies of scale</li> <li>• Improves ITP brand power (as they adopt a university brand)</li> <li>• Gives ITPs access to universities' organisational and educational capability</li> <li>• Scope to rationalise infrastructure across university and ITP sectors</li> <li>• May improve pathways for learners</li> </ul>	<ul style="list-style-type: none"> <li>• ITP and Uni business models and strategic imperatives fundamentally different</li> <li>• Whilst there are some successes, most international experience not encouraging: <ul style="list-style-type: none"> <li>• ITP as a subsidiary viewed as a drain on the Uni</li> <li>• Fully combined ITP usually overwhelmed by Uni culture and focus (research, theory, higher level provision etc.)</li> </ul> </li> </ul>	As technology change accelerates, the skills we need for the future will be increasingly dependent on <u>both</u> applied learning and academic rigour. We need organisations that can do both.	Very High (22 into 6)
<b>Regional Access ITPs</b> <i>[This is in practice a potential component of other models above]</i>	Convert smaller ITPs in low population/remote areas to PTEs whose principal function is brokering other providers to meet the region's needs.	<ul style="list-style-type: none"> <li>• Amplifies focus on meeting local needs and finding the right provider to do that, rather than providing what suits the local ITP</li> <li>• Partial option that could exist alongside or as part of others above</li> </ul>	<ul style="list-style-type: none"> <li>• Does not address challenges outside of low population/remote regions</li> </ul>	We need to focus more on creating access to multiple providers, than expecting one ITP to serve all VET needs in an area	Medium. Only affected ITPs, not all.
<b>Status Quo</b>	No change or some ad hoc mergers	<ul style="list-style-type: none"> <li>• No change process to manage</li> </ul>	<ul style="list-style-type: none"> <li>• Lost opportunity to use structure as part of wider package of reforms.</li> </ul>	Structure's not the issue – it's role clarity, regulation and funding systems that need to change.	Risks are all with inaction...



## More detail about in-sector consolidation options

This table provides more detail on the in-sector options, as different approaches have different organisational structure options, with different implications. These forms could also be applied to “One ITP” or “Fewer ITPs” scenario. This aims to support a discussion on how gains and risks change with increasing levels of structural change.

		Structural Collaboration		One ITP (or 3 to 5 Regional ITPs)	
Option	Status Quo	Shared Services Model	Sector HQ Model	Parent/Subsidiary Model	Full Consolidation
		TANZ Proposal, first steps being put into effect	TEC Proposal	Variants proposed by Murray Strong, Peter Winder, Murray Bain	
Essentials of the Model	<ul style="list-style-type: none"><li>Current model remains largely unchanged.</li><li>Ad hoc collaboration and cooperation between institutions</li></ul>	<ul style="list-style-type: none"><li>ITPs retain current institutional autonomy</li><li>New central entity set up as a subsidiary of existing ITPs. Takes on and provides standard middle office (e.g. programme design, Student Management System / Learning Management System (SMS/LMS), academic quality, learner analytics etc.) and/or back office (e.g. core IT, finance, HR, property, procurement)</li></ul>	<ul style="list-style-type: none"><li>New central entity takes on and provides standard middle office (e.g. programme design, SMS/LMS, academic quality, learner analytics etc.) and/or back office (e.g. core IT, finance, HR, property, procurement) functions to ITPs, and selected sector leadership roles (e.g. national and international marketing and branding, national employers, iwi/Treaty)</li><li>Existing ITPs retain current institutional autonomy, local ITP councils, separate balance sheets, operational and strategic decision rights</li><li>Local investment plans</li></ul>	<ul style="list-style-type: none"><li>ITPs merge into single organisation, but current ITPs remain as semi-autonomous subsidiaries</li><li>Central council, executive team, back and middle office</li><li>Local subsidiaries still retain local management, local operational decision-making rights, but strategic direction, major investments and capital allocation run from the centre, i.e. one balance sheet for the sector</li><li>Local input via representation on subsidiary boards or through regional advisory groups</li><li>Could have single or multiple investment plans</li></ul>	<ul style="list-style-type: none"><li>All ITPs merge into a single organisation – a super-sized ITP</li><li>Local input by regional advisory groups</li><li>Single council, executive team, balance sheet, back and middle office</li><li>Single balance sheet – can allocate capital around the sector</li><li>Single Investment Plan</li><li>Centralised decision-making around major investments, capital management etc.</li></ul>
Options for pathways to reach this state		<ul style="list-style-type: none"><li>Leave to sector to put into effect</li></ul>	<ul style="list-style-type: none"><li>Direct leap to all involved</li><li>Start with “coalition of the willing” then pull in others over time through a one-way door</li></ul>	<ul style="list-style-type: none"><li>Direct leap to full consolidation</li><li>Consolidate a “coalition of the willing” in the first instance, then pull other ITPs in over time</li><li>Go to Sector HQ model, pull in more functions and decision rights over time</li></ul>	
Key changes/gains sought from this approach:					
		<ul style="list-style-type: none"><li>Target best opportunities to do once instead of 16 times.</li><li>Initial focus is on educational support infrastructure, putting the emphasis on ensuring quality delivery and innovating in / disruption of educational delivery models</li></ul>	<ul style="list-style-type: none"><li>Strong support for consistent, modular, transferrable quals within ITP system</li><li>Target best opportunities to do once instead of 16 times</li><li>Initial focus is on educational support infrastructure, putting the emphasis on ensuring quality delivery and innovating in / disruption of educational delivery models</li><li>Also more likely to get some sector leadership roles that currently don't exist: inter/national branding, ITO relationships, coordination of capital/asset management, promulgation of best practice</li></ul>	<ul style="list-style-type: none"><li>Strong support for consistent, modular, transferrable quals within ITP system</li><li>Simpler interface with ITOs (but single point of failure risk)</li><li>Single balance sheet – capital allocation and management decisions across the whole sector</li><li>Scale opportunities</li></ul>	

		Structural Collaboration		One ITP (or 3 to 5 Regional ITPs)	
Option	Status Quo	Shared Services Model	Sector HQ Model	Parent/Subsidiary Model	Full Consolidation
<b>Key risks of change (compared to status quo):</b>					
<b>Risks to local responsiveness</b>		<ul style="list-style-type: none"> <li>No change – some highly responsive, some not</li> </ul>	<ul style="list-style-type: none"> <li>Slight change for the worse – ITPs still autonomous, but might be more constrained by central services capability/capacity</li> </ul>	<ul style="list-style-type: none"> <li>Significant risk, but mitigated if “semi-autonomous” model can be made to work</li> <li>Need strong incentives to attract students from centres to smaller regions (per SIT model)</li> </ul>	<ul style="list-style-type: none"> <li>Significant risk – centralisation of decision-making and roles, natural centre of gravity is away from regions</li> <li>Could be mitigated by locating functions in the regions</li> </ul>
<b>Risks to wider economic impacts in regions</b>		<ul style="list-style-type: none"> <li>Low – local autonomy, freedom of action retained</li> </ul>	<ul style="list-style-type: none"> <li>Low – local autonomy, freedom of action retained</li> </ul>	<ul style="list-style-type: none"> <li>Medium - some job centralisation, but retaining more local management, governance etc.; population impacts - why seek to attract students to e.g. Invercargill?</li> <li>Could be mitigated by locating functions in the regions</li> </ul>	<ul style="list-style-type: none"> <li>High - job centralisation; population impacts - why seek to attract students to e.g. Invercargill?</li> <li>Could be mitigated by locating functions in the regions</li> </ul>
<b>Risk of low-value-add or paralysing change</b>		<ul style="list-style-type: none"> <li>Low – low risk, but lower chance of material change</li> </ul>	<ul style="list-style-type: none"> <li>Low/Medium – consolidation by function based on value opportunity</li> </ul>	<ul style="list-style-type: none"> <li>High – have to consolidate all functions (incl. back offices)</li> </ul>	<ul style="list-style-type: none"> <li>have to consolidate all functions (incl. back offices)</li> </ul>
<b>Risk of not achieving savings</b>		<ul style="list-style-type: none"> <li>High – on basis that scope is never extended far</li> </ul>	<ul style="list-style-type: none"> <li>Medium – can focus on best “16 to one” opportunities, but still high complexity</li> </ul>	<ul style="list-style-type: none"> <li>Low/Medium – opportunity to seek maximum economies of scale, but savings will be offset in early years by high upfront financial costs of change</li> </ul>	<ul style="list-style-type: none"> <li>Low/Medium – opportunity to seek maximum economies of scale, but savings will be offset in early years by high upfront financial costs of change</li> </ul>