

Education Report: Shifting to a high-quality, relevant Vocational Education and Training (VET) System

То:	Minister of Education		
Date:	5 July 2018	Priority:	High
Security Level:	In Confidence	METIS No:	1126645
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Messaging seen by Communications team:	No	Round Robin:	Yes

Purpose of Report

The purpose of this paper is for you to:

Note that officials have progressed the review of the vocational education and training (VET) system following sector engagement;

Discuss the issues and the range of potential change dimensions with officials, and reflect on a timeline for further engagement with the VET sector on potential policy changes.

Summary

- On 10 April 2018, the Ministry of Education provided you with a report, Scope and process for the VET system review [METIS 1119389 refers]. The goal was to achieve a strong VET system, with a scope that encompassed these four themes: a system that is effective for all learners, a system that supports, and is supported by, industry, a strong network of provision for all regions, and work-based learning that adapts to a variety of needs.
- Since the last report, we set out to learn more about VET. We talked to people with diverse perspectives on the system, including learners and employers, as well as managers and staff at providers and industry training organisations (ITOs). We investigated our data sets in a new way and learned from international approaches. Most importantly, we tried to understand VET as a system from the perspectives of its users learners, employers and communities.
- We saw a diverse system, reaching a variety of learner and labour market needs. The efficiency of the system has improved substantially over the past decade whilst the number of people completing a qualification has remained steady at about 100,000, the number of students has decreased from 320,000 (in 2008) to 240,000 (in 2017). Overall government funding for VET (combining the Student Achievement Component and Industry Training Funds) was \$672 million in 2017, down from a peak of \$696 million in 2014.
- But we saw a system that was in reality several sub-systems. Each sub-system has its strengths, but when viewed together, the disconnections and frustrations for users become apparent. This paper highlights the following three key issues that need to be

addressed to move towards our ambition for the VET system, and identifies a number of changes that you could consider to address these issues:

Issue 2: Inequitable outcomes for some groups of people Issue 3: Counter-productive, system-driven competition.

The key changes we set out are shaped by the following ambition that we propose for the VET system:

VET is high-quality. 5

VET is high-quality, relevant, well-valued, and efficient.

VET provides learners with enriching, individualised, seamless, and deliberate career pathways.

VET stimulates effective partnerships between industries, providers and ITOs to meet New Zealand's training needs.

TEOs understand their role in the system and strive for the best for their learners and for industries

- 6 There is significant choice about how to achieve our ambition for the VET system. We have identified a lot for you to work through - a number of options to consider along with interdependencies across the Education Work Programme and the Future of Work. We suggest that you start by considering the major proposals for change outlined in the table on page 9. This table also sets out suggestions for public consultation.
- 7 We would value a discussion with you around the nature and scope of changes you are seeking in the VET sector, and the connections between the VET system review and the ITP Roadmap 2020, at our strategy session on Tuesday 10 July. We would like to clarify by the end of July the proposals that should be progressed and developed into more concrete options for further sector engagement and consultation. This winnowing approach would be informed by political and budgetary constraints, the extent to which sector involvement in working up options is sought, and the degree of overall policy alignment being sought across the education sector.
- 8 To date our approach with stakeholders has been to hold detailed conversations with people with different perspectives. This necessarily limited the number of people we could talk to. In the next stage, it will be important that everyone with an interest in VET has an opportunity to have their say.
- 9 To this end, we propose that we develop a discussion document that sets out options for a policy reform agenda. This will provide a focus to further discussions in this area, and ensure that people who we cannot reach in person have an opportunity to raise their views.
- 10 Following our discussion about this paper with you, we will prepare a more detailed timeline of the consultation and decision-making process, aiming for consultation in late 2018 and a Cabinet paper for decision-making in early 2019.

Recommended Actions

The Ministry of Education recommends you:

note that the scope and process for the vocational education and training (VET) a system review was confirmed on 10 April 2018, and since then officials have engaged with the sector, built a VET dataset, and learned from international approaches

Noted

- b. discuss with officials at your strategy session on Tuesday 10 July our:
 - major proposals for change in the table on page 9
 - ii. proposal to managing the Budget implications of this review
 - iii. proposed timeframe, with consultation in late 2018 and decisions in early 2019
 - iv. suggestion to test the proposals in this paper with the Tertiary Consultative Group prior to public consultation

Agree / Disagree

- C. **note** that following your discussion with officials, we will prepare:
 - a more detailed timeframe for consultation and Cabinet decision-making
 - advice on the minor proposals for change set out in the annexes to this paper

Noted

d. note that the proposals in this paper are of interest to the Future of Work Ministerial Group (and Primary Industries ministers), and that we will provide material to support a discussion at their next meeting on 27 August

Noted

note that some proposals in this paper fall within the employment portfolio, and we e. will talk to your office about how to engage with the Minister of Employment following your feedback on this paper

Noted

f. agree that this Education Report is not proactively released until after you have discussed a consultation document with your Cabinet colleagues

Agree / Disagree

note that we will provide your office with a summary of stakeholder engagement and g. seek your agreement for its public release.

Noted

Claire Douglas **Deputy Secretary**

Graduate Achievement, Vocational and Careers

Hon Chris Hipkins Minister of Education

2917/18

05/07/2018

Background

- On 10 April 2018, the Ministry of Education provided you with a report, Scope and process for the VET system review [METIS 1119389 refers]. This paper defined VET as tertiary education that "has a special emphasis on the skills and attributes required to perform a specific role, or work in a specific industry". The paper also set the goal for a "strong VET system".
- For the purposes of our review, we have mostly focused on industry training, and Student Achievement Component-funded (SAC) provision between levels 3 and 7 (non-degree) (excluding te reo and tikanga Māori, and English for Students of Other Languages (ESOL)). We also consider interfaces across the education system, especially to understand regional networks of delivery. The Ministry of Education is undertaking separate work to review the National Certificate of Educational Achievement (NCEA) and to examine foundation education, and we are coordinating with the VET system review to ensure the systems are aligned.
- 3 This paper sets out four themes for the review:
 - i. a system that is effective for all learners
 - ii. a system that supports, and is supported by, industry
 - iii. a strong network of provision for all regions
 - iv. work-based learning that adapts to a variety of needs.
- This paper reports back on the results of our work since April. It provides an overview of our findings, with detailed information in the annexes:
 - Annex 1: Stakeholder engagement
 - Annex 2: Research, data and international perspectives
 - Annex 3: A system that is effective for all learners
 - Annex 4: A system that supports, and is supported by, industry
 - Annex 5: A strong network of provision for all regions
 - Annex 6: Work-based learning that adapts to a variety of needs.

We have identified three key issues from our analysis and engagement

Issue 1: Poor skills matching

- New Zealand employees are more likely than in other countries to be overqualified for their role, and to be working in a field that is different from their field of study. We believe this is because of problems in both the VET and schooling systems that result in unclear pathways for learners.
- As a result, learners may take longer than necessary to find and retain enriching employment. They are undertaking more training than they need, including undertaking VET at lower levels after completing higher-level qualifications. This increases costs to learners and the Government, and does not necessarily improve outcomes for learners.

Industries are not involved enough in the VET system

While some employers are happy with the arrangements in their industry for their employees, a significant number have concerns about the lack of choices in the system. We also hear consistent messages from employers that new employees do not have the right transferable skills, and that their qualifications are not the right

products. But a large number of employers and their representatives are not engaged effectively in discussing their needs with education providers (and vice-versa – schools and tertiary providers need to engage more effectively with industry).

School students cannot always see pathways into VET

- Insufficient industry involvement in the VET system is not the only contributing factor to poor skills matching in New Zealand. The issue begins in the schooling system, where many students gain the perception over time and from a number of influencers that VET does not have the same esteem as university study.
- Whilst we saw some schools that understood and promoted VET pathways well, we heard from a number of sources that often careers advice, teachers, parents, etc. preference pathways to university over VET. One school principal told us that her school does not use the word "vocational", because the word does not resonate with her students or parents. One industry training organisation (ITO) recently reported being told by some careers advisors that apprenticeships are not right for any of the students in their school.

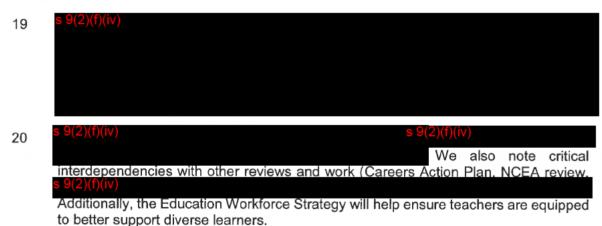
Proposals for change

- 10 In response to this issue, we have developed proposals to:
 - a. improve industry collective action and voice in VET
 - b. improve pathways and quality in VET (and strengthen ITO-provider collaboration) by growing blended learning
 - c. add a system view to our quality assurance of VET, looking at quality across an industry or region.
- We are also working to connect up to other reviews addressing careers advice and schooling.
- There is work underway at the Tertiary Education Commission (TEC) and in other parts of the Education Work Programme (EWP) to review the way in which careers advice is made available and is embedded through curriculum and learning. The focus will be on increasing personalisation, supporting informed decisions around education and training option and providing information on a range of pathways aligned to skill requirements sought by employers. This is also linked with the Careers Action Plan, which will improve guidance to school students to inform study choices beginning at an early age.
- The NCEA Review's Big Opportunity 3 proposes embedding a "pathways opportunity" in NCEA, including industry training or a work placement. This would help strengthen connections between employers and schools, and help students transition between school and VET more smoothly and deliberately.
- In addition to these policy issues, there is likely to be a need for a general reset of the public perception of VET. This is likely to be most effective when the results of the policy reviews are clear, and marketing can focus on communicating the new offering. Identifying the best approach requires specialist expertise to, for example, advise on a publicity campaign. This could also include examining protections in the Education Act for University Entrance and the impact of this on perceptions of VET.
- This is different from a more immediate piece of work that you have commissioned from TEC about market research into language to describe VET. TEC is currently scoping options for undertaking this market research.

Issue 2: Inequitable outcomes for some groups of people

- Māori and Pacific Peoples and learners with disabilities are more likely to enrol in lower-level qualifications, be in lower-skilled jobs, be in jobs that will be affected by technological change, or be NEETS (not in education, employment or training). Women are underrepresented in VET, particularly in traditional trades, and are overrepresented in industries like personal services and human welfare that have lower outcomes. There are also other groups of people, such as learners with special learning needs, who may experience poorer-than-average outcomes from the VET system.
- There are a number of complex contributing factors to this, including how the schooling system performs for different groups of learners. But we believe that current financial incentives on tertiary education organisations (TEOs) and employers do not do enough to confront these inequalities.
- We want an outcomes-focused system that embraces equity and provides tailored support to learners based on their individual needs. But we currently have a funding system that is enrolments-focused and one-size-fits-all. This means that TEOs are generally not incentivised to help those who need it most and to tailor their support to individual learners' needs. We heard through our engagement that many providers do this to some extent, but that this is less common with employers and hence with ITOs. In areas like Northland, providers are incentivised to tailor their support to individual learners' needs, because of the particular demographics in these regions. But because our funding model is one-size-fits-all, these providers struggle to offer viable individualised delivery.

Proposals for change



Issue 3: Counter-productive, system-driven competition

21 Regulatory settings and funding policies have driven counter-productive competition in the VET system. ITOs and providers, particularly ITPs, compete with each other where we instead want to see collaborative relationships. There is competition between the industry training and provider-based systems, where both attempt to capture the funding for learners, but where this behaviour can undermine pathways for learners and the relevance of provision. This has resulted specifically in business instability for ITPs, and more generally in limited blended learning. This section discusses opportunities to strengthen both providers and ITOs, as both are crucial to the VET system.

Business instability of ITPs

- TEOs' revenue streams are tied to enrolments, and enrolments are tied to the business cycle. In a weaker economy, where fewer jobs are available, more people enrol in tertiary education at providers. When employment improves, more people receive training in work (via ITOs), and provider enrolments drop. This pattern has repeated three times since 2000.
- Recently, with strong employment, providers (and ITPs in particular) have faced significantly declining enrolments. This situation is likely to continue for the next four years. The stressors on providers could lead to cut-backs in provision, which could negatively impact programmes strongly linked to future regional or national economy prosperity, as the sector is likely to have made savings where possible in response to low funding rate increases over recent years. If providers choose to make staffing cuts during this time of declining enrolments, they will also lose the capability they will need in the future to respond when the business cycle changes and enrolments pick up. And some populations that could be an opportunity for ITPs, like NEETs, remain unsupported throughout the cycle (possibly due to the higher costs of meeting their multiple needs).
- The issue is exacerbated by a volume-based, one-size fits all funding formula, which has a history of working well for providers that can use courses with high economies of scale (e.g. first year lectures) to cross subsidise areas of their business with less scale. This does not work well for VET because there are fewer opportunities to teach VET at scale or for VET providers to generate economies of scale.

Limited blended learning

- The roles and mandates of TEOs, specifically ITPs and ITOs, have led to a gap in delivery modes. ITOs benefit from monopolies within their particular fields, and offer work-based learning. PTEs and wānanga can fill specific gaps in the market. ITPs do not have a clear mandate to support people in work with tertiary provision (nor are they specifically prohibited from doing so). In addition, the funding system has incentives for providers to offer longer pre-employment pathways to students.
- This means that the system is relatively polarised between work-based learning (through ITOs) and provider-based learning (at ITPs). This has resulted in limited blended learning opportunities in the system (that is, provision where provider and workplace learning are combined). Preliminary research suggests that blended learning results in better outcomes for learners, and the feedback we received in our engagement supported this.
- In not engaging in sufficient blended learning, TEOs are missing an opportunity to provide more consistently for learners in work and to follow learners from pre-employment to employment. This would improve the resilience of provision across the business cycle, and its relevance to employers due to the context of the learning.

Proposals for change

- 28 In response to the two elements of this issue, we have developed proposals to:
 - a. provide short-term changes to support a regional network of public provision
 - consider wider changes to regional provision in concert with ITP Roadmap 2020 decisions, including Centres of Vocational Excellence (CoVEs) or specialisation, and signally regionally important provision
 - c. strengthen ITO-provider collaboration and incentivise more blended learning.

Our ambition for the VET system

- 29 The previous section identified three key issues with the VET system:
 - Issue 1: Poor skills matching
 - Issue 2: Inequitable outcomes for some groups of people
 - Issue 3: Counter-productive, system-driven competition.
- In light of these issues, and the opportunities and examples of good practice we saw in the VET system, we propose to set out the following ambition for VET:
 - VET is high-quality, relevant, well-valued, and efficient.
 - VET provides learners with enriching, individualised, seamless, and deliberate career pathways.
 - VET stimulates effective partnerships between industries, providers and ITOs to meet New Zealand's training needs.
 - TEOs understand their role in the system and strive for the best for their learners and for industries.
- The users of the VET system are learners and industries. "Learners" refers to everyone enrolled in VET. "Industries" refers to a collective of firms with similar activities (and therefore similar training needs). We need to ensure that the VET system works for its users, and we need to know what the system would look like if it is working well for its users. Our ambition for the system lays this out.
- Learners and industries are the main users of the VET system, but the system is complex and has other users and many stakeholders that our design has considered. Here are some examples:
 - a. Communities and regions rely on the VET system to meet their economic ambitions and to build a sense of belonging. In some instances, communities rely on the infrastructure of the VET system (ITPs' buildings, for example) for social and cultural events. Communities also benefit from spill-over benefits from the VET system, such as embedded literacy and numeracy provision that improves individuals' general outcomes and makes them less reliant on community support.
 - b. Staff are significant players in the VET system. They rely on a strong VET system for their own livelihood, and they are key to connecting learners, employers and the community.
 - c. Iwi need a strong VET system to support them to achieve their economic development goals.

How to address the key issues and shift towards our ambition for VET

- We propose a number of options that you could consider for improving the VET system. Annexes 3 to 6 propose more detailed options to address our ambitions for VET. This section describes the major choices where we suggest you focus your attention in the first instance. We will provide further advice to shape these options up in response to your feedback, which will include advice on the more detailed proposals.
- We have summarised in Table 1 (at the end of this section) the key changes we propose to address the three main problems we have found in the VET system. We have grouped these changes according to the four themes for this work.

9(2)(f)(iv)

Public consultation will help us set out a medium- and long-term work programme.

- Table 1 summarises the big ideas arising from the VET system review. They would work together to achieve our ambitions, as follows:
 - a. It would create a quality, well-valued system which enriches individuals, through introducing system-level quality assurance, centres of expertise in CoVEs, and more effective approach to performance through a review of EPIs and PLF. TEC's work on the careers system, and our work on the Careers Action Plan for schools, are also critical here.
 - b. It would create a system in which ITOs and providers collaborate to deliver quality, sustainable blended learning that spans pre-employment and employment education. Leadership by ITOs would be crucial, with influence extending as far back in the system as secondary schools. The centre of this is a major choice about how far to go in making funding and regulatory changes to achieve a blended learning system, and to what extent it is led and supported by ITOs. This would be supported by changes at a regional level s 9(2)(f)(iv)

 These changes also support the goals of the ITP Roadmap 2020, to create a sustainable network of public provision, by addressing the additional costs associated with providing a core service in all regions, and by stabilising learner demand throughout the economic cycle.
 - c. Learners would receive more tailored support to navigate pathways that support great outcomes, through stronger funding incentives (via reviews of \$9(2)(f)(iv) and the PLF) and the flexibility of a more collaborative system.
 - d. Ultimately, the VET system would more effectively deliver the skills that grow New Zealand. This is driven by all the changes described above, plus a more deliberate approach to industry engagement through information and facilitation (both through the ITOs' Skills Leadership role, and Ministry of Business, Innovation and Employment (MBIE) facilitating change for in key sectors).
- We believe it is crucial to consider the changes we propose alongside a comprehensive effort to improve perceptions of VET among learners, careers advisors, teachers, whānau, etc. This is a key step in achieving a well-valued system.
- This would be a major reform programme for the VET system, to be worked through over several years, starting with an immediate focus on regions through the \$\frac{s}{9}(2)(f)(iv)\$ and CoVEs.
- There are risks to any such reform, including the cost of change (with disruption to services to users as TEOs shift their business models) and significant policy design and implementation challenges (to stay true to the intent of the reform).
- A key judgement will be about whether the size of the opportunity justifies the scale of change proposed, and the role of ITOs in effecting change. The biggest choice in that regard is about the creation of a blended learning system, and whether to drive this strongly through fundamental regulatory and system change, or whether to make improvements within current settings.

Table 1: Summary of key changes we propose

Theme	Area for change	What we propose to consult on	Next steps
A system that is effective for all learners	Funding for TEOs and performance information (see page 25 in Annex 3)	s 9(2)(f)(iv) with a view to supporting TEOs to improve outcomes for all learners. s 9(2)(f)(iv)	Consultation announces these reviews and seeks public input on how to shape them.
A system that supports, and is supported by, industry	Active coordination and demand- side funding (see page 33 in Annex 4)	Leverage the skills leadership role of ITOs and the Sector Workforce Engagement Programme. Review firm-led coordination through Group Employment and Training Schemes (GETS) to better understand their take up. Establish an Innovation Fund (to support firm-led experimentation around different ways firms can collectively meet regional skills needs.	Consultation: Discusses how ITOs should fulfil their Skills Leadership role, as part of socialising the legislative change (subject to passage). Proposes a review of GETS, and the establishment of an Innovation Fund. Discuss the MBIE contribution with the Minister of Employment and the Minister for Regional Economic Development.
rong network of provision for all regions	Funding and planning for stable regional VET provision (see page 42 in Annex	Signal provision that is regionally important: via funding signals, requirements, or a combination of both. 9(2)(f)(IV)	Consultation on proposal to signal regionally important provision. s 9(2)(f)(iv) We will align any consultation on proposed changes with ITP Roadmap 2020 work.
A strong ne for a	5)	Establish CoVEs to encourage specialisation and collaboration.	Consultation document confirms the Government's commitment to CoVEs and seeks input on purpose and function. S 9(2)(f)(IV) S 9(2)(f)(IV)
Work-based learning that adapts to a variety of needs	Funding and regulatory system to boost blended-learning (see page 49 in Annex 6)	s 9(2)(f)(iv)	s 9(2)(f)(iv)

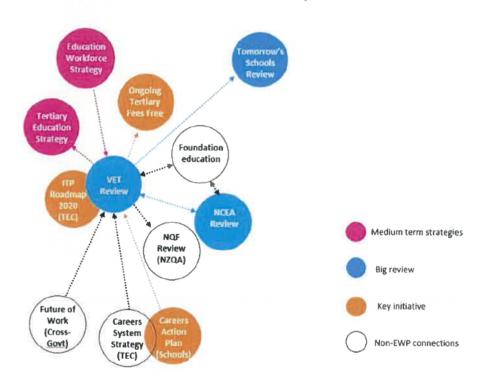
Trade-offs in determining where to go from here

We are proposing that you consult on significant changes to the VET system. They are interdependent with several other reviews and portfolios, and some have Budget implications. This section discusses how these connections could be managed.

Alignment across work programmes

The diagram below describes some of the key relationships with other education sector and labour market initiatives. This does not show all of the connections, just the most important ones, and the degree to which they interact with the VET system review. The VET system review is clearly strongly inter-linked with decision-making around the ITP Roadmap 2020. It is informed by the Future of Work initiative and relates closely to the NCEA review, the review of Tomorrow's Schools, and work on foundation education. The Review will help inform the Tertiary Education Strategy, ongoing tertiary Fees Free settings, the Review of the New Zealand Qualifications Framework (NZQF) led by the New Zealand Qualifications Authority (NZQA), and the Careers System Strategy work, including the Careers Action Plan.

Diagram 1: Work-programme landscape for the VET system review



- We continue to manage connections to the ITP Roadmap 2020 work by common membership of the two review teams and governance arrangements. The TEC will report back with proposed options for the ITP Roadmap 2020 in September 2018. This timing will allow you to consider interdependencies on the ITP Roadmap 2020 and the VET review before initiating consultation on the VET Review. We would like to discuss further with you at our strategy session on 10 July the sequencing of the VET system review and the ITP Roadmap 2020.
- There is a range of work happening across the **employment system** to improve employment outcomes for lower-skilled workers, including employment relations reform and welfare reform, particularly for disadvantaged groups and with a regional

perspective. Some of the changes we propose will complement this work. The VET system review is also a priority for the Future of Work Ministerial Group. You have undertaken to discuss the VET system review and links between work programmes within the employment system at the Future of Work Ministerial Group (FoWMG) meeting on 27 August. This will also feed into the Minister of Employment's Employment Strategy.

The FOWMG meeting on 27 August is an early opportunity for you to test your ambitions for tertiary education reforms with this group of ministers.

Budget



Process from here

The work to date has progressed at a pace that balances the need to do justice to a large and critical policy area, and our commitment to deliver decisions by December 2018. This timeframe for public consultation and reporting back to you is extremely tight. Our preference would be to move the final decisions to February, relying on the discussion document to inform the wider EWP and ensure the appropriate connections are made.

Late-July	Decisions from you about the directions of change and hence areas for consultation
27 August	FOWMG meeting
Mid-September	Draft discussion document submitted to Cabinet, for agreement by end-September Work underway for Budget 2019
October and November	Consultation and workshops with sector groups
February	Decisions on major items

- There are a number of other consultation processes that are planned for the second half of this year, including consulting on the Tertiary Education Strategy, Ka Hikitia and the Pacific Education Plan. These represent additional opportunities to gather information about the VET system, and we will ensure that consultation documents are aligned across the EWP. We will ensure that our timeframe aligns with TEC's market research into language to improve the perception of VET.
- You are establishing the Tertiary Consultative Group. You may wish to use this group as an opportunity to test some of the ideas in this paper prior to public consultation. We could undertake this on your behalf.

Consultation and Collaboration

We are leading a cross-agency working group for this review, which includes representatives from TEC, NZQA, MBIE and the Ministry of Social Development.

We also consulted the following agencies on this paper: Department of the Prime Minister and Cabinet, Treasury, State Services Commission, Ministry of Health, Ministry for Primary Industries, Ministry for Pacific Peoples, Te Puni Kokiri, Ministry for Women, and Education NZ. Feedback was positive, with a focus on clarifying our analysis and making connections to other work programmes.

Next steps

- We would like to discuss the proposals in this paper at the strategy session on Tuesday 10 July and clarify with you, by the end of July, proposals to develop into more concrete options for further sector engagement and consultation. We intend to undertake further work over the next couple of months to understand how different groups of learners interact with the VET system and how it performs for them. This will fill in some gaps in the analysis we have done to date.
- Once we have had some feedback from you on this paper, we will set out a detailed timeframe for consultation and report backs to support your decision-making and engagement with other ministers.
- We have prepared summaries of our engagements to date with stakeholders that we will provide to your office this month for review and for your agreement to release publicly.

Release of this paper and related material

We do not recommend releasing this paper until after you have discussed a consultation document with your Cabinet colleagues. We will provide you with advice on releasing this paper alongside public consultation later this year. Instead, we seek to release a summary of stakeholder engagement. We will provide your office with this material for review and for your agreement prior to releasing it.

List of annexes

Annex 1	Stakeholder engagement	page 14
Annex 2	Research, data and international perspectives	page 16
Annex 3	A system that is effective for all learners	page 18
Annex 4	A system that supports, and is supported by, industry	page 26
Annex 5	A strong network of provision for all regions	page 34
Annex 6	Work-based learning that adapts to a variety of needs	page 43