

Budget Sensitive

Office of the Minister of Education

Chair, Cabinet

Consulting on Proposals for Vocational Education System Reform

Proposal

1. I seek Cabinet's agreement to consult on proposals for a comprehensive reform of New Zealand's vocational education system. The proposed reforms will:
 - 1.1. redefine the roles of education providers and Industry Training Organisations, (ITOs) and extend industry and employers' leadership role across all vocational education through new Industry Skills Bodies
 - 1.2. create a New Zealand Institute of Skills & Technology, bringing together our 16 public Institutes of Technology and Polytechnics (ITPs) as a single entity, and
 - 1.3. create a unified vocational education funding system, removing barriers to collaboration and flexibility, ensuring a sustainable network of provision, and supporting the wider reforms.

Executive Summary

Our vocational education system must change to meet current and future challenges, and deliver better outcomes for New Zealand

2. My vision is for a vocational education system where:
 - 2.1. learners get good educational and employment outcomes from vocational education and vocational education is responsive to learners' needs, especially for Māori and Pacific peoples
 - 2.2. employers can recruit and develop skilled, productive employees
 - 2.3. vocational education organisations support communities and regions to flourish
 - 2.4. the system adapts to changes and to new educational models.
3. Vocational education can help to ensure that all New Zealanders have the skills, knowledge and capability to adapt and succeed in a world of rapid economic, social and technological change. It can improve people's resilience, employment security and life outcomes, and reduce social inequities, as the trends driving the Future of Work mean they will likely change jobs and careers frequently over their working lives.
4. This depends on a strong, unified, sustainable vocational education system that delivers the skills that learners, employers and communities need to be successful.
5. Our current vocational education system is poorly positioned to deliver on our future needs. It is in urgent need of reform. Many industries are increasingly frustrated at their inability to manage their pipeline of skilled workers. Not all learners are getting the

educational and employment outcomes they want and deserve. The system is overly complex, making it hard for first-time learners, particularly Māori and Pacific people, to achieve good outcomes from vocational education.

6. There is an unhealthy tension between ITOs and vocational education providers (ITPs, wānanga, and private training establishments (PTEs)). Despite the best efforts of many vocational education professionals and organisations, structural features of the current system drive them to compete over funding rather than collaborate to deliver the best outcomes for learners and employers.
7. ITPs are under considerable financial stress. This is due to declining enrolments, high fixed costs, the pressure of responding to changes in policy, and funding that does not reflect their cost structures.
8. I propose fundamental reforms to create a nationally and regionally networked vocational education system. An integrated system could better meet the needs of learners and employers and link provider-based and work-based training. The proposed changes will position the vocational education system to deliver for the future.
9. The proposals are ambitious, but necessary. They go further than the advice that arose from the ITP Roadmap 2020 and VET system review projects that the Tertiary Education Commission (TEC) and the Ministry of Education have undertaken. I believe the proposals would result in a significantly improved vocational education system that is sustainable and fit for the Future of Work.

My proposed vocational education reforms have three key elements

10. The change proposals are an interlinked and interdependent package. Collectively they will result in a more streamlined and efficient system of vocational education and training to meet New Zealand's needs in the future.

Proposal One: Redefining the roles of education providers and ITOs, and extending industry and employers' leadership role across all vocational education

11. To give industry and employers a stronger voice, new industry skills bodies would:
 - provide skills leadership, coordinating industry efforts to identify and plan to address future skills needs
 - set standards and approve qualifications
 - work with Centres of Vocational Excellence (CoVEs), where appropriate, to support high-quality programmes, core curricula, and teaching and learning resources.
 - advise and guide the TEC's priorities for purchasing vocational education
12. ITOs' current "arranging training" role for work-based vocational education would transfer to vocational education providers, and ITOs' current role purchasing off-job courses for work-based trainees would transfer to the TEC.
13. ITOs' existing advisory and brokerage functions could be located in a number of places in the reformed vocational education system, and I will gather feedback during public consultation.

Proposal Two: Creating the New Zealand Institute of Skills & Technology

14. I propose to create a New Zealand Institute of Skills & Technology, bringing together our 16 public ITPs within a single legal entity to serve New Zealand's regions and strengthen consistency and availability of provision across the country.
15. This would address the ITP sector's current financial issues (described in Annex 3), and eliminate duplication of activities across ITPs. I expect the New Zealand Institute of Skills & Technology to be a distributed network that serves and balances national and regional interests. A coherent set of nationally-delivered programmes will make it easier for both learners and employers to gain access to the education and skills they need.
16. The New Zealand Institute of Skills & Technology would have a single governing council. The organisation would manage capital and operational budgets, staffing, student and learning management systems. Programme development would be consolidated and shared across regions. Local campuses would be responsible for building rich relationships with local industry, employers, iwi and communities. They would ensure nationally developed programmes are taught in a way that meets the specific needs of their learners and local contexts.
17. To ensure a strong regional presence, each region would have a Regional Leadership Committee to identify local skills needs and link with regional economic development strategies and action plans. The committees would have strong local government and industry participation, and representation of and a strategic partnership with local iwi and Pacific communities. I will consult on the name, role and range of responsibilities of these critical regional leadership committees, and how they formally relate to governance and management of the new Institute.
18. The New Zealand Institute of Skills & Technology's regional campuses, and potentially wānanga, could host CoVEs that reflect key regional industries and collaborate with the relevant industry skills bodies.

Proposal Three: A unified vocational education funding system

19. I propose to establish a unified funding system for vocational education. Funding system changes would remove barriers to collaboration and flexibility, ensure a sustainable network of provision, and support the wider reforms. Funding should be flexible and responsive to an evolving economy.
20. The funding system should support more work-integrated learning that resembles apprenticeships: combining provider- and workplace-based learning to best meet the needs of learners and employers, and provide the agility needed for the Future of Work.

The proposed change path is challenging but necessary

21. These proposed changes are substantial. They will require legislative change, significant organisational change for ITPs, other vocational education training providers and ITOs, and a redesign of the funding system. Implementation would need to be sequenced, and there will be costs and risks associated with the proposed changes. However, the costs and risks of not acting are significant. There is no risk-free path to strengthening the ITP sector, and reshaping our vocational education system for the challenges and opportunities it must meet to deliver the best outcomes for New Zealand. The financial instability and structural issues within the current model mean the status quo is not

sustainable. While change on this scale will be disruptive, it will strengthen the vocational education system for the long term.

22. Consultation to date shows that a wide range of stakeholders understand and support the need for vocational education reform and the need to strengthen the ITP sector. A range of options for change for the ITP sector were generated during the co-design process in 2018. However, the options that were most widely supported did not go far enough to ensure the ITP sector would be sustainable and be part of an integrated vocational education system.

I seek your agreement in principle to establish the New Zealand Institute of Skills & Technology, and agreement to public consultation on the reform proposals

23. I believe the changes I propose will ensure that the vocational education system is more learner-focused and responsive to the needs of employers and New Zealand.
24. Securing the sustainability of the ITP sector is our immediate concern. I am seeking Cabinet's agreement in principle to the establishment of a single New Zealand Institute of Skills & Technology, subject to the results of consultation and a detailed analysis of the impacts of change. Consultation and engagement on this reform will focus on the detailed organisational design and transitional process for the new Institute.
25. I also seek your agreement to consult on my proposals with the education and training sector and wider public. I propose a six-week consultation period, starting from mid-February. A draft consultation document is being finalised. I recommend that Cabinet agree to delegate to the Minister of Finance, the Associate Minister of Education Hon Tracey Martin, and myself authority to approve publication of the consultation document. I will consider all feedback received through the consultation process – both on the detailed design and implementation aspects of the proposed changes, and on alternative options to achieve the objectives I have set out.
26. I aim to report back to you, with further advice and more detailed proposals so that final decisions can be made by mid-2019 to allow for legislative change and detailed transition planning to proceed this year.
27. I envisage the transition to the new Institute can commence in 2020, with other changes phased as necessary to ensure a smooth process of change especially for learners, employers, and the people working in vocational education.

Background

28. My vision for vocational education is that the skills learners, industry and iwi require are delivered through a unified vocational education system in which learners can seamlessly transition between work and study and between institutions, while gaining nationally recognised qualifications that employers and industry trust to deliver people with the skills and capabilities their businesses need.
29. This Government has taken action to address various immediate issues with skills supply in New Zealand, such as through the Construction Skills Action Plan, and by investing funds to address financial viability issues in ITPs. These initiatives are important, but more fundamental change is needed if our vocational education system is to meet New Zealand's long-term needs.

30. In March 2018, Cabinet noted that I would initiate work on the strategic issues facing our vocational education system and the ITP sector [SWC-18-MIN-0017].
31. The proposals I intend to consult on have been informed by sector and community engagement throughout New Zealand, and international research.
32. During 2018, work was progressed on two linked projects:
 - The Tertiary Education Commission (TEC) led ITP Roadmap 2020 project explored options for changes to network structure and operations to secure a sustainable future for ITPs, and
 - A Ministry of Education-led review of wider vocational education policy settings.
33. Officials met with learners, employers, industry representatives, ITOs, education providers and their staff, Māori, Pacific people, to discuss the future and current vocational education settings.
34. Annex 3 describes the consultation undertaken and the problem definitions developed through these projects, and summarises the current financial position and risk status of the 16 ITPs.
35. Through the Kōrero Mātauranga, the national Education Conversation, we have collected information and ideas from learners, educators, parents, employers, iwi, Pacific people and community members across the country to inform my proposals here and across the Education Work Programme.
36. Policy options canvassed through this process did not go far enough to address the need to reposition vocational education for a changing world. The proposals set out in this Cabinet paper are necessarily more far-reaching.

Vocational Education can make a vital contribution to Government's strategic priorities and to improving New Zealanders' wellbeing in a changing world...

37. At the heart of the Government's vision for education is ensuring all New Zealanders have the skills, knowledge and capability to adapt and succeed in a world of rapid economic, social and technological change.
38. An increasingly dynamic labour market means people will likely change jobs and careers frequently over their working lives. Skills shortages will arise in different regions and sectors of the economy, as job displacement occurs in others. Our education system at all levels must be better prepared to respond to these trends, and must genuinely support lifelong learning.
39. Vocational education, with learning opportunities closely integrated with work, can markedly improve people's resilience, employment security and life outcomes. It can be a powerful tool to reduce inequity and address inter-generational disadvantage, to ensure all New Zealanders can achieve to their full potential.
40. Vocational education and training must evolve to deliver on our vision, to serve the needs of learners throughout their working lives, and to support industry and employers in finding and developing people with the skills and capability they need.

Our vocational education system needs to work better for learners, employers and industry, in every part of New Zealand...

41. Learners should have access to consistent high-quality vocational education that:
 - offers clear pathways to credentials, qualifications and skills that will be recognised and valued by industry, and will help them find and progress in a rewarding career
 - recognises the value of skills, knowledge and capabilities gained through work experience and informal on-the-job learning
 - allows people to move between jobs, education providers, and regions without their learning and progress towards a qualification being disrupted.
42. Too much of our vocational education today involves wasted effort in courses employers may not recognise or value; in repeating material that people already know; and incomplete qualifications that are abandoned as people move between work and study or between different jobs and education providers. Some people, including many Māori and Pacific learners, disabled people and older workers with little formal education, face particular difficulty in accessing vocational education and training that meets their needs and is provided with appropriate context and support.
43. Employers and industry must have a greater say and a greater stake in attracting, recruiting, and developing the skilled workers they need. Many employers find it difficult to 'find a way in' into the vocational education system, lack the capability to participate effectively, and under-invest in the development of their current and future workforce.
44. Employers and industry need to be given, and must take on, a greater leadership role across the entire vocational education system:
 - in planning for and defining the skills, knowledge and capabilities needed by their current workforce and people entering their industry
 - in developing and approving qualifications that recognise these attributes, and vocational education programmes that can deliver them consistently nationwide
 - in building more effective partnerships with education specialists, so that people in their current and future workforce experience meaningful work-integrated learning opportunities, high quality teaching and learner support, in both on-job and provider-based vocational education programmes.
45. Local industry, employers, iwi and regional communities need to work with vocational education professionals to identify the skills gaps and opportunities in their region. They need a stronger role in prioritising and supporting coordinated investment to meet local needs and deliver on regional economic development action plans.
46. We can better align vocational education, welfare and immigration systems to address regional skills shortages and economic opportunities.

We must remove structural barriers to collaboration, efficiency and responsiveness

47. While vocational education is not realising its full potential for learners, industry and employers across New Zealand, this is not for lack of effort by the people working in our ITOs, ITPs, and other education providers.
48. Across the country vocational education professionals and organisations are seeking to collaborate to deliver work-integrated training that meets the skills needs of their local

industries. They are working to test and scale up innovative programmes, and to develop efficient and valued vocational education pathways and qualifications. These efforts are frequently frustrated and constrained by the structural features of our current vocational education system.

49. We need to break down the silos in our vocational education system. The problems lie in structural settings that separate work-based training and provider-based education, restrict the voice and role of industry across the system as a whole, and deny learners access to flexible and efficient pathways to achieve their education and training goals.
50. Existing funding models and overlapping roles of different organisations in the system drive ITOs and vocational education providers to:
 - compete rather than collaborate,
 - differentiate brands and programmes, and focus on growth and market share, rather than operating as part of a system, and
 - maximise the time learners spend with them, rather than to help learners move as quickly and effectively as possible along their desired career path.
51. Our public ITPs are also driven to compete rather than to collaborate with each other and with ITOs, to attract and hold on to learners and funding. The ITP network has not developed a strong and coherent national voice, or made sufficient progress to realise the many opportunities for improved quality and efficiency through coordinated capital investment, shared resources and expertise, and economies of scale.
52. Alongside a decline in provider-based enrolments driven by demographic trends and rising employment rates, this has contributed to eroding the sustainability, range, and consistency of vocational education, especially in the regions.

Reform proposals

53. The direction of the proposed reform is to maintain and grow ITP delivery in the regions. The proposals are intended to ensure a strong future ITP regional presence in communities nationwide, while removing duplication and inefficiency in programme development and strengthening ties to industry-owned standards and work-place based learning. They will increase the relevance and coherence of training, ensure learners are equipped with the skills and capabilities industry, iwi and communities need.
54. I propose a comprehensive package of reforms to deliver a cohesive, efficient and sustainable vocational education system that can meet the challenges and opportunities we face.
55. The three major change proposals will:
 - 55.1. redefine the roles of education providers and ITOs, and extend industry and employers' leadership role across all vocational education
 - 55.2. create a New Zealand Institute of Skills & Technology, bringing our 16 public ITPs together as a single entity, and
 - 55.3. create a unified vocational education funding system, removing barriers to collaboration and flexibility, ensuring a sustainable network of provision, and supporting the wider reforms.

56. These change proposals are linked and inter-dependent. Collectively they form a package of reforms that will result in a single streamlined, efficient and effective system of vocational education to meet New Zealand's needs into the future.

Proposal One: Create clear, collaborative and complementary roles for vocational education organisations

57. I propose to redefine and clarify the roles and minimise overlapping responsibilities, of education providers and industry-led skills organisations, so they are positioned to act collaboratively. In particular, I propose to:
- 57.1. extend industry's leadership role across all vocational education, including provider-based vocational education, through new "Industry Skills Bodies";
 - 57.2. transfer to vocational education providers the ITOs' current "arranging training" role for work-based vocational education and;
 - 57.3. provide industry with a purchase role across all vocational education, through advice to TEC (which TEC must have regard to).
58. The proposed changes would better align New Zealand's vocational education system to those in other high-performing jurisdictions such as Scotland and Singapore. The changes would align responsibilities across industry and providers and support employers and learners to meet their training needs in similar ways to the top vocational education systems around the world.
59. The table below describes the proposed changes to current organisations' roles and responsibilities in more detail.

Table One: Proposals to create a single vocational education system

Proposal	Rationale / details
Industry skills bodies provide advice to TEC on industry needs TEC would purchase all vocational education, acting on advice from industry skills bodies	TEC considers social and network objectives Industry skills bodies advise on industry need I propose to consult on how the interaction between TEC and industry skills bodies could work best
Providers would be responsible for all vocational education provision, including supporting workplace training	Work-based learners would be more supported in their learning and pastoral needs Alignment between on-job and off-job provision would be strengthened
Alongside NZQA, industry skills bodies would approve all vocational education programmes	Ensures learners gain the skills and competencies they need to work in a particular industry
Industry skills bodies would ensure industry needs are met by: <ul style="list-style-type: none"> • setting standards across all vocational education • moderating end of study assessments • contributing to curriculum development 	Industry skills bodies would largely act as "bookends" to the vocational education system by setting expectations at the outset about what learners need to achieve, and then ensuring learners have acquired the skills and competencies employers need
CoVEs would support programme and curriculum development	Ensures consistency of core programme content and qualifications

My proposals mean a new balance of roles for industry skills bodies and providers

60. Industry skills bodies would influence all vocational education specific to industry, including vocational education that is not employment based. Instead of purchasing provider-based components of work-based training programmes for employers, as ITOs currently do, they would have an advisory function to TEC.
61. ITOs currently provide training advisory and brokerage services to employers to help them identify training opportunities for their employees. There are several options for where this function could sit in the reformed vocational education system, and I will gather feedback on this during public consultation
62. I propose that industry skills bodies be industry-led organisations, similar to ITOs. Industry groups would apply to the Minister for recognition. Initially, some industries and cross-industry qualifications would lack coverage. Approximately two-thirds of vocational education has ITO coverage at present. In the short term, current arrangements are adequate to cover the gaps. Over time, government would facilitate the industry skills bodies to fill these gaps if necessary.
63. Supporting workplace training currently accounts for much of the work of ITOs. I anticipate some current ITO employees who support workplace learning and assessment would take up similar roles at providers (particularly the new Institute).
64. For providers, the biggest change would be taking on the role of supporting work-based learning. Providers would take responsibility for approximately 140,000 trainees and apprentices in addition to the approximately 110,000 vocational education learners they already serve (based on 2017 figures). This would require increased capability and capacity. This change will promote better alignment between on- and off-job education and training, and stabilise provision of vocational education across the economic cycle.
65. I propose a partnership approach with wānanga to determine how my proposals for change could best support their aspirations, and whether there are alternative approaches that should be considered for their sector. In particular, we need to ensure that wānanga tino rangatiratanga is acknowledged through any vocational education reforms.
66. The changes set out above would also require significant change processes for providers and ITOs. If these changes proceed, government will need to provide support for the change process to ensure they are smooth and effective, including supporting existing trainees and apprentices and their employers to shift training arrangements to providers in a smooth way.

Proposal Two: Create the New Zealand Institute of Skills & Technology with a robust regional network of provision

67. I seek your agreement in principle to my proposal to form the New Zealand Institute of Skills & Technology, bringing together our 16 public ITPs as a single entity. This will be subject to the results of consultation and detailed analysis of the impacts of change.
68. At the national level, the New Zealand Institute of Skills & Technology would be a strong steward for vocational education nationally and regionally, driving efficient and effective education delivery.

69. A consolidated organisation would make better strategic use of capital, achieve greater efficiency in programme design, development and delivery, and reduce replication of back-office functions. The Institute would have a single governing council and supporting organisation to manage capital and operational budgets, staffing, and student and learning management systems.
70. Regional and local campuses of the New Zealand Institute of Skills & Technology will focus on delivering high-quality and relevant services to individuals, employers, Māori and Pacific communities across all of New Zealand. Regional arms of the Institute could:
 - connect strongly with local regional and economic development strategies
 - have strong relationships with local government, and
 - work closely with other local education providers, particularly secondary schools.
71. Preserving a strong relationship with local and regional communities will be an important priority for the new institution, and maintaining and enhancing local empowerment will be a core principle throughout the transition and in the charter of the new organisation.
72. Programme and curriculum development would be consolidated (in collaboration with industry skills bodies where appropriate) and programme delivery shared across regions to achieve consistency and efficiencies. Regional and local campuses could host COVEs aligned with local industry and educational specialisation.
73. The ITP Roadmap 2020 showed that there is strong support in the ITP sector for consolidating some core academic activities, particularly the design of programmes and teaching resources. The Roadmap process resulted in a proposal to achieve this without creating a single organisation.
74. I propose the further step of creating a single institution because I believe it will also address additional significant and long-standing issues in the ITP sector.
75. These include weak governance and management capability in parts of the sector, a lack of strategic coordination of public investment in assets across the ITP network. In addition it would reduce the cost to taxpayers of paying for very similar back-office capability multiple times nationwide.
76. “New Zealand Institute of Skills & Technology” is a working name, and I will seek feedback on the name during engagement and consultation.

Table Two: Proposals for the New Zealand Institute of Skills & Technology

Proposal	Rationale / details
A national office and governing council would drive regional performance and support a strong regional voice	Balancing national and regional needs Could show our commitment to regions by locating national office functions in one or more regions
Members of the governing council would be appointed by the Minister	Ensure government has adequate oversight There are a number of ways to ensure learners and staff have their voices heard by the council

Proposal	Rationale / details
Local campuses would be responsible for delivery (there may be more or fewer main campuses than the current number of ITPs)	Better connected education at the regional level, particularly with schools Over time, coverage could expand to regions where ITP presence is currently weak
Each region would have a regional leadership committee to advise the Institute's national office and TEC on local skills needs	Ensure strong local government, industry, community and iwi participation "Regional leadership committee" is a working name, and I will seek input on the most appropriate name
The Institute would be guided by an institutional charter set in legislation	Ensure government has adequate oversight The charter could describe government's expectations (including how the council engages with learners and staff) and guide autonomous decision-making
The Open Polytechnic of New Zealand would be incorporated into the Institute for the provision of online learning	Ensure national online provision is retained, and is integrated nationwide with on-job and provider-based education and training Capitalise on the Open Polytechnic's online expertise
Regional campuses and wānanga could host Centres of Vocational Excellence that reflect the key industry (or industries) in their region	CoVEs could: <ul style="list-style-type: none"> • be partnerships between regional campuses and relevant industry skills bodies • incentivise high-quality provision and contribute to a strong international reputation • take a leadership role in applied research • lead programme and curriculum development • improve consistency across regions
A number of activities would be centralised at national office or at one or a few regional campuses	Eliminate duplication, and improve efficiency and quality Engagement in 2018 showed support for centralising some functions to address inefficiencies
The governing council and/or national office would agree long-term capital and operational strategies, oversee capital asset management, and set and oversee operational budgets	Ensure decision-making prioritises long-term viability Ensure investments are made where most needed Ensure consistency across all regions Greater visibility of these activities for the Crown

77. There would also be a number of design decisions to make, including: accountability mechanisms; funding arrangements; the shape of the governing council; the structure of regional campuses and the relationship between them and the governing council; and, the structure of the regional leadership committees and the relationships between them and the governing council and other regional initiatives that aim to improve coordination and skills planning.
78. To help support the change processes, I intend to form a pre-establishment board, comprising industry, iwi, government officials, and sector representatives, to oversee and govern the process of establishing the new Institute.

Proposal Three: Create a unified funding system for vocational education

79. The proposed changes would need to be supported by a new funding system. Creating one funding system for vocational education would ensure learners get the skills, experience and support they need to be successful, providers have the funding they need to be sustainable and to support our regions, and industry skills bodies can fulfil their roles.
80. I propose to consult on the development of a new funding system that would contain the following elements:
- a consolidated set of funding rates for both on-job and off-job provision
 - funding for strategically important delivery that comes at higher costs (for example, where more delivery is in remote regions or in areas with lower populations). This could be a per-learner top-up or through a base grant
 - funding for industry skills bodies (since they would not receive funding for individual trainees and apprentices), balanced with employer contributions to ensure industry skills bodies are responsive to employers
 - continued industry/employer contributions to the cost of training, and;
 - continued fees to learners in some cases.
81. I will report back to Cabinet after consultation and seek Cabinet agreement to the shape of any substantial funding reform.

Risks and mitigations

82. Table Three below describes the key risks that will need to be managed along with mitigation strategies. We need to accept that change is required to strengthen the system long term, and significant risk resides in taking no action at all.

Table Three: Risks with the proposals and mitigations

Risks	Mitigations
Dissatisfaction with consultation timeframes	Direct targeting of consultation with key stakeholder groups Regional face to face engagement opportunities Multi-channel response opportunities to generate feedback
Wānanga and PTEs may not consider themselves represented in the proposed system	Identify with wānanga and PTEs areas of concern early in the process Determine and manage partnered understanding of aspirations and potential alternative approaches with wānanga for their subsector
Loss of autonomy - universities and other providers	Clearly state proposals do not apply to universities
Proposals create uncertainty in the international student market	International education stakeholders are actively informed throughout the process, with the potential benefits of the proposed changes for all learners emphasised Implementation and change processes will address the needs of international learners and stakeholders New Zealand Institute of Skills & Technology will work with regional stakeholders to build and retain strong international recruitment into regional locations

Risks	Mitigations
ITOs respond negatively to proposed change in role and function	Proposals include a significantly increased leadership role for industry across the entire vocational education system through proposed industry skills bodies
Perception that the New Zealand Institute of Skills & Technology could see professional roles centralised in Auckland and Wellington	Communications will make it clear that administrative, operational and education functions supporting the Institute's national could be located across the national campus network rather than centralised
Perception that the proposals will lessen regional ownership in the proposed New Zealand Institute of Skills & Technology as a "national office" would dominate over regional interests	Communications make clear that local campuses will respond to communities and the "national office" will be expected to include the advice of regional leadership committees in its decision-making Ensure legislation and accountability documents (like a charter for the New Zealand Institute of Skills & Technology) set clear expectations for the roles of the regions in contributing to centralised decision-making Ensure design and structures of the Institute support meaningful decision making and influence at the local level
Disruption to learners, ITP and ITO workforce, and employers during the change process	Ensure a carefully managed phased transition plan is implemented in consultation to minimise disruption
Inconsistent decision-making by ITPs in spite of clear signalled direction of change during consultation and before legislated implementation	Ensure that the ITPs are involved in detailed design and implementation planning throughout the process TEC uses its authority under the Education Act 1989 to monitor the ITP sector
Further financial support may be required to support ITPs experiencing financial risk prior to structural changes being implemented	TEC continues to use its authority under the Education Act 1989 to closely monitor financial situation of the ITP sector and identify risks or interventions at an early stage Change implementation is efficient and flexible to address any financial viability risks
Changes in student enrolment volumes could impact the proposed new model's financial viability during and after implementation	Ensure that government has robust oversight of the New Zealand Institute of Skills & Technology, including through regular performance monitoring, and that financial risk is mitigated with better centralised planning

Consultation process and publicity

83. I seek Cabinet's agreement to consult publicly on my proposals. I am preparing a consultation document that includes the proposals and signals the implications of the changes. I recommend that Cabinet agree to delegate to the Minister of Finance, the Associate Minister of Education, Hon Tracey Martin, and myself authority to approve publication of the consultation document.
84. I intend to launch consultation on these proposals in mid-February. During the public consultation process, my officials and I will undertake engagement with vocational education stakeholders across the country.

85. I expect the proposals to attract significant media attention, during both consultation and subsequent legislative and change processes. I will work to ensure that media engagement across government is coordinated. Alongside the release of consultation material, clear communication will be required to explain the Government's priorities that led to these proposals.

Timeline for change and need for urgency

86. If the proposals for change proceed, the immediate priority will be creating the New Zealand Institute of Skills & Technology. This work will need to progress swiftly to stabilise and strengthen the ITP sector and avoid further urgent capital injections in ITPs. During and after public consultation, officials will work with industry, iwi and the ITP sector on the detailed design and structure of the new Institute, and the change processes involved in transition.
87. Officials will similarly work with industry, iwi, ITOs and other stakeholders on detailed the design and transition process for industry skills bodies.
88. I intend to report back to Cabinet by mid-2019 following consultation and analysis of feedback. This will allow us to take policy decisions and initiate implementation arrangements and legislative change in 2019. I have submitted a bid for a bill on the 2019 legislative programme.

s 9(2)(f)(iv)

90. If the proposals for change proceed, a robust evaluation and monitoring framework is needed to assess impact and improvement measures during and after implementation. Further information on evaluation plans will accompany my next Cabinet report. Retaining the ongoing confidence of learners, communities and industry will be a key impact measure through this change process.

Consultation

91. The following agencies were consulted in preparing this paper:
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| Education New Zealand | NZQA |
| Ministry for Women | Office of Disability Issues |
| Ministry of Health | State Services Commission |
| Ministry of Pacific Peoples | Te Puni Kōkiri |
| Ministry of Primary Industries | TEC |
| Ministry of Social Development | The Treasury |
| Ministry of Business, Innovation & Employment | |
92. The Education Review Office, Department of Internal Affairs, and Department of Prime Minister & Cabinet were informed during the preparation of this paper.

Financial Implications

93. Investment will be required to support the proposed vocational education reforms. This section provides initial estimates of likely costs and potential funding sources.

Immediate investment to stabilise the ITP sector if needed, and fund costs of change

s 9(2)(f)(iv)

95. The Crown has already provided financial support in 2017 and 2018 to:
- Tai Poutini Polytechnic (\$8.5 million capital injection, \$25 million debt write-off)
 - Unitec Institute of Technology (\$50 million concessionary loan) and
 - Whitireia (\$15 million capital injection).

s 9(2)(f)(iv)

97. A substantial change and transition process will be required to create the New Zealand Institute of Skills & Technology, to create industry skills bodies, and shift the responsibility for supporting workplace training from ITOs to providers. s 9(2)(f)(iv)

98. s 9(2)(g)(i)

s 9(2)(f)(iv)

Officials will undertake analysis of the ongoing costs of the new system

101. Officials will undertake detailed analysis of the likely cost structure of the proposed new vocational education system, drawing on information received through consultation and

s 9(2)(f)(iv)

more detailed business analysis and modelling. I will report back to you on financial implications following public consultation.

Legislative Implications

102. Legislative change will be required to implement these reforms, including amendment or replacement of sections of the Industry Training Act 1992 and the Education Act 1989. Further advice on legislative implications and options will be developed during and after the consultation period.

Impact Analysis

103. The Treasury's Regulatory Quality Team notes that the consultation document has a narrow scope which significantly increases the risk that the Regulatory Impact Analysis that accompanies the proposed mid-2019 Cabinet paper will not meet quality assurance criteria. In particular, consulting on only a limited range of options will make it hard to be confident that the final proposals presented to Cabinet are the ones that best meet Government's objectives.
104. A draft Regulatory Impact Analysis reflecting the current stage in the policy development is attached to this Cabinet paper. The Treasury has reviewed this and notes that it describes problems and a broad range of options and the types of benefits and costs that might be expected from them. While more quantification of the problems, benefits and costs of different options would be highly desirable, the Treasury considers that the broader scope of the draft analysis will greatly assist consultation if it is released as part of the consultation materials.
105. The Ministry of Education may make minor changes to the attached draft before publishing it alongside the consultation document.
106. Officials will prepare a final Regulatory Impact Analysis following consultation. This will be submitted with the mid-2019 Cabinet paper to inform final decision-making.

Human Rights

107. The proposals for consultation do not have implications for human rights. A full assessment of potential human rights implications will be undertaken to inform final policy decisions following consultation.

Gender Implications

108. The proposals in this paper create opportunities to address the low participation of women in some traditional trades (like plumbing and building). A more accessible and responsive vocational education system will improve opportunities and access to up-skilling and re-skilling for learners who are not well served by the current system. Officials are analysing participation, achievement and outcomes in vocational education by gender, and will provide further advice as this work progresses.

Disability Perspective

109. The proposals for change in this paper create significant opportunities to better meet current unmet educational needs for disabled people. The Office for Disability Issues recommends that inclusiveness be designed into the vocational education system.

110. Officials will engage with disabled people during public consultation, to provide me with advice about how the vocational education system could be designed to improve education and employment outcomes for disabled people.
111. The New Zealand Disability Strategy (2016-2026) has an outcome specific to education as well as underlying principles and approaches that will be taken into account as vocational education reforms are progressed.

Treasury Comment

112. This paper is going direct to Cabinet and seeks an in-principle decision on the proposal to create the New Zealand Institute of Skills & Technology, subject to the results of public consultation and detailed analysis of the impacts of change.
113. We are concerned that Cabinet is being asked to agree to a significant in-principle decision without a clear indication of the likely overall financial implications of the changes proposed, including short-term transition costs, and enduring funding changes.

§ 9(2)(f)(iv)

114. We do not think that sufficient analysis has been undertaken on the options for enduring funding system changes proposed for consultation. We consider that consulting on these funding system changes is likely to create sector expectations about future funding, without Cabinet having oversight of the associated financial implications. We recommend that permanent funding mechanisms for vocational education and training are considered alongside other tertiary reviews that may lead to changes in funding system settings, § 9(2)(f)(iv)

Changes to vocational education and training funding mechanisms could be included as part of a second round of engagement once there is a clearer view of the vocational education system's long-term funding needs.

115. We also recommend that ahead of Cabinet's final decision in May, detailed analysis is undertaken on how decision-rights and legislative levers should be designed to ensure that the system settings are appropriate for an entity of the scale proposed and to manage the associated fiscal risks.

The Minister of Education replies:

116. Treasury makes the point that there could be further costs in future as a result of these change proposals. There would also be both upfront and subsequent costs to leaving the ITP network in its current form. The financial difficulties ITPs are currently facing have occurred before, and will recur again, if the cycle is left to continue.
117. It is unrealistic to avoid any discussion of the funding mechanism in the current consultation, as Treasury proposes. While it is not intended to fully develop the new funding model as part of the next round of decision-making, it is entirely appropriate that discussions about the role of the funding mechanism be part of the engagement about what the vocational education system should look like, and that a general approach is being signalled as part of our proposal.

Proactive Release

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

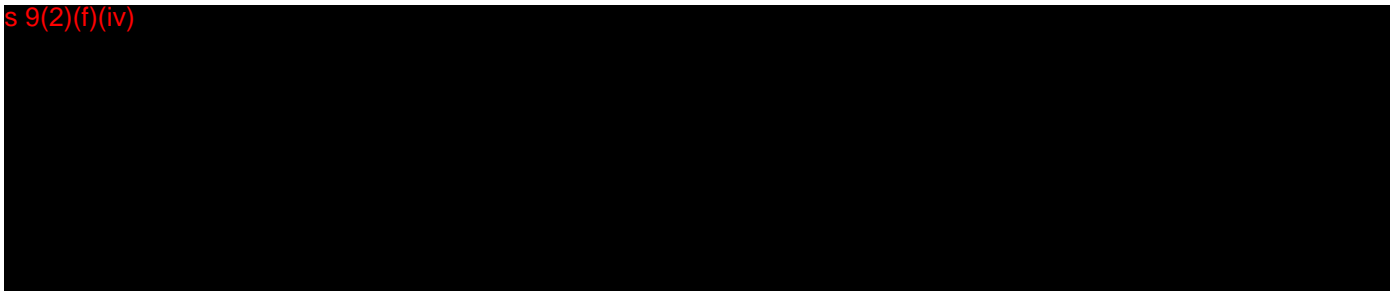
Recommendations

The Minister of Education recommends that Cabinet:

1. **note** that New Zealand's vocational education system has the potential to contribute significantly to the Government's goals for economic, social and ecological progress, but faces significant structural impediments to achieving its potential
2. **note** that my vision is for a strong, unified, sustainable vocational education system that delivers the skills that learners, employers, regions and communities need to flourish
3. **note** that the financial instability surrounding the current vocational education model means that the status quo is no longer sustainable
4. **note** that I propose a comprehensive reform of vocational education, to achieve a strong, unified and sustainable vocational education system that will meet the needs of learners, industry and employers in all regions and is fit for the Future of Work
5. **note** that the three key change proposals are to:
 - 5.1. redefine the roles of education providers and Industry Training Organisations (ITOs), and extend industry and employers' leadership role across all vocational education through new industry skills bodies
 - 5.2. create a New Zealand Institute of Skills & Technology, bringing together our 16 public Institutes of Technology and Polytechnics (ITPs) as a single entity
 - 5.3. create a unified vocational education funding system, removing barriers to collaboration and flexibility, ensuring a sustainable network of provision, and supporting the wider reforms
6. **agree in principle** to the proposal to create the New Zealand Institute of Skills & Technology, subject to the results of consultation and detailed analysis of the impacts of change, which I will report to you on in mid-2019
7. **note** that the proposals would require legislative changes and other significant change processes to enact
8. **note** that agencies will work together to ensure that advice on any new structures and mechanisms is consistent with the outcomes across the current reviews of the immigration, education and welfare systems
9. **note** that a draft Regulatory Impact Analysis is attached to this Cabinet paper and that this will be published alongside the consultation document and will be revised and re-submitted to Cabinet to inform final decision-making

Financial implications

s 9(2)(f)(iv)



Consultation and media

12. **note** that I am preparing a consultation document setting out the proposals for change to the vocational education system and inviting public feedback
13. **authorise** the Minister of Education, in consultation with the Minister of Finance and the Associate Minister of Education, Hon Tracey Martin, to approve publication of the consultation document
14. **note** that I intend a public consultation period of approximately six weeks, starting in mid-February
15. **note** that I plan to report back to Cabinet Social Wellbeing Committee mid-2019, following public consultation, with more information and with recommendations for changes to the vocational education system and that this could be followed by legislative reform in the second half of 2019
16. **agree** that I release this paper proactively, coinciding with the start of public consultation, subject to redactions as appropriate under the Official Information Act 1982.

Authorised for lodgement

Hon Chris Hipkins

Minister of Education

Annex 1: Overview of vocational education

What is vocational education?

1. Vocational education has a special emphasis on the skills, knowledge and attributes required to perform a specific role to or work in a specific industry.
2. For this work, vocational education is defined as:
 - all industry training (training and apprenticeships people undertake in employment)
 - provider-based education funded via the Student Achievement Component at levels 3-7 of the New Zealand Qualifications Framework, *excluding*:
 - degree study
 - Te Reo and tikanga Māori,
 - English for Speakers of Other Languages (ESOL),
 - any university provision, and
 - other non-formal provision.
3. In New Zealand, there are two types of vocational education organisations:
 - **Industry training organisations** (ITOs) coordinate training and apprenticeships for people in employment, set industry skills standards, and support employers and employees (including by contracting services from providers on behalf of employers). ITOs are funded via the Industry Training Fund.
 - **Vocational Education Providers** usually deliver to people who are not in employment, or who are seeking learning their employers do not offer. Their main source of funding is the Student Achievement Component.
4. The proposals in this paper relate to the totality of ITPs and ITOs, and also the sub-degree vocational provision at wānanga and private training establishments (PTEs).
5. Vocational education organisations and government agencies have five core functions:
 - **skills leadership**: planning for future skills needs, and taking leadership of the changes needed to respond to those needs
 - **standards setting**: developing standards and qualifications that address skills needs, and helping to ensure that graduates meet the standards set
 - **learning design**: developing the curriculum, programmes, pedagogy and content required to successfully deliver a programme of learning
 - **purchasing vocational education**: making decisions about what provider-based and workplace-based provision government will fund
 - **providing education and training**: teaching and providing other support to learners, in workplaces and/or at providers.
6. ITPs offer foundation education, degrees and postgraduate qualifications, and te reo Māori, tikanga Māori, and English for speakers of other languages. This provision at ITPs does not fall within the definition of vocational education, but it is within the scope of this paper with regards to my proposals for a single institute of technology. Bachelor's

and postgraduate degrees at universities, wānanga and PTEs are often vocational, but are considered out of scope for this work.

7. Vocational education is also delivered in schools and in partnerships with secondary schools and tertiary providers through the National Certificate of Education Achievement (NCEA) and programmes such as Secondary Tertiary Programmes (also known as Trades Academy), Gateway and Secondary Tertiary Alignment Resource (STAR). While the scope of this work is primarily aimed at the tertiary education sector, it would impact on secondary schools as well.

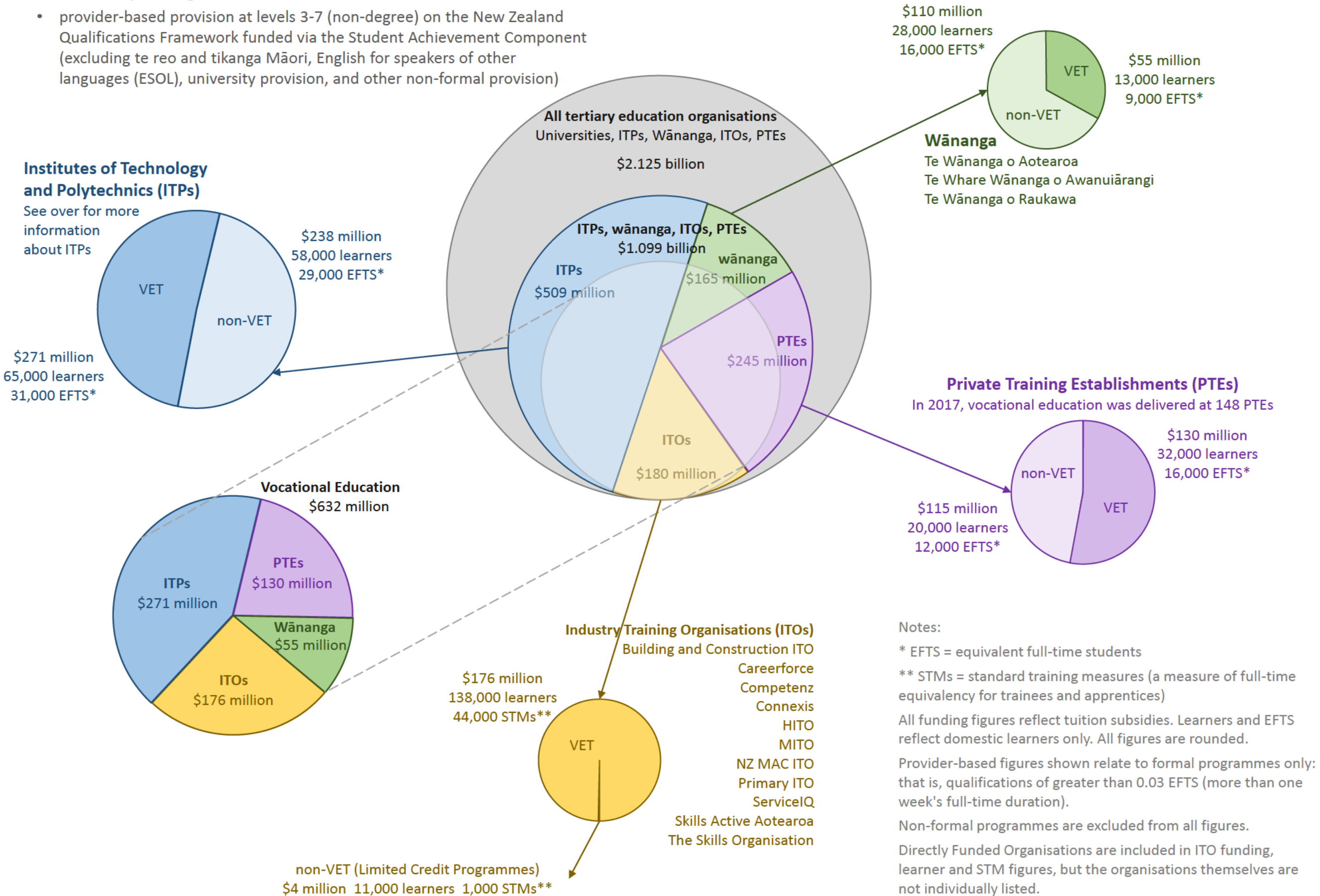
Vocational education is part of the wider skills system

8. Vocational education is a key part of the skills pipeline. Businesses access skills through the education and welfare systems or import them through the immigration system:
 - The **education** system provides a medium- to long-term response to skilled labour needs for new and existing employees.
 - The **welfare** system provides a short- to medium-term response to unskilled labour needs.
 - The **immigration** system, including post-study work rights for international learners, provides a short-term response to labour needs, and a longer-term response to specialist skills needs that cannot be met through domestic education.
9. Vocational education supports broader contexts and initiatives including employment strategies and regulation, immigration settings, Future of Work Tripartite Forum initiatives, regional economic development initiatives, and the Provincial Growth Fund.
10. Changes to vocational education need to be designed with consideration of these wider settings to retain the coherence of the skills system as a whole, and to respond to changes needed in the workplace as signalled in our Future of Work agenda.

Annex 2: Vocational education in New Zealand in 2017

Vocational education and training (VET) is:

- all industry training
- provider-based provision at levels 3-7 (non-degree) on the New Zealand Qualifications Framework funded via the Student Achievement Component (excluding te reo and tikanga Māori, English for speakers of other languages (ESOL), university provision, and other non-formal provision)



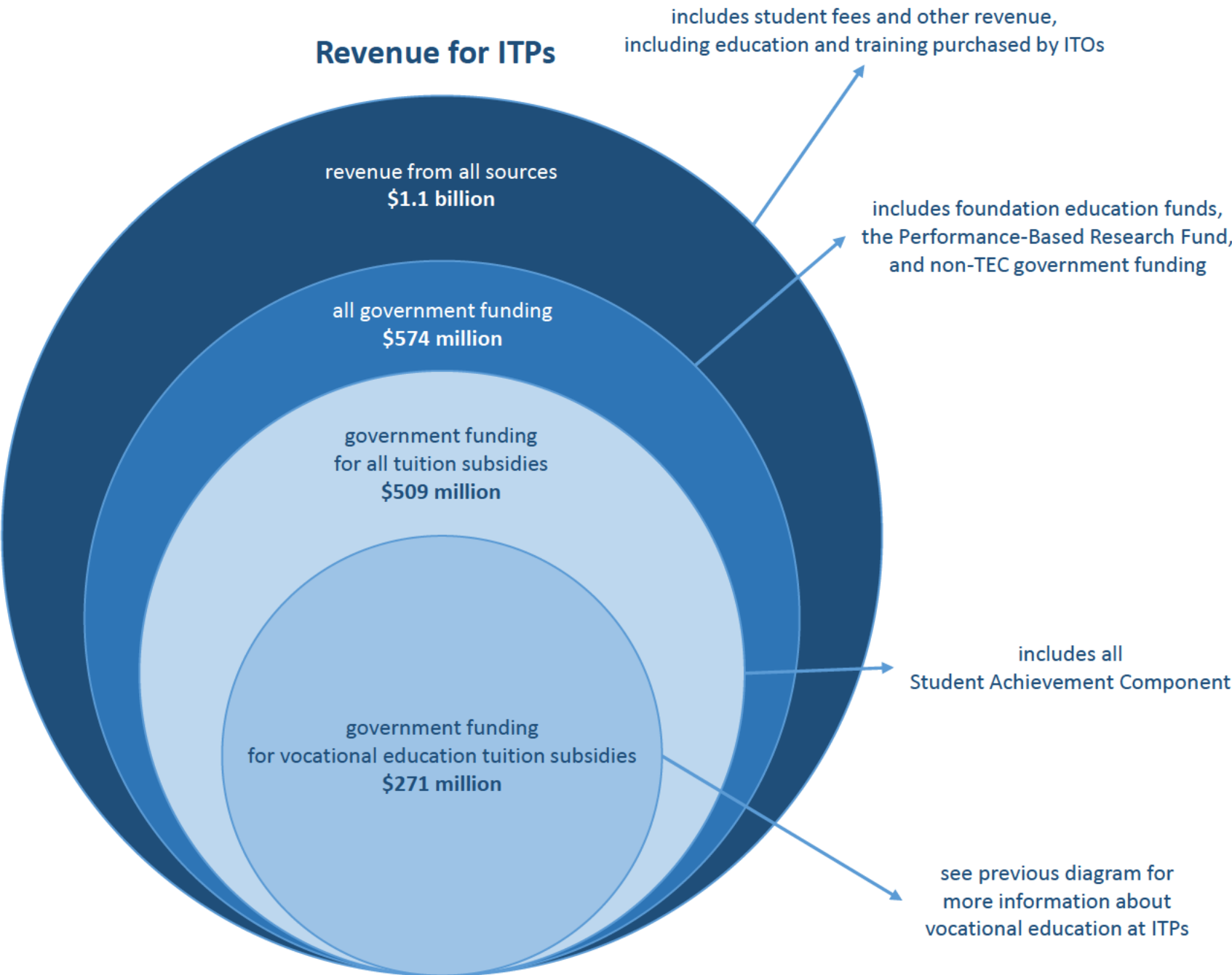
Institutes of Technology and Polytechnics (ITPs) in 2017

A substantial portion of ITPs' delivery is vocational education, and all 16 ITPs offer vocational education across a number of fields of study and industries. ITPs also offer foundation education, degrees and postgraduate qualifications, and te reo Māori, tikanga Māori, and English for speakers of other languages.

In 2017, there were approximately 120,000 domestic learners at ITPs, or approximately 59,000 domestic equivalent full-time students (EFTS). There were also 18,000 international students at ITPs.

New Zealand has 16 ITPs

- Ara Institute of Technology
- Eastern Institute of Technology (EIT)
- Manukau Institute of Technology (MIT)
- Nelson-Marlborough Institute of Technology (NMIT)
- Northland Institute of Technology (Northtec)
- The Open Polytechnic of New Zealand
- Otago Polytechnic
- Southland Institute of Technology (SIT)
- Tai Poutini Polytechnic (TPP)
- Toi Ohomai
- Unitec Institute of Technology
- Universal College of Learning (UCOL)
- Waikato Institute of Technology (Wintec)
- Wellington Institute of Technology (Weltec)
- Western Institute of Technology at Taranaki (WITT)
- Whitireia Community Polytechnic



Annex 2: Vocational education and Institutes of Technology and Polytechnics in 2017

Refer to two A3 diagrams

Annex 3: Problem definition and summary of the ITP sector's financial position

Over the last year I have worked on proposals to address long-term issues with New Zealand's vocational education system

11. We know fundamental change is needed to reposition the vocational education system for New Zealand's long-term needs. Many industries are already frustrated at their inability to find or train skilled workers. Labour-market change due to technology and flexible work is bringing new challenges for employers and workers. The vocational education system should equip workers to meet New Zealand's needs now and in future.
12. ITPs need to be a vital part of the public education system, able to respond efficiently and effectively to labour-market change due to technological, economic and social trends. ITPs should provide accessible and relevant learning for young people and for adults needing to upskill or retrain. But the ITP network is under considerable financial stress and the wider vocational education system is poorly positioned to serve New Zealand's long-term labour-market needs.
13. Cabinet noted in March 2018 that I would be undertaking work on these strategic issues [SWC-18-MIN-0017 refers]. The work during 2018 comprised two interwoven strands:
 - a TEC-led project called ITP Roadmap 2020 focused on finding a sustainable future for ITPs through changes to their network structure and operations
 - a Ministry of Education-led project examining policy settings in the wider vocational education system.
14. During 2018, TEC and Ministry staff visited sites all over New Zealand, from Whangarei to Invercargill, New Plymouth to Wairoa, Greymouth to Christchurch. They met with employers, industry body representatives, industry training organisations, learners (both students and employees), public and private tertiary education providers and their staff, Māori, Pacific people, and a range of peak bodies. TEC visited each of the 16 ITPs to meet with their councils, management teams, staff, students and community stakeholders, as well as holding in-depth workshops with ITPs on their finances and operating models, and focused hui and fono with Māori and Pacific people.
15. Both agencies undertook extensive desk-based research and analysis, and also participated in a co-design event with around 30 sector participants and stakeholders in early August to look at solutions for the ITP network. They also talked with vocational system experts in New Zealand and overseas, with a particular focus on the technical and further education (TAFE) system in Australia.
16. As part of the Education Conversation, the Ministry of Education has collected information from learners, educators, parents, employers, iwi and community members across the country. This information has also informed my proposals here and across the Education Work Programme.

The vocational education system faces a combination of problems which require significant action to address

17. Work undertaken to date shows employers are not always getting the skilled employees they need when they need them, or the training they need for their existing workforces when they need it. Not all learners are getting the employment and educational outcomes they seek and deserve (including Māori, Pacific people, disabled people, and women). And a number of ITPs are struggling to maintain or achieve financial viability.
18. This arises from five key problems with the system, described below.

Five key problems with the vocational education system as a whole

19. **Unclear and overlapping organisational roles:** The involvement of both providers and employers in vocational education is a strength of our system. However, the way they interact is undermining this strength. Providers and ITOs both want to deliver on-job and off-job training. But they are not sufficiently joined up with each other or with the rest of the education system to deliver what learners and employers need. ITOs are offering more services to employers directly and making less use of providers. Providers are offering more services directly to employers, taking advantage of their higher per-student government funding rate to offer cheaper services to employers than ITOs can.
20. **Not enough industry leadership:** Industry does not always have enough leadership over the system to influence the supply chain for skills. And the skills people begin employment with do not always match the skills they need on the job. While providers can and do use industry standards, they can also develop their own programmes leading to the same qualifications as in industry training, but using components not designed or endorsed by the ITO responsible for the relevant industry. Employers cannot always be sure about the relevancy of skills that learners have gained. ITOs and industry argue for stronger standards-setting powers so they can better signal skills requirements and assure the quality of graduates with national industry-approved qualifications.
21. **Not all provision is relevant to learners:** Many providers and ITOs are focused on volume and revenue to survive, rather than on the value and relevance of programmes and learning, particularly for learners 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.
22. **The lack of a single vocational education funding system:** The current funding system is overly complex and incentivises competition between ITOs and providers, rather than collaboration. Providers and ITOs are funded separately, at different funding rates, and with different funding rules. This undermines efforts to deliver the mix of on- and off-job training most learners need.
23. As a result, while provider-based education is generally very supportive of learners and learning, it sometimes responds poorly to industry needs and expectations. Workplace-based training is often more responsive to employer need, but can leave learners poorly-supported or lacking transferable knowledge and skills. Learners often have to choose between work- and provider-based education, rather than having programmes that offer the best of both approaches to meet their learning and pastoral needs.
24. The funding system has also exacerbated the ITP sector's current high exposure to revenue changes across each economic cycle.

25. **Historic undervaluing of vocational education:** Many school students gain the perception over time and from a number of influencers that vocational education does not have the same esteem as university study. In part, this may reflect problems with the quality and effectiveness of career information and guidance which are being addressed through the Careers System Strategy.

ITPs face viability challenges in periods of economic growth

26. The current system design creates a cyclical problem for vocational education providers, particularly ITPs. The sector is financially weak each time employment is high, and the impact of economic changes on enrolments can be rapid. Because the provider and industry training systems are not working well together, ITPs are not gaining sufficient business from ITOs to make up for students they lose to the labour market during periods of high employment.
27. New Zealand's economy has been growing for the last decade, and it is set to continue to grow. This is good news in most respects, but it creates critical financial problems for ITPs, particularly in combination with demographic changes and other challenges.
28. Officials' work this year has confirmed the problem definition I set out in my March Cabinet paper [SWC-18-MIN-0017 refers]. Briefly:
- ITP enrolments have fallen in recent years due to a mix of demographic change, government policy change, increased competition, and a strong labour market.
 - The removal of ITP base grants and special-purpose funds between 2009 and 2011, in combination with no or low funding rate increases in the last decade, have increased the financial pressure on ITPs.
 - ITPs' costs have not fallen in line with enrolments. This is due in large part to the fixed nature of many costs. Unlike private providers, which can exit from unprofitable delivery or move to new markets, ITPs are expected to permanently offer a broad range of locally-relevant programmes, which drives high fixed costs. In some cases poor governance and management have exacerbated the challenges. High fixed costs have for many also strongly incentivised a search for volume (international students, out-of-region provision and online delivery) to maintain financial viability.
29. During 2018, governance and management failures were highlighted at a number of ITPs (including those at Unitec, Whitireia and WelTec). The Tertiary Education Commission is currently working closely with all ITPs, regardless of their current performance or any identified governance concerns, to obtain assurance about their financial positions and build capability in financial management. This work has highlighted variability in the quality of reporting to council and other committees. In particular, some ITPs councils do not have sufficient understanding of which parts of their businesses are profitable, with issues and scenario analyses often being poor or, in some cases, non-existent.
30. These findings were echoed by the Auditor General in his recent review of the results of 2017 tertiary education institution (TEI) audits. The Auditor General noted that 12 ITPs did not achieve their budgets for 2017 mainly because student numbers fell short of forecasts. As well as noting that some ITPs were optimistic when forecasting the likely number of student enrolments, he commented that some ITPs were also not quick to adjust their spending in line with falling income.

Summary of current financial position of ITP sector

1. I reported on ITPs' financial risk status in August 2018 [SWC-18-MIN-0104 refers]. Since then, TEC has gathered further financial information from ITPs. Analysis shows that:
 - five ITPs are at more risk than indicated in the August 2018 Cabinet paper
 - two ITPs are at less risk
 - nine ITPs show no change in their risk status.
2. Common risk and sustainability concerns are :
 - Most ITPs are experiencing declining equivalent full-time students (EFTS) enrolments and revenue, accompanied by increasing costs. As of late 2018, the consolidated year-to-date EFTS position of all ITPs was down on budgets and forecasts (which were optimistic).
 - Early indications are most ITPs are not expecting major material turnaround in fortunes for 2019.
 - Some ITPs have a solid cash reserve, while others are seeing rapidly decline in cash reserves. ITPs that are, or will become, reliant on borrowings are at significant risk.
 - Capital expenditure generally remains high at originally forecast budgeted levels. There is some evidence of a slowdown in capital expenditure relative to budget, which is likely due to ITPs attempting to protect declining cash holdings. However, some capital expenditure, particularly around campus and property developments, is questionable given the state of the sector and signalled system changes.
 - The quality of reporting to council and other committees is highly variable.

Annex 4: Alternative options for ITP sector reform

Tū Kahikatea (the Strength of a Network)

1. Following the ITP Roadmap co-design process, the TEC explored an option designated Tū Kahikatea, the Strength of a Network: an network model with four types of entities:
 - **An ITP centralised entity:** This would be a new organisation to provide a range of services to ITPs. Services could include: a shared Learning Management System, a shared Student Management System, a pool of learning and assessment designers, specialist capability in data analytics and reporting, common business processes and workflows, central expertise in asset management, and infrastructure and training to strengthen the “student voice”.
 - **Programme lead ITPs:** Most ITPs would be Programme Lead ITPs. They would: deliver a range of programmes, develop programmes in their areas of expertise, and share programmes across the ITP network, for delivery by other ITPs.
 - **Regional Access ITPs:** A model for ITPs delivering to small or dispersed populations. They would arrange the delivery of a package of education and training across their region mainly by brokering and hosting delivery from other providers.
 - **An ITP specialising in open flexible distance learning:** The Open Polytechnic would serve the open and flexible distance learning needs of the whole ITP network.
2. This option was proposed as a way to replicate a number of the gains from a “one ITP” model with less potential disruption and potential adverse reactions (although some individual mergers, such as between Unitec and MIT and between Weltec and Whitireia, might still go ahead). For instance:
 - the services provided by the ITP centralised entity would improve the quality and consistency of a range of core ITP activities, and generate cost savings;
 - consolidating programme development in one ITP for each field of study and sharing those programmes across the network would achieve scale, efficiencies and critical mass, improve the quality of programmes, and reduce the costs of programme development;
 - the Regional Access Model would ensure small populations spread over large regions access to a range of education choices at an affordable cost to taxpayers.
3. A separate project would work to strengthen ITP governance capabilities.
4. However, on balance, the Minister considers this network model is convoluted with a number of moving parts, and many previously untried arrangements. Some transitions could be contentious and contested (e.g. the designation of Programme Lead ITPs) while others (e.g. an ITP centralised entity) might gain very limited traction.
5. It was by no means clear that the key objective of sustainably addressing ITPs’ financial viability would be achieved and as a number of changes were being proposed in parallel, responsibility for coordinating them and ensuring they were successfully implemented would largely have landed with government agencies rather than the sector being accountable for its own successful transition.
6. It was also uncertain whether the components of this option would have aligned well with the wider vocational education reforms that were being developed.

Federation and franchise models

7. Options were also considered that combined some features of Tū Kahikatea and some features of the One ITP model. In these options, the ITP network would consist of both individual ITPs and an ITP centralised entity. The central entity's roles would include programme development and some back-office and delivery support functions. The central entity would be funded by the ITPs under a "fee for service" model.
8. Both federation and franchise arrangements were considered, the main difference being the ownership structure and decision rights of the ITP centralised entity:
 - **Federation model:** The centralised entity would be a jointly-owned subsidiary of the ITPs, and thus under their governance and management control. It would have limited decision rights over individual ITPs.
 - **Franchise model:** The centralised entity would be a separate body, probably owned directly by the Crown. It would have significant decision rights over individual ITPs. Decision rights could include funding distribution and use of programmes, materials, and technology.
9. However, federal arrangements where all participants have veto rights would limit the strategic effectiveness of the centralised entity. The franchise model would avoid this risk, but creates an unwieldy network with individual ITPs still existing nominally but with little control over their own destiny.

A small number of ITPs (three to six)

10. The ITP network could be consolidated into a few larger entities, rather than a single one. This would have avoided a single high-stakes transition, but would have opened up more contentiousness and uncertainty; left more scope for internal rivalries and external competitive positioning; and largely side-lined the potential system role of The Open Polytechnic. Coordinating the success of the mergers and the relationships between the resulting entities would have largely been left to government agencies rather than the sector being accountable for its own successful transition.

Other options were ruled out of scope

11. Early work on options for system change included various proposals that, for the most part, could be implemented without significant regulatory change. The proposals were, on the whole, not likely to deliver rapid system-wide change in keeping with the Government's objectives for vocational education.
12. The ITP Roadmap co-design process developed a "Big Picture" model in which learners would have access to a wide variety of high-quality, tailored learning experiences. This option was ruled out of scope as it described a desirable outcome rather than a means of achieving the outcome.
13. The ITP Roadmap process also identified an option to merge ITPs (other than the Open Polytechnic) into the universities (excluding the University of Auckland and Lincoln University). This was ruled out of scope as most university delivery is outside our definition of vocational education, the business models and strategic imperatives of ITPs and universities are fundamentally different, and any economies of scale that could be achieved would likely be limited.