



AGENDA

Vocational education reform
Monday 12 November 2018

Attendees (TBC)

Minister of Education, Hon Chris Hipkins

Other Ministers to be confirmed

Ministry of Education: Andy Jackson, Vic Johns, Katrina Sutich, Phil Wise, Mike Woods

Tertiary Education Commission: Tim Fowler, Gillian Dudgeon, Amy Russell

New Zealand Qualifications Authority: Grant Klinkum

Item 1: ITP network structure (Annexes 2a, 2b and 2c)

1. We are seeking your decision as to which of the options presented in Annex 2b you want to include in your Cabinet paper: a "one ITP" model, or a "central entity" model. We will then come back to you with a range of subsidiary design decisions within your preferred model.

Discussion points:

- a. The key differences between the two options are:
 - i. **Who makes certain kinds of financial decisions:** On the "one ITP" model, the centre can move capital around the network, acquire and dispose of assets at the network level, and access current cash reserves on a few ITP balance sheets. On the "central entity" model, these powers sit with the regional ITP entities (with some constraints, as per existing controls on borrowing and disposals, and the ability for government to introduce more such controls if it chose).
 - ii. **Who has the final say on contentious matters:** On the "one ITP" model, the centre can compel the behaviour of the regional entity on any academic, financial or other matter if it sees fit (within the bounds of law). On the "central entity" model, regional bodies would have autonomy over any matter the central entity had not specifically been given control over, again within existing government controls.
- b. Annex 2b sets out the potential comparative gains and losses associated with each model.
- c. The central entity model seeks to centralise where there is the greatest value and where it can act as a platform for changes within individual institutions. In this way we believe it captures the majority of the benefits on offer from centralisation, with relatively few of the risks and costs. A "one ITP" model offers greater potential economies of scale, and the ability to move resources and capabilities around the network without the consent of those affected. However, we think these additional benefits are relatively modest, and are outweighed by the additional risks and costs.

Recommendations (choose one):

2. The options are:
 - a. A "one ITP" model (all ITPs merge into one organisation)

AGREE / DISAGREE

- b. A “central entity” model (centralised control in areas that create greatest value) – agencies’ recommended option

AGREE / DISAGREE

Item 2: Who should purchase and/or arrange vocational education? (Annex 3)

3. We are seeking three decisions from you to help us shape the Cabinet paper.

Discussion points:

- a. Do you want to bring together purchase decisions about industry training and provider-based education?
- b. Who do you want to purchase delivery by providers?
- c. Who offers services direct to employers?

Recommendations (choose one):

- 4. If you want to strengthen ITOs’ roles in standard setting, we recommend that only TEC purchases delivery from providers, and providers offer services direct to employers (see purple option on Annex 3). This means:
 - a. TEC would take on ITOs’ purchase role
 - b. ITOs advise TEC about purchase priorities
 - c. providers have a simpler purchase relationship; also responsibility for some of the more detailed decisions that ITOs currently make.

AGREE / DISAGREE

- 5. If you do not want to make substantial changes to the roles of ITOs, we recommend that both TEC and ITOs purchase from providers and ITOs offer services direct to employers, as occurs now (see orange option on Annex 3). This means:
 - a. two purchase roles continue
 - b. 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
 - c. design of single funding regime will need to support multiple funding channels.

AGREE / DISAGREE

Item 3: Financial implications (Annexes 4a and 4b)

- 1. We are seeking decisions about approaches to funding, to advance vocational education reform, to help us shape the Cabinet paper.

Discussion points:

- a. Agree to the proposed phasing of reforms and associated financial decisions.
- b. Agree to the objectives for immediate priority investment in sustainability of the network.

Recommendations:

- 2. We recommend advising Cabinet you are working on how to achieve the following objectives through funding (see purple options on Annex 4a), subject to further analysis in light of the preferred final shape of the sector:

AGREE / DISAGREE

Item 4: Centres of Vocational Excellence (Annex 5)

3. We are seeking initial feedback on design options for CoVEs to help us shape the Cabinet paper.

Discussion points:

- a. Do you agree with the vision for CoVEs?
- b. Agree which approaches to CoVEs we should continue to develop.
- c. Discuss your initial views on other design parameters for CoVEs.

Recommendations (choose one):

4. If you wish to pursue a 'lead ITP' model or similar through the ITP reforms, we recommend that your objective for CoVEs be centralisation across the ITP sector (see purple option in Annex 5). This means CoVEs would be established as part of the shift to new roles and functions created by ITP structural change.

AGREE / DISAGREE

5. If you prefer CoVEs to act as a complement to system change, we recommend that your objective for CoVEs be to recognise excellence to boost esteem (see orange option in Annex 5). This means CoVEs would be 'awarded' to recognise existing excellence in the system.

AGREE / DISAGREE

Annex 2a: Decisions about ITP network structure

Annexes 2a, 2b and 2c relate to item 1 on the annotated agenda (Annex 1). They respond to your request, at our 6 November 2018 meeting with the Ministerial group, for more advice on the pros and cons of different options for financial decision-rights in the ITP network, presented in the context of the decisions you have already taken about VET system funding, function and form.

Your intended direction of change for your vocational reforms

1. In our recent discussions, you agreed to the direction of change for the ITP and VET systems set out in the draft Cabinet paper, as follows:
 - 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.
2. You have said that you want the following changes to establish strong, distinct roles in vocational education, with the bodies delivering these roles focused on collaboration:
 - Skills leadership: Reinstate a skills leadership role to ITOs (whether in their current or a different future form), and support leadership within regions by strengthening ITPs and other public providers.
 - Standard setting: More control for standard-setting bodies (including ITOs) in the up-front specification of qualifications and, if industry so desires, capstone assessments for learners at the end of their study.
 - A single funding regime so that standard-setting bodies and providers collaborate in the provision of vocational education.
3. Within this system, you want a viable and sustainable ITP network, with a greater role for centralised decision making including resource allocation. The system should also include regionally and locally responsive delivery as part of a greater whole. To achieve this, delivery must allow for innovation, and support learners and employers to achieve good vocational education and training outcomes, with different parts of the network acting in a co-ordinated way to address national as well as regional skill needs.

As part of these reforms, changes are needed to the ITP sector

4. Several problems with the ITP sector need to be addressed:
 - a. The sector is under strain after nearly a decade of falling enrolments and rising costs, with a need to improve governance and management in the system (as some ITPs have been able to manage well and others not).

- b. The ITP sector, and the VET sector as a whole, do not act as a coherent system.
 - c. Most ITPs are unable to make needed investments in buildings, technology and people to protect and maintain the quality and relevance of their provision.
 - d. Many providers are focussed on volume and revenue in order to survive, rather than on value and relevance, particularly in their local area. This is due to a funding system that does not encourage innovation or work-integrated delivery, or support clear and efficient pathways into employment for learners.
5. We think problems a) through to c) can be significantly improved via structural changes to the ITP network. Problem d) is best addressed via changes to funding and regulatory levers and incentives.
6. Annex 2b lays out two structural change options for ITPs, showing the key characteristics and trade-offs of each. **The main decision we seek through this item is which of the options in Annex 2b you want to propose to Cabinet.** Annex 2c is optional reading; it gives a brief discussion of the trade-offs and principles at play in making choices about a government-driven versus student-driven system.

The result of ITP structural change and other reforms

7. This section discusses how the changes to function, funding and form would come together in the ITP sector, on either of the two ITP network structures presented in Annex 2b. *Items in italics* are subject to confirmation by you of proposals discussed but not yet confirmed.

Many activities or functions are centralised, whether at an umbrella body or the HQ of a single national ITP

- Programme development is done once, in the region with the relevant expertise, potentially at a Centre of Vocational Excellence (CoVE) – with the programme being shared with the rest of the network, adapted at the margins for each region if required.
- A single Student Management System, Learning Management System, learning design service, learner analytics service, and associated core business processes and workflows are shared across the sector.
- Staff professional learning and development frameworks and programmes (including at management level), plus infrastructure and training to support the student voice, are shared across the sector.
- A range of other services are centrally provided, potentially including domestic and international marketing, managing Treaty relationships, and expert advice on financial and capital asset management.

ITPs and standard setting bodies have a new collaborative relationship

- Standard-setting bodies set standards and design qualifications that ITPs and other providers must use (*with ITPs able to develop their own industry-led micro-credentials to respond to niche regional need if required*).
- Some standard-setting bodies are sited at CoVEs or at the ITP leading programme development in the relevant field. They are also likely to engage in skills leadership for their industry.

- Providers are incentivised to deliver high-quality work-integrated provision. *The extent of their integration with on-job provision will depend on decisions about purchase of and arranging for vocational education – see item 2 on the annotated agenda.* Decisions about purchase, and the arrangement of training for employees, has the potential to add stability to providers.¹

Regions retain some control

- Regional stakeholders influence the mix of delivery in their region, with a choice to be made about whether they have detailed control over the “menu”; or whether providers can, in some circumstances, respond to learner demand for delivery that may not be aligned to regional need (but may be aligned to national need or to learners’ life goals) – see Annex 2c.
- Regional entities are funded via grants allocations made from the centre, probably with a mix of base grant and volume-based funding – with a question mark over whether TEC allocates direct to regional entities, or to a central body which then sets regional budgets.

ITP governance model is refocused to ensure councils have the right skills

- TEC provides more extensive and, in some cases, intrusive support and guidance for ITP governors. This will include an expanded induction programme, a regular Governance Health Check, a fiduciary statement / Code of Conduct for governors, a more robust appointment process, and a wider range of guidance documents and briefings. It may also include cross-council appointments or shared councils.
8. This package of changes represents a significant shift from the status quo, with relatively high transition costs (financial and in terms of senior management load). It will involve major changes to ITP staffing and resourcing, with the majority of academic and teaching roles becoming much more externally-focused. In our view it goes a long way toward addressing problems identified at paragraph 4.
 9. The question is whether a further shift toward central centralisation is desirable and affordable, given the additional value on offer in return for the additional costs incurred.
 10. The view of the TEC and Ministry of Education remains that the additional costs and risks of full centralisation within the network outweigh the likely gains. A model that has the flexibility to provide control over the “big rocks” for the Crown from a financial and sustainability perspective, whilst preserving a region’s accountability for the key issues most important to them (with support from the centre), will deliver the key benefits sought with less risk of implementation and delivery failure.
 11. Annex 2b presents two network structural options for you to choose from; Annex 2c (optional reading) offers a framework for thinking about government’s levers and choices in this space.

¹ The Industry Training Fund is currently \$185m in size. If providers arranged and supported all training including on-job training, then while some of the Industry Training Fund would be redirected to fund the skills leadership and standard-setting roles of standard-setters, most would go to ITPs and other providers to support on-job delivery. ITPs would also benefit from the additional scale and protection against the business cycle that this additional business would provide.

About the options presented in Annex 2b

12. Annex 2b presents two models for your consideration:
 1. A “one ITP” model, where all ITPs merge into one; and
 2. A “central entity” model, where a new central body provides services to the network. This is the core of the option presented in TEC’s 2 October advice.
13. We seek your decision about which of these you want to propose to Cabinet; we will then come back to you with a number of secondary design choices for the option in question.
14. On both models, a central body (the national HQ on the first model; the central entity on the second) holds certain powers over the regional entities. Neither option is costless, and both have opportunities and risks.
15. **The key differences between the two options are:**
 - **Who makes certain kinds of financial decisions:** On the “one ITP” model, the centre can move capital around the network, acquire and dispose of assets at the network level, and access current cash reserves on a few ITP balance sheets. On the “central entity” model, these powers sit with the regional ITP entities (with some constraints, as per existing controls on borrowing and disposals, and the ability for government to introduce more such controls if it chose).
 - **Who has the final say on contentious matters:** On the “one ITP” model, the centre can compel the behaviour of the regional entity on any academic, financial or other matter if it sees fit (within the bounds of law). On the “central entity” model, regional bodies would have autonomy over any matter the central entity had not specifically been given control over (for example, capital projects below a given threshold), again within existing government controls.
16. The tables provide a short description of the “what” under various factors (e.g. capital management, governance, funding), and an assessment of the potential comparative gains and losses each model might offer.

In a nutshell

17. A “one ITP” model offers the greatest potential economies of scale, and the ability to move resources and capabilities around the network. However, **we think these additional benefits are relatively modest compared to the central entity model, and are outweighed by the additional risks and costs.**
18. We think the additional benefits are relatively modest because we think the biggest economies of scale come from changing the way the workforce is used through centralising core teaching and learning systems and activities (including programme development). These changes can and should occur regardless of which structural option is selected. While sharing human resources between ITPs may be slightly easier in a “one ITP” model, it is certainly possible on a “central entity” model (especially if some small-scale ITPs become “regional access” ITPs as per TEC’s 2 October 2018 advice, B/18/00652 refers).
19. Chief amongst the risks and costs of a “one ITP” model are:
 - loss of agility and local responsiveness;
 - creation of single points of failure (there might be only one governance and executive function, but if that function gets things wrong, they are wrong for the whole of the ITP sector);

- a much larger and more costly change exercise; and
 - maximum likelihood of the greatest resistance from within the sector and many of its wider stakeholders (including potentially the university sector). We don't think this should be underestimated in terms of its ability to stymie progress in the sector.
20. The central entity model, the Ministry's and the TEC's preferred approach, seeks to centralise where there is the greatest value and where it can act as a platform for changes within individual institutions. It offers government some central control while, from a regional institution perspective, it means more support. As such, the model:
- minimises the risks and costs of change and integration processes; and
 - maximises the chance that a significant portion of the sector will get behind the proposal and look for opportunities to make the best of it.
21. In short, we believe it captures the majority of the benefits on offer from centralisation, with relatively few of the risks and costs.

Other models we have at times discussed

22. We have at times discussed with you two other models which we consider less desirable than either of the above:
- A "central entity with financial decision rights" model that would leave some autonomy with individual ITPs, but give the central entity a series of decision-making or veto rights over strategic level decisions, and the ability to intervene or bring under close supervision ITPs that are not performing. In one variant, it could actually take over the assets and balance sheet of the sector (this would establish in the central entity a similar function to the Ministry of Education's Education Infrastructure Service, alongside the proposed centralised programme development functions). While such an approach might give greater ability to performance manage the weaker parts of the sector, it also places much greater constraints over governance and management control, in the long run generating the risks noted above, but without the benefits of a one-ITP model.
 - A "true federation" model where the ITP central entity was fully owned and controlled by the participating ITPs, each of whom would have VETO rights over decisions it might make. Such an entity would be unable to drive system-wide change that created winners and losers, so we think would be too constrained to add much value.

Annex 2b: Structural change options and their pros and cons (A3)

Annex 2b

One ITP model: all ITPs merge into one organisation

Function/activity	How might it work?
Capital management	Full control: <ul style="list-style-type: none">Move \$ around the network, allocating capital to highest needBorrowing for the networkCentral property management function, covering:<ul style="list-style-type: none">Soft facilities management (janitorial, cleaning etc)MaintenanceAsset rationalisation and disposalNew investments
Operating expenditure	Overall budget parameters, rules, expenditure policies etc. set centrally Budgets and delegations allocated to regional management <ul style="list-style-type: none">Local employment decisionsLocal engagement and marketing expenditureLocal educational delivery
Governance	Single Board governing whole entity – Crown and Representative appointments (including need for regional representation) Regional advisory boards focussed on: <ul style="list-style-type: none">Regional connections, engagement and relationships (industry, employers, schools, local government)Choice and positioning of provision
Management	CE appointed by Council, holding financial and employment delegations from Council Exec team appointed by CE Single Academic Board and academic quality assurance function Regional management appointed by CE/Exec team (potentially with input from regional advisory boards on interview panels), with delegated authority over and accountability for: <ul style="list-style-type: none">Choice of regional provision (on- and off-job) and qualityRegional relationships (industry, employers, schools, local government)
Innovation	Budgets allocated by centre to particular innovation units or projects Innovation funding built into budgets and regional management delegations
Funding	Channelled through centre – one organisation

Critical Success Factor	Potential gains, compared to central entity model	Potential losses, compared to central entity model
National responsiveness	Capital <ul style="list-style-type: none">Move capital and operating resources to highest national priorities Assets <ul style="list-style-type: none">Rationalisation, sharing of assets etc. is easier (noting though that sector’s stranded assets may be of limited value) People – single employer <ul style="list-style-type: none">Apply rare/high end expertise to greatest national needAttract greater range of experts – bigger, more challenging jobs at national office Brand/marketing – national level campaigns	Single points of failure <ul style="list-style-type: none">StrategyNational level relationships with SSBs, funders, industries, Government etc.National governance and managementNationally provided systems and projects “De-skilling” of regions as first- and second-tier jobs are effectively demoted
Local responsiveness	-	<ul style="list-style-type: none">Loss of ability to adapt national approach to local circumstances and strategic imperatives, eg attracting students to small centresSacrifice of regional to national good – in tension with Regional Economic Development agendaOne size fits all approach/heavy hand of bureaucracyRisk that regional communities will be less willing to invest in a centralised ITP
Scale	<ul style="list-style-type: none">Economies in systems, programme design etc., marketing	<ul style="list-style-type: none">Per single points of failure above
Innovation	<ul style="list-style-type: none">Capacity to invest in and fund more innovationEasier to “industrialise” local innovations across whole of country (e.g. micro-credentials, RPL)	<ul style="list-style-type: none">Very large market-dominating organisations are generally more bureaucratic and less innovative
Change pathway	<ul style="list-style-type: none">No legislative change needed	<ul style="list-style-type: none">Hugely expensive and time-consumingForced into dealing with back offices firstConversation about change likely to be heavily focused on loss of autonomy of regions
Durability across political cycles	-	<ul style="list-style-type: none">Relatively higher risk of being unwound in the event of a change in government; difficult and expensive to unwind
System performance management	<ul style="list-style-type: none">Greater system-wide self-management on performance	<ul style="list-style-type: none">Immovable Object...meet Unstoppable ForceTEC will need visibility of local performance etc. – micro-regulation

Central entity model: provides support and a level of control at the centre while preserving more visible regional autonomy

Function/activity	How might it work?
Capital management	<p>Physical assets and \$: authorities reflect level of risk appropriate to big decisions, with:</p> <ul style="list-style-type: none">• Strategic asset network plan developed centrally (probably co-operatively, but via compulsion if necessary)• More collaborative use of space, new shared investments etc able to be managed across the network• Provision of advice and services to support capital management and major capital projects from centre• Ability for centre to compel ITPs to seek its advice for “big rock” projects – potentially combined with extension to Crown’s existing veto powers (currently limited to borrowing and disposals; could extend to any new capital or operating commitments over a certain size) <p>Central entity owns investment in centrally provided services</p>
Operating expenditure	<p>Centrally held authorities</p> <ul style="list-style-type: none">• Power to review budgets, advise individual Councils on these• Need some form of veto rights to support move towards common systems (e.g. single SMS) to prevent non-aligned decisions/investments• Central functions could take on e.g. international marketing <p>Locally held authorities</p> <ul style="list-style-type: none">• Local employment decisions• Local engagement and marketing expenditure• Local educational delivery
Governance	<p>Board and CE for central entity</p> <p>Councils for regional entities to have mix of central appointees (common across multiple councils) and local representatives</p> <p>Local governance and management designed to support new ITP model in each region (eg may be different for Regional Access ITPs vs Programme Lead providers)</p>
Management	<p>Ability of centre to intervene, replace poorly performing management in ITPs, or bring under much closer supervision?</p>
Innovation	<p>Joint effort required across centre and ITPs to have system to identify and roll out innovations on a quasi-commercial basis</p>
Funding	<p>Need separate funding stream for central entity establishment and ongoing operation</p> <p>SAC-type funding directed to ITPs, with option for base funding for Regional Access ITPs</p>

Critical Success Factor	Potential gains, compared to one ITP model	Potential losses, compared to one ITP model
National responsiveness	<ul style="list-style-type: none">• Much lower risk of system-wide failure	<ul style="list-style-type: none">• Less ability to move capital/investment resources around sector (eg, move \$ or FTEs from Southland to Taranaki, say) without agreement of entities concerned
Local responsiveness	<ul style="list-style-type: none">• Preservation of regional ownership = highly valued by regional communities• Regions more willing to invest in “their” ITP	-
Scale	<ul style="list-style-type: none">• Do not have to tackle back-office functions first	<ul style="list-style-type: none">• Do not get full potential (at least in first stages of potential integration pathways)
Innovation	<ul style="list-style-type: none">• Local autonomy can still drive innovation, but with system in place at centre to take the good idea, pay for it, and roll it out across the sector – great incentives for each ITP to innovate	<ul style="list-style-type: none">• Less ability to mandate rollout of innovations to regional entities (unless in a function or activity managed from centre)
Change pathway	<ul style="list-style-type: none">• Much cheaper• Conversation about change can be focused on support services provided by the centre, with debate about the degree/nature but not the very existence of new controls	<ul style="list-style-type: none">• Legislative change needed
Durability across political cycles	<ul style="list-style-type: none">• Relatively lower risk of being unwound in the event of a change in government; easier and cheaper to unwind	
System performance management	<ul style="list-style-type: none">• Central function as enabler of better performance	

Annex 2c: How choices about ITP network structure relate to wider policy choices about government's role in steering the system

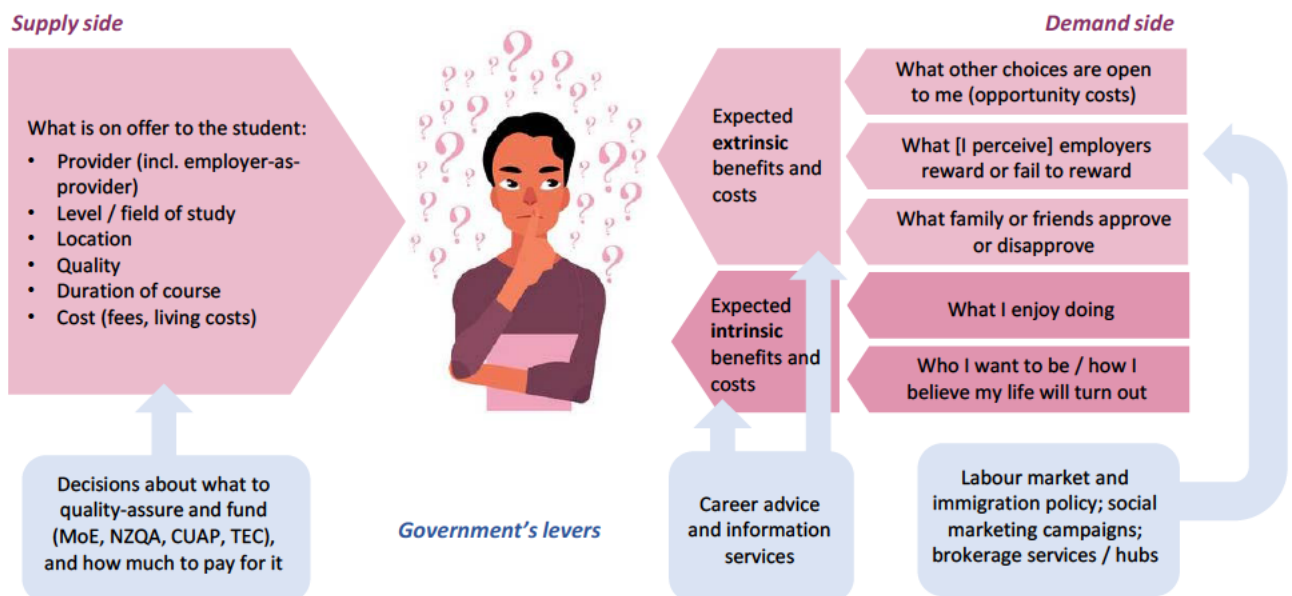
23. We understand that you want a VET system that is driven partly by student choice about what and where to study, and partly by government decisions about where to invest for public value (economic, social, environmental or cultural).
24. As you know, it is valuable for student choice to be influential to some degree because:
- Individuals usually have better information than government does about what they want and need at the individual level. (Government generally has better information about the aggregate picture, however.)
 - When it comes to education, people try harder and succeed more often when they are pursuing their own educational goals, rather than goals set for them by someone else.
 - Tertiary education is a complex adaptive system that behaves in unpredictable ways, and is influenced by other complex systems like domestic and international labour markets and economies. With a few exceptions (ie big enduring growth areas unique to NZ, or highly transferable skillsets), it is risky for the government to place big bets on what needs to happen in tertiary education today in order to deliver good outcomes for New Zealand in 10 or even five years' time – especially as we are betting students' time and money and effort on top of tax revenue.
25. But government does need to influence and sometimes constrain students' study choices, because:
- **Government can't fund all demand from all students.** The annual budget is limited, and we need to invest it in a way that maximises public value compared to what would otherwise have happened.
 - **Students will not always collectively choose what New Zealand needs.** Sometimes we can see that students' collective study choices are not going to produce a close enough match to what New Zealand needs by way of skills and knowledge in its population, even allowing for flows of people between regions and across borders. In such cases, we need to intervene to adjust supply to better match demand. Because students tend to do best pursuing their own goals, we will generally get the best result by trying to change what students choose – that is, to shape their preferences by providing information and by changing the (financial and non-financial) costs of different choices they face – rather than by having them enrol in courses they aren't internally motivated to complete.
 - **Some students may need protection from the consequences of making very bad decisions.** Many students make good assessments (tacit or explicit) of the costs and benefits of different types of study in order to decide what to do in tertiary education. But like all the rest of us, students are subject to systematic cognitive biases and prejudices, mistakes of reasoning, short-termism, temptations, irrational aversions, social and peer pressures, taking the path of least resistance, and changes of mind. While we want to support students to make their own choices, we also need to help them avoid making decisions they will seriously regret – for their own and the general public's sake. For example, we should aim to:
 - make a special effort to provide information and guidance to students most at risk of making poor choices, for example those without tertiary-qualified family members, or with low or no school attainment;

- ensure there are safe “default pathways” for students who drift into the system without clear goals or who, for whatever reason, have not accessed good information about their options; and
- ensure that students can make mistakes or change their mind – especially early on in their tertiary education journey – without experiencing seriously bad consequences.

Application to VET system changes

26. Government has many ways to influence the choices students make about their study. Figure 1 shows the student as the key decision-maker in tertiary education at the centre of a range of supply-side and demand-side factors (in pink), with government’s levers of influence shown in blue.

Figure 1. Student choice and government influence in tertiary enrolments



27. In terms of policy reform in the VET system, our discussions to date have focused on changes to government funding and pricing: giving employers a bigger influence on the supply side, and making work-integrated learning more attractive and seamless. We expect this to result in less investment in provision with low public returns, better default pathways for learners, and better matching of supply to demand (both regionally and, in aggregate, nationally).
28. A key question being tested via the VET review, the Career System Strategy and in the Immigration portfolio is whether government can expect to further improve outcomes for learners by:
- being more prescriptive from the centre about how much volume it purchases in each field of study (using its levers on the left-hand side of the above diagram to determine the “menu” on offer to students in a given location); or
 - improving the demand-side signals to students and providers (using its levers on the right-hand side to influence the menu); or
 - both.

29. Each approach has pros and cons:

	Main advantage	Main disadvantage
Supply side levers	<ul style="list-style-type: none"> • Simple, direct, powerful and fast, • All levers sit in a single Ministerial portfolio 	<ul style="list-style-type: none"> • Higher risk /higher cost of getting it wrong for students or employers • Does not reliably target those learners most willing to change their behaviour (unless intervention is via prices faced by students)
Demand side levers	<ul style="list-style-type: none"> • Lower risk / lower cost of getting it wrong for students or employers • Targets those learners most willing to change their behaviour 	<ul style="list-style-type: none"> • Often more complex and less direct or powerful (though not always, eg minimum wage legislation) • Levers sit across multiple Ministerial portfolios

30. The risks involved in central planning and detailed labour market matching differ from country to country. In New Zealand we have high internal and cross-border migration, a very open labour market and a large number of small employers, all of which make it harder to control the skill flows between firms and regions, and therefore diagnose the gaps. Where a clear and persistent nationwide shortage exists, a centrally engineered tertiary supply-side response may be needed (potentially alongside an immigration response, and potentially with some incentive for graduates to remain onshore if the skill is in shortage overseas too) – but such cases are relatively rare.²
31. MBIE analysis of qualification-to-occupation and occupation-to-qualification matching in 2015 found very few fields (all of them in regulated occupations) in which government could reliably meet a labour market shortage by increasing its investment in tertiary supply. We are talking with MBIE about whether they could repeat that analysis.

Application to ITP network structures

32. Your view about “who should determine what gets offered to students where” may influence what kind of ITP network structures is attractive to you, separate to considerations of transition costs and risks:
- If you believe that the menu of choices available to students in a given region should be largely determined by a third party who can access very good information about demand, then you will be comfortable with a fairly top-down model, and will place a relatively low value on the ability of regional entities to make autonomous decisions about their long-term investments.
 - If you believe that the menu should be largely determined by how providers respond to what students choose to study, within some broad parameters set by the centre and with the emphasis on supporting informed decision-making, then you will be comfortable with a more devolved model, and will place a relatively low value on the ability of the centre to fine-tune the menu.
33. This may seem to mix together decisions about what gets offered in a region with choices about capital management decision rights or network ownership. However, in our view they cannot be separated – any environment where a central entity (be it TEC, an ITP umbrella body or the HQ of a single national ITP) decides what a regional entity can spend money on, or where the regional entity’s money is available to the

² A paper by Wheelahan and Moodie (2017), which we provided to your office on 20 December 2017 (for your Christmas reading bag) along with our summary of its key points, discusses this in detail.

central entity to reprioritise elsewhere, is one in which the central entity becomes *de facto* responsible for determining what's delivered in the region over time. This is because regional entities will have insufficient incentives to manage their regional portfolio well for the long term in an environment in which they do not have either control or accountability over the long-term financial results of their choices.

34. For this reason, we think that control over capital decisions, and accountability for determining regional delivery, should go hand in hand. The question then becomes: where should that be? See Annex 2b.

Annex 3: Who should purchase and/or arrange vocational education?

Purpose: To get 3 decisions from you to help us shape your Cabinet paper

Key decision(s):

1. Do you want to bring together purchase decisions about industry training and provider-based education?
2. Who do you want to purchase delivery by providers?
3. Who offers services direct to employers?

Our recommendations:

- If you want to strengthen ITOs’ roles in standard setting, we recommend the **purple choices**.
- If you do not want to make substantial changes to the roles of ITOs, we recommend the **orange choices**.
- We do not recommend the middle options, because of the risks to regional and social objectives.

You have agreed to establish a single funding regime to support ITO and provider collaboration. A further key decision is about how we reshape decision-making rights for funding.

You have two key choices to make, and a third choice about what this means for how ITOs and providers offer services to employers...

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; also responsibility for some of the more detailed decisions that ITOs currently make

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
- Design of single funding regime will need to support multiple funding channels.

Effects:

- A mix of TEC and ITOs strengths

Who offers services direct to employers? (see box at bottom of page for discussion)

Providers

ITOs

Providers

ITOs

Providers

ITOs

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

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 4b: Phasing of financial decisions alongside implementation of vocational education reforms		
Body	In a mature system they will be...	Years 1-2 they will be
Umbrella body	Contributing services that lowers cost base of network Receiving ongoing income from government and other sources [Other functions (e.g. management of capital) to be determined.]	In set-up mode: developing governance, executive, staff capability to achieve mission Incorporating elements of member delivery bodies Developing relationships and work
Delivery bodies	Teaching to local students Responding to local industry needs Using main programme but also offering micro credentials to integrate with local industry flexibly Delivering work-integrated learning, quality foundation and general education across the cycle	Current network will be establishing desired relationship with umbrella body Transitioning into the new sector form (e.g. changing roles, responsibilities and internal resourcing across the sector). Still focusing on quality delivery and better contributing to economic development goals Beginning to respond to incentives for more work integrated learning
Standard setting bodies	Based with CoVEs Providing skills leadership and capstone assessment services [Role in arranging training yet to be determined]	Work to rearrange coverage into future-facing configurations Begin designing and introducing capstone assessments Begin skills leadership role

s 9(2)(f)(iv)

Annex 5: Centres of Vocational Excellence

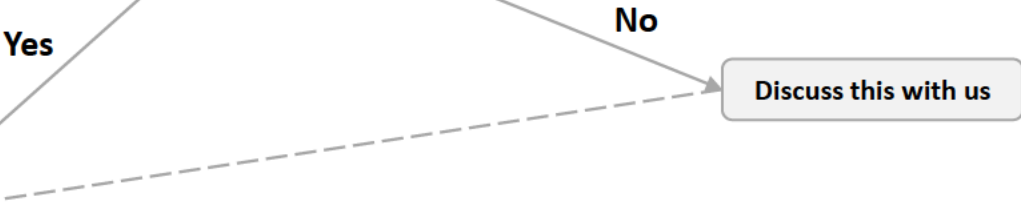
Purpose: To get decisions from you on the direction of CoVEs to help us shape your Cabinet paper

- Key decision(s):**
- Do you agree with the vision for CoVEs?
 - Agree which approaches to CoVEs we should continue to develop.
 - Discuss your initial views on other design parameters for CoVEs.

Please give us your feedback on our vision for CoVEs

We understand that you would like CoVEs to be a signal of excellence, which reflects industries that are central to New Zealand’s place in the world, such as dairy, viticulture and forestry. The vision for CoVEs is that they will:

- Develop programmes to students within their area of specialisation.
- Provide leadership, innovation, programmes and good pedagogy to the national network of provision in their area of specialisation.
- Be strongly linked with the relevant industry and research institutions and standard setting bodies.
- Be located in the region that best reflects their areas of speciality but with national coverage.



Here are some decisions that we think you need to make to shape your Cabinet paper...

Which option for CoVEs do you wish to pursue or would like further advice on?

There are a number of ways that CoVEs could be designed to fit into a changed VET system. s 9(2)(f)(iv)

Objective 1

Objective 2

Objective 3

Objective 1: Strong independent focus on excellence

- This means:
- CoVEs would be established as standalone entities.
- Pros:
- Creates organisations with a single focus on vocational excellence.
- Cons:
- Introducing new entities would increase system complexity
 - Would definitely require new funding to establish the entities.

Objective 2: Centralisation across the ITP network

- This means:
- CoVEs would be established as part of the shift to new roles and functions created by ITP structural change.
- Pros:
- As structural change proceeds, ITPs will have a key mission or function to build themselves around.
 - Flexibility to invest now or at future budgets.
- Cons:
- Overall focus on structural change and assigning CoVEs within it may weaken the focus on excellence.

Objective 3: Recognise excellence to boost esteem

- This means:
- CoVEs would be ‘awarded’ to recognise existing excellence in the system.
- Pros:
- Can be introduced quickly, additional roles and functions could be funded later on.
 - Provides a signal to students and employers indicating high-quality provision.
 - Could include criteria like collaboration between ITPs and ITOs to improve collaboration.
- Cons:
- A slower approach to change, reliant on ITPs’ desire to achieve the award.

Our recommendations

If you wish to pursue a ‘lead ITP’ model or similar through the ITP reforms, we recommend **objective 2**.
If you prefer CoVEs to act as a complement to system change, we recommend **objective 3**.
We do not recommend objective 1.

Do you have other design parameters in mind at this stage?

- There is a range of further questions to work through as we design CoVEs. These could be explored with sector groups, but we are interested in your initial views. Should CoVEs:
- deliver programmes, in addition to designing them?
 - represent a few, world-leading specialisations, or be established as centres of national leadership across all VET areas?
 - be restricted to one per area of specialisation, or could there be multiple CoVEs in high-volume subjects?
 - all focus on subject specialisations, or could they also specialise in delivery modes or learner groups?