

Education Report: Materials to support your meeting with the Minister of Finance on Wednesday 28 November about reforms of vocational education

To:	Hon Chris Hipkins, Minister of Education		
Date:	27 November 2018	Priority:	High
Security Level:	In confidence	METIS No:	1168957
Key Contact:	Vic Johns Amy Russell	DDI:	s 9(2)(a)
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Messaging seen by Communications team:	No	Round Robin:	No

Purpose

This note provides you with materials to support your meeting with the Minister of Finance on Wednesday 28 November at 9pm about reforms of vocational education. It also seeks your agreement to a timeframe for Cabinet papers and consultation.

Recommended Actions

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

- a. **note** that you are meeting with the Minister of Finance on Wednesday 28 November at 9pm to discuss reforms of vocational education

Noted

- b. **note** the annotated agenda attached to support your discussion

Noted

- c. **note** that at your meeting with officials on Monday 26 November, you indicated that you would like the new vocational education system to be in place from 1 January 2020, and that you would like consultation on your proposals to begin in February 2019

Noted

- d. **note** that, given the scope of your proposals for change, we think that consultation should be at least six weeks long to provide the sector with sufficient time to understand your proposals and provide feedback on them

Noted

- e. **note** that if you take a paper direct to Cabinet for the first meeting of 2019 on 29 January this would enable consultation to begin on Monday 11 February and run for six weeks, followed by analysis of feedback and preparation of a draft Cabinet paper by early May

Noted

- f. **indicate** whether you wish to:

- i. lodge your Cabinet paper outlining your proposed reforms for vocational education and seeking approval for consultation for the Cabinet meeting on 29 January, or

Yes / No

- ii. discuss an alternative timeline with officials

Yes / No

- g. **note** that if you choose to lodge your Cabinet paper for the Cabinet meeting on 29 January, we will provide your office with a draft Cabinet paper in mid-December and we will work with your office to make arrangements to take the paper direct to Cabinet

Noted

- h. **circulate** this report to the Minister of Finance and Associate Education Ministers

Noted

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

Agree / Disagree



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

27/11/2018



Tim Fowler
**Chief Executive
Tertiary Education Commission**

27/11/2018

Hon Chris Hipkins
Minister of Education

__/__/__

Annotated agenda to support your meeting with the Minister of Finance

1. You are meeting with the Minister of Finance on Wednesday 28 November at 9pm to discuss your proposals for reforms of vocational education. See Annex One for an annotated agenda to support your meeting with the Minister of Finance. We have adapted this from the agenda for our meeting with you on 26 November.

Timeframe for Cabinet papers, consultation and legislation change

2. At your meeting with us on Monday 26 November, you indicated that you would like the new vocational education system to be in place from 1 January 2020, and that you would like consultation on your proposals to begin in February 2019.
3. You also acknowledged that careful sector engagement is important to ensuring that any changes made to the vocational education system are implemented well.
4. Given the scope of your proposals, we think that consultation should be at least six weeks long to provide the sector with sufficient time to understand your proposals and provide feedback. Robust consultation will be important in mitigating some of the risks associated with your proposals, as noted in the annotated agenda in Annex 1.
5. We have worked through the timeframes for getting legislation passed next year. A very ambitious timeframe with a significantly compressed legislative process would require Cabinet decisions on policy changes and approval to issue drafting instructions in the week of 6 May 2019. This leaves only a very short time for the bill to be drafted, and there is no room for slippage in the timetable.
6. If consultation begins on Monday 11 February, this could allow six weeks for consultation. Given that February is the busiest time of year for most tertiary education organisations, and you are envisioning significant reforms, we believe that at least six weeks are required for consultation. We would anticipate that consultation would require substantial engagement across the tertiary education system, including with ITPs, ITOs, wānanga, PTEs and universities, and with other key stakeholders, including iwi, schools, local authorities, etc. This timeframe would allow engagement with stakeholders, but would not allow for iterative co-design processes with sector participants.
7. In order to begin consultation on 11 February, your Cabinet paper proposing your reforms for vocational education and seeking approval for consultation would have to go direct to Cabinet for the first meeting of the New Year, on Tuesday 29 January 2019. (The first SWC meeting of 2019 is not until 13 February, which is too late to allow consultation to begin in mid-February.)
8. The following table sets out our proposed timeframe leading up to policy decisions and approval to issue drafting instructions.

Date	Activity
24 January 2019	Lodge Cabinet paper
29 January	Cabinet
30 January to 8 February	Finalise consultation documents and plans
11 February to 22 March	Consultation
25 March to 18 April	Consultation analysis and advice Prepare Cabinet paper
24 April	Lodge Cabinet paper
1 May	SWC

Date	Activity
6 May	Cabinet approval of policy decisions and issuing drafting instructions
May to December	Legislative process
1 January 2020	Day One of new ITP entity

9. If you would like to proceed according to this timetable, we will work with your office to arrange for you to take a paper direct to Cabinet on 29 January 2019, and we will provide your office with a draft Cabinet paper in mid-December.
10. If you would prefer to enable a longer consultation process, we will come back to you with advice about alternative timeframes and options for implementation. For example, it may be possible to start to centralise ITPs' branding, functions and services into a temporary transitional entity from (or even before) 1 January 2020, with the ITPs themselves continuing to exist as legally separate entities for a further six months while legislation is passed to create the new permanent ITP.

Release of this paper

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

Annexes

Annex 1 Annotated agenda



AGENDA

Reforms of Vocational Education
Wednesday 28 November, 9-10pm

Attendees

- Minister of Education, Hon Chris Hipkins
- Minister of Finance, Hon Grant Robertson
- Other Ministers to be confirmed
- Officials to be confirmed

The Minister of Education intends to bring a reform agenda to Cabinet for an integrated vocational education system. This annotated agenda is to support a discussion between the Ministers of Education and Finance about proposals for the key functional, structural and funding reforms of vocational education. This annotated agenda sets out the Minister of Education's proposals, and some matters arising as a consequence of those proposals. It also presents some key risks and discusses a change programme.

The proposals set out a substantial change programme for vocational education, which combine role change across vocational education with structural change to ITPs and funding reforms, to create a robust system which is equipped to meet the needs of all learners and employers in the face of a changing future of work.

Item 1: New Zealand will have one ITP

Proposals

- To restructure the ITP sector to form one ITP, with:
 - A single governing council and supporting organisation to manage capital and operational budgets, staffing, student and learner managements systems, etc.
 - Regional arms that are responsible for delivery
 - There may be more or fewer regional arms than the current number of ITPs
 - Each region would have a local advisory committee or steering group with very strong local government and local industry participation, as well as iwi representation, which would focus on identifying local skill needs and linking with local and regional development strategies.
 - The ITP (likely the regional arms) would host Centres of Vocational Excellence, which are partnerships between industry skills groups (ITOs) and the ITP
 - The Open Polytechnic of New Zealand will be incorporated into the ITP (along with the other 15 ITPs) for the provision of online learning
 - Over time, regional arms would forge a presence in parts of the country where ITP presence is currently weak, and education would be better joined up at the regional level, particularly with schools.

Indicate whether you agree with the proposals for structural change to ITPs.

YES / NO

Consequential matters

2. Legislative change will be required to create one ITP for New Zealand.
3. The ITP could be a TEI in much the same way as they are currently conceived in legislation – i.e. a category of Crown Entity with institutional autonomy. Among other things, this would mean that the ITP would have a council partially appointed by the Minister of Education, and its autonomy would be protected under section 161 of the Education Act 1989, potentially with new limitations.
4. Legislation regarding the roles of the ITP, the functions and duties of its council, and monitoring and intervention settings could be reshaped to ensure the Crown can protect its interests. For example, it would be particularly important for legislative settings and other policy mechanisms to ensure that the ITP council and its head office pursued regional outcomes as well as national outcomes. The Crown would also need sufficient oversight of (and potentially veto power over) major financial transactions in order to manage public risk in the new institution; at present, it has veto power over ITP borrowing and asset disposals, but not other types of major transaction including capital outlays.
5. There are also decisions to make about how much the legislative settings for the ITP could differ from existing legislative settings for TEIs. Depending on your choices, the result could be a unique kind of Crown entity with its own provisions for governance, accountability, Ministerial direction, etc.
6. A limitation of the current TEI model is that the Crown's ability to proactively direct the organisation to achieve particular policy goals is limited, and its ability to intervene comes mainly after performance problems, rather than to prevent them or to encourage good performance. This risk is more concentrated in a system with one ITP rather than 16.
7. However, the current TEI model can be modified to address these extra accountability challenges. For example, officials are investigating a model where a Charter could be used to specify matters that the ITP would be required to have regard to. This would provide a vehicle to set requirements such as regional responsiveness and partnerships with iwi. Education officials will work with the State Services Commission to prepare further advice for you on these changes.

s 9(2)(f)(iv)

YES / NO

s 9(2)(f)(iv)

YES / NO

Item 2: Changes to industry leadership of vocational education and the role of industry training organisations

Proposals

9. To strengthen industry skills bodies' standard setting and purchase responsibilities (currently undertaken mainly by ITOs), through the following changes:

Industry skills bodies gain:

- responsibility for setting standards across all sub-degree vocational education qualifications
- responsibilities for quality assurance at the start and end of off-job provision (and maintain responsibilities for quality assurance at the start and end of on-job provision), including programme approval (by “start and end” we mean ex ante standards-setting and ex post moderation of assessment, in contrast to quality assurance of educational processes as overseen by NZQA)
- funding responsibility across all on- and off-job provision (either a purchase or an advisory role – see paragraph 10)
- a stronger skills leadership role in coordinating industry efforts to identify and plan to address future skills needs.

In addition:

- Industry skills bodies lose the facilitation of training function and cannot provide education or training
- TEC would purchase vocational education in fields without industry skills bodies
- Industry skills bodies could be hosted at CoVEs.

Indicate whether you agree with the proposals for role changes to ITOs.

YES / NO

Consequential matters

10. The Minister of Education proposes that industry skills bodies (ITOs) gain funding responsibility across all on- and off-job provision (i.e. an extended purchasing role). We provided advice on whether this responsibility should include purchasing directly, or whether it should be an advisory function to TEC as the purchasing body.

- If industry skills bodies (ITOs currently undertake this role) **purchase provision directly** from providers, industry skills bodies would have a strong focus on industry need in making purchasing decisions, but they would have weaker incentives to focus on social and network objectives (though this could be required in legislation). Additionally, providers would have complex funding relationships – i.e. funding relationships with a number of industry skills bodies. The ITP local advisory committees would need to have a role in purchasing decisions across all industry skills bodies. In all, this option would require a complex matrix of relationships between providers, ITP local advisory committees, and industry skills bodies that could result in significant confusion and duplication.
- If industry skills bodies **advise TEC** about its purchasing decisions, TEC would be expected to have a stronger focus on social and network objectives, and industry skills bodies could advise TEC on industry need. Additionally, providers would have simpler funding relationships – i.e. exclusively with TEC). The ITP could also advise TEC on regional needs (e.g. potentially via the local advisory committee). While TEC would have a number of relationships to manage, there would be less complexity than in the first option, particularly for providers, industry skills bodies, and ITP local advisory committees. This option would require capability and capacity changes to TEC to undertake this role.

11. Officials recommend the second approach - that TEC is the purchaser, acting on the advice of industry skills bodies.

Indicate whether you agree with the proposals that:

- TEC should purchase vocational education from providers, including on- and off-job provision

YES / NO

- TEC should act on the advice of industry skills bodies as part of its decision-making processes.

YES / NO

12. Officials also sought broad advice about the number of industry skills bodies and CoVEs in the vocational education system. To help us shape this advice and to help Cabinet understand the scope of change, we explored whether the reforms would keep the groupings of industries roughly as they are currently at ITOs, or whether there would be a larger number of new, more granular groupings of industries. For example, there are six recognised vocational pathways; there are 11 existing ITOs that generally represent industry sectors (one subscale); there were 52 industry groupings in the 1990s, comprising a mix of trades, occupations and sectors; and there may be as many as 300 standards-setting bodies at present recognised by ITOs (e.g. Primary ITO has 15 standards-setting bodies and Careerforce has 11 standards-setting bodies).

Indicate whether you agree that industry skills bodies should consist of the groupings of industries roughly as they are currently at ITOs, evolving over time in response to need.

YES / NO

13. Officials note that the increased responsibilities of industry skills bodies (ITOs) could include setting and/or moderating capstone assessments, either only where industry so desired, or across the whole system. We seek confirmation that this should be included in your proposal for change. We suggest you signal this as a possibility and indicate that you wish to seek public feedback on it, especially from industry.

Indicate that you agree that that industry skills bodies could have a role in setting and/or moderating capstone assessments, and that we should seek feedback on this idea through public consultation.

YES / NO

14. The Minister of Education's intended proposals include that industry skills bodies would approve programmes, similar to existing models of occupational regulation such as the Education Council. This is not something that we have advised on previously. We are thinking through this proposal and we will provide advice shortly. This could have considerable implications for quality assurance responsibilities across the system. In the meantime, we note that one option could be a "co-quality assurance" role between NZQA and industry skills bodies, as is currently the practice with the Teachers' Council, for example.

Note that officials will provide further advice about the proposal for industry skills bodies to gain quality assurance responsibilities for off-job provision, including programme approval.

NOTED

15. The proposed changes would result in ITOs becoming significantly different organisations than they currently are. The name, industry training organisations, may not be appropriate for the new type of organisations, particularly given that they will no longer be supporting employers to deliver education and training in the workplace. Given this, we suggest that the proposal does not refer to ITOs as existing under that name in the future. For now, we suggest referring to "industry skills bodies."

Indicate whether you agree that the proposal for the vocational education system refers to "industry skills bodies" rather than ITOs.

YES / NO

Notes

16. The Minister of Education signalled that the reforms should retain existing regulatory systems and structures for professions like teaching and nursing unless there are reasons why this cannot be made to work. Officials do not immediately see any conflicts, but we will test this further over the coming months and through public consultation.

Item 3: Other matters

Proposals

17. To make two further changes:

- Providers (the ITP, wānanga and private training establishments (PTEs)) gain the responsibility for facilitating training (i.e. supporting employers to deliver in the workplace).
- Create one funding system for vocational education, which incentivises a blend of work- and provider-based delivery, and may include base and/or regional adjustment grants.

Indicate whether you agree with the proposals for facilitating training and funding reform.

YES / NO

Item 4: Matters for consultation

18. The proposals give rise to a range of issues that will need to be worked through as the change project unfolds. Items 1-3 propose an approach to issues to be resolved prior to consultation. Officials have set out a number of further matters that are better consider following consultation. They include:

s 9(2)(g)(i)

- Impacts on degree and postgraduate provision: The proposals in item 2 will mean different quality assurance processes exist at sub-degree level and at degree and postgraduate levels. This could result in complexity for providers delivering both sub-degree- and degree-level provision.
- Design of ITP local advisory committees: Officials suggest that we seek public feedback on how the ITP local advisory committees should be constituted, and also to consider from a government perspective how they could interrelate with regional skills planning for economic development and immigration/social welfare decision-making.

s 9(2)(f)(iv)

Note that these issues will be signalled in the Cabinet paper as issues for further consideration, including via public consultation.

NOTED

Item 5: Managing through change

19. The new system being developed would create significant opportunities for improving skills for New Zealand and responding to future labour market needs. Disruption in the nature of skills demand is coming, and there is a need to take advantage of this disruption to create a new vocational education system that will be fit-for-purpose for the Future of Work. But given the significant scale of the proposed changes, there are a number of risks to work through.
20. There are some key risks which officials propose to raise in the Cabinet paper, to be managed during the subsequent implementation process. These include:
- The level of proposed change, in particular the shift toward more government steering of parts of the system, will elicit a significant response across the sector, including from universities.
 - Māori and iwi have significant interests in the vocational education system, including in providing education for Māori learners and in supporting Māori economic development goals and Māori employers. While consultation with some Māori groups and individuals has occurred as part of the VET system review and ITP Roadmap 2020 projects, the proposals now under consideration have not been developed in partnership with Māori and iwi. The Crown may be at risk of a claim under the Treaty of Waitangi if it does not undertake sufficient consultation with Māori and iwi on these proposals before public announcements and before taking decisions.
 - Given the scope of the proposed change, the risk is high that learners, employers and communities will experience significant disruption in educational services during the change process. This risk can be mitigated, but not eliminated, via resourcing strong change management across all existing ITPs and ITOs.

s 9(2)(g)(i)

- These proposals will require funding in order to deliver. While we will work carefully to identify likely financial implications up front, the scope of the changes mean that this will be difficult. There is a risk of uncertain costs and significant financial implications across multiple budgets.

21. These risks can partially be mitigated through careful consultation and implementation. Ensuring clear messages and minimising misperceptions will be important to this process.

Note that these key risks will be signalled in the Cabinet paper, as change management issues.

NOTED

Item 6: Communications

22. Announcements in February 2019 about the proposed changes will command significant and prolonged media attention. The communications of these proposals will be complex and will require a number of stages, and different approaches with different stakeholder groups (including iwi and other Māori groups, industries, regions, unions, learners, etc.). Officials will provide me with advice soon about communications strategies.

23. Officials suggest that there is an announcement in December to update the sector on the progress of the VET system review and the ITP Roadmap 2020. At this stage, officials envisage that this announcement could explain that the two projects have joined together, and that consultation is expected to begin in February 2019.

Note that officials propose a preliminary announcement in December and a substantive announcement in February about the proposed reforms.

NOTED

Item 7: Change plan

24. The Minister of Education has set a 1 January 2020 'go live' date for the reforms. Officials are working through the details of this planning, and the range of legislative, organisational, and funding changes required to achieve it. And in particular, how engagement and consultation can be achieved within this timeframe.
25. Given the scope of the proposals, we think that consultation should be at least six weeks long to provide the sector with sufficient time to understand the proposals and provide feedback. Robust consultation will be important for managing the change, as discussed in item 5.
26. We have worked through the timeframes for getting legislation passed next year. A very ambitious timeframe with a significantly compressed legislative process would require Cabinet decisions on policy changes and approval to issue drafting instructions in the week of 6 May 2019. This leaves only a very short time for the bill to be drafted, and there is no room for slippage in the timetable.
27. If consultation begins on Monday 11 February, this could allow six weeks for consultation. Given that February is the busiest time of year for most tertiary education organisations, and you are envisioning significant reforms, we believe that at least six weeks are required for consultation. We would anticipate that consultation would require substantial engagement across the tertiary education system, including with ITPs, ITOs, wānanga, PTEs and universities, and with other key stakeholders, including iwi, schools, local authorities, etc. s 9(2)(g)(i)
- s 9(2)(g)(i)
28. In order to begin consultation on 11 February, a Cabinet paper proposing reforms for vocational education and seeking approval for consultation would have to go direct to Cabinet for the first meeting of the New Year, on Tuesday 29 January 2019. (The first SWC meeting of 2019 is not until 13 February, which is too late to allow consultation to begin in mid-February.)
29. If Ministers prefer to enable a longer consultation process, officials will provide advice about alternative timeframes and options for implementation. For example, it may be possible to start to centralise ITPs' branding, functions and services into a temporary transitional entity from (or even before) 1 January 2020, with the ITPs themselves continuing to exist as legally separate entities for a further six months while legislation is passed to create the new permanent ITP.
30. This is a significant change project and government agencies will need additional resources to deliver on it. Officials are working through what the work programme for this could look like and what it will mean for their capability and capacity needs, and will present the Minister of Education with a briefing shortly.

Discuss the implementation timeframe and its implications.

YES / NO