Regulatory Impact Statement: Vocational Education and Training System Redesign

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Coversheet

Purpose of Document	
Decision sought:	Analysis produced for the purpose of informing a Cabinet decision to consult
Advising agencies:	Ministry of Education
Proposing Ministers:	Minister for Tertiary Education and Skills
Date finalised:	12 June 2024

Problem Definition

The vocational education and training (VET) system went through significant change under the previous Government's Reform of Vocational Education (RoVE), including the merger of the previous Institutes of Technology and Polytechnics (ITPs) as well as the arranging training function of most Industry Training Organisations (ITOs) into a single institution: Te Pūkenga – New Zealand Institute of Skills and Technology (Te Pūkenga).

The reforms also involved VET providers (primarily Te Pūkenga) taking on responsibility for delivering work-based learning (WBL) and the creation of industry-led Workforce Development Councils (WDCs) with responsibility for skills leadership, setting standards for VET and advice to the Tertiary Education Commission (TEC) on its investment in vocational education.

Our assessment of the current policy problem reflects a change in objectives and priorities under the current Government. In particular, the Government places a significantly higher priority on local and regional responsiveness and has concerns about the efficiency, cost effectiveness and complexity of the current system. While these factors were all considered in the design of RoVE, much of the earlier decision-making placed greater weight on system coordination and integration.

We have identified three related policy problems in the current VET system:

- The key policy problem relates to the challenges and lack of progress by Te Pūkenga over the past four years (noting that the intended benefits were always expected to take five to ten years to realise). Overall progress on Te Pūkenga's transformation programme and its transition towards a new organisational structure and operating model has been slow. After four years it has yet to deliver fundamental change for stakeholders on the intended benefits of Te Pūkenga's national network, including the two primary benefits of integrating its work-based and provider-based delivery and moving towards financial sustainability. Te Pūkenga has not addressed the historical financial issues in the ITP sector and continues to face significant financial viability risks in the medium- to long-term, presenting an ongoing fiscal risk to the Crown.

- The reported experience of some industry stakeholders (primarily those who were well served by the previous model for work-based learning), has been a loss of responsiveness to industry needs and a general perception that industry has less influence in delivery of training for apprentices and other work-based learning. This feedback is not consistent across industry sectors, and overall volumes of work-based training have been strong in recent years, particularly in the immediate aftermath of the COVID-19 pandemic.

- This interim analysis does not indicate that there is a fundamental problem with the WDC. However, there are a range of legitimate concerns that might prompt reconsideration of the model, including the level of funding required to support their functions, concerns from some industry stakeholders about the responsiveness of the model and aspects of their performance that are not yet consistently mature across the WDCs.

Executive Summary

Context

The Minister intends to undertake consultation on preferred options to address her concerns and objectives for reform of VET:

- The structure of the ITP system

- The delivery of work-based learning

- Industry standards-setting and skills leadership

This document provides background on the VET system, the previous government's reforms of VET, and our understanding of the Government's objectives and priorities for future reform in each of the three areas identified above.

The Minister is seeking Cabinet agreement to consult on a proposed approach to the future structure of the ITP system and on options for the delivery of work-based learning and standards-setting. This initial impact analysis is intended to inform Cabinet's decisions by providing Ministers with initial analysis of these and other options. It is intended to be published alongside the consultation document. This initial impact analysis is intended to be alongside the consultation document.

Final impact analysis will be informed by the outcome of consultation and further detailed design work, and a final RIS will include analysis of other options not subject to explicit consultation.

Initial options analysis

The Ministry recognises many of the challenges and risks associated with the recent reforms to vocational education in New Zealand, in particular relating to the role and performance of Te Pūkenga. Given the current position of Te Pūkenga, we agree that it should not be retained as a single entity, but our initial advice would be to split Te Pūkenga into a small number of regional entities, over the model being proposed in consultation (standalone ITPs where these are viable, with remaining ITPs and the Open Polytech sitting within a federation). We would also recommend a slower approach to change management, with Te Pūkenga taking time to implement key changes to its operating model before splitting it up.

The proposed model seeks to maximise regional and local responsiveness, while recognising the significant financial viability challenges facing parts of the sector. Nevertheless, the effectiveness of the model, in particular the proposed federation, in maintaining critical elements of the network of provision and its ability to achieve financial sustainability is still unclear and will depend greatly on final design decisions. Any changes will also come with significant transition risks and costs, and we consider it will take a significant amount of time to transition to the new model. We note that the impacts of this change are highly dependent on subsequent decisions on the makeup of the federation and on which ITPs would be established as standalone entities. All options (including the status quo) present risks to the breadth of in-person provision available in some areas.

If Te Pūkenga is disestablished in favour of separate ITPs and a federation, the Ministry's initial view is that it would be preferable that Te Pūkenga's WBL function be split off to operate as one or more independent providers (while retaining the ability of other providers to provide WBL). This would avoid recreating a hard division between work-based and provider-based learning and would retain choice for employers. This is one of the two options being consulted on.

The alternative option being consulted on is to create industry entities, provisionally named Industry Training Boards (ITBs), with responsibility for arranging, but not delivering work-based training. While this model would have merit in terms of promoting industry buy-in, it would revert to a system of having a clear division between work-based and provider-based delivery, which in our initial view this would be less likely to promote flexibility for learners and employers.

Our preferred model for standards-setting and skills leadership would be to retain a version of the current model, with some consolidation and/or narrowing of functions to reduce costs to the Crown. This is one of the two options being consulted on.

The alternative approach being consulted on is to give this function to ITBs. While there would be benefits to this approach in terms of stronger feedback loops between work-based learning and standards-setting, we do not recommend this approach due to concerns about a conflict of interest between ITBs' arranging training and quality assurance roles.

We have also assessed the overall impacts of the Minister's proposed package of reforms on affected groups, and considered the implications of the changes from a Te Tiriti o Waitangi / Treaty of Waitangi (Te Tiriti) perspective. Our analysis on these points is preliminary pending consultation, but we have identified risks that a reduction in Māori representation and explicit Tiriti-related requirements for ITPs and ITBs (compared to the current system) could lead to the system being less responsive to the needs of Māori employers and learners.

Limitations and Constraints on Analysis

This interim analysis is to support a Cabinet decision to consult and delegate joint Ministers with authority to approve a consultation document. This analysis supplements the consultation document, which is likely to only seek stakeholder views on specific a narrower range of proposals. A final RIS will be prepared to support final Cabinet policy decisions, the analysis in which will be highly dependent on feedback from the sector, industry, Māori, broader stakeholders and the public.

This context means that we are not yet confident in our analysis of the problem and of the options considered. In particular, engagement with industry on the future design of work-based learning and with Māori on their priorities for the system will be critical in informing our final assessment of the potential effects and impacts of the proposed changes.

Pending feedback from consultation, we have sought to ensure our analysis draws on the views of stakeholders put forward in earlier engagement and information gathered through system and entity monitoring. We have also considered stakeholder views communicated to the Ministry or the Minister in response to the Government's commitments in this area.

The analysis only covers proposed changes to primary legislation, acknowledging that many of the most substantive decisions will be taken below this level and in the funding system. To the extent that these decisions require Cabinet approval of changes to secondary legislation, they will be subject to separate regulatory impact analyses.

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12 June 2024

Quality Assurance (completed by QA panel)	
Reviewing Agency:	Ministry of Education
Panel Assessment & Comment:	The Ministry of Education's RIA QA panel considered this interim statement and assessed it as partially meeting the Cabinet's quality assurance criteria for impact analysis. Within the constraints that it has been prepared under, it provides Ministers with comprehensive information on the options and on the potential of those options.

Section 1: Diagnosing the policy problem

What is the context behind the policy problem and how is the status quo expected to develop?

1. Vocational Education and Training (VET) is usually defined as education that is closely tied to careers and work. It includes traditional trades, but also areas such as information technology, health and community care, and service industries. Where Foundation Education often includes broad 'employability' skills, VET provides specific skills and knowledge for specific jobs and careers. Higher Education (Bachelor's degrees and above) is not generally seen as part of VET, even where there is a strong connection to particular professions (e.g., nursing).

2. VET is a crucial system for ensuring New Zealand has the skills needed in our economy, including for our major industries and social sectors such as health. VET can be provided in a classroom or simulated workplace environment (provider-based or 'off-job') or directly in the workplace as part of an employee's employment (work-based or 'on-job'). Apprenticeships and traineeships are the main form of on-job VET.

3. In 2022, there were 280,000 learners in VET, including 150,000 apprentices and trainees and some 78,000 learners across the former ITPs. Private Training Establishments (PTEs) and Wānanga are also important parts of the VET sector. Public funding for this sector comprises more than $900 million per annum.

4. Prior to 2020, New Zealand's VET system consisted of two largely separate (and often competing) systems:

    a. A provider-based system that delivered mainly off-job training to students, which consisted of a network of 16 government-owned, regionally based Institutes of Technology and Polytechnics (ITPs), alongside a large number of private providers and provision across three Wānanga.

    b. A work-based system, under which employers were supported to deliver on-job training to employees by industry-owned Industry Training Organisations (ITOs). ITOs were responsible for arranging work-based training, including purchasing any off-job training components and providing learning materials and assessing learning, but were not permitted to directly provide training themselves.[1] ITOs also developed sub-degree qualifications and skills standards for the industries and occupations they covered. ITOs operated nationally, although the work-based system did not cover all sectors of the economy and depth of coverage within industries was variable.

5. The previous Government initiated the Reform of Vocational Education (RoVE), prompted by financial issues in the ITP sector and concerns that the VET system was not fully meeting New Zealand's vocational training needs or responding to changing skill needs. Key concerns were:

    a. Challenges to the financial viability of most ITPs, associated with declining enrolments (particularly in periods of strong employment) and a funding model that did not recognise high fixed costs relative to learner volumes. Under

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[1] Arranging training covered the activities needed to develop and maintain work-based training delivered by employers for on-job components and providers for off-job components. It included supporting learners and employers to achieve industry standards and qualifications, but was not intended to include the actual 'delivery' of training by the ITO directly to the learner.

these conditions, having 16 ITPs deliver a wide range of provision was unsustainable.

b. Unclear and overlapping organisational roles between ITPs and ITOs, with a lack of coordination between work-based and provider-based delivery. Collaboration between the two systems was discouraged by funding system incentives. Competition between the two systems was often to the detriment of learners, particularly where standards were inconsistent between the two systems.

c. Evidence of poor skills matching, with some providers being insufficiently responsive to employer needs, and inconsistent coverage, take-up and quality of work-based training. Research suggested that some learners needed more support from employers and ITOs to complete work-based training successfully.

d. Equity issues for some groups of learners, with Māori and Pacific learners likely to train in lower-level VET programmes (e.g., traineeships rather than apprenticeships) and a lack of support for disabled people. There was a recognition that these groups had been traditionally under-served by the education system, and that it was important for the system to deliver for these learners, particularly as Māori and Pacific peoples will form a growing part of the working-age population in the future. Additionally, there was recognition that the system did not give Māori adequate agency and voice.

6. RoVE sought to address these issues creating a single VET system, with the following key features:

a. the merger of all ITPs, as well as the arranging training functions of most ITOs into a single institution, **Te Pūkenga**. Te Pūkenga is a tertiary education institution. It is required to give effect to its Charter while carrying out its statutory functions:

   i.   to provide or arrange, and support, a variety of education and training, including vocational, foundation, and degree-level or higher education and training

   ii. to conduct research, with a focus on applied and technological research

   iii. to be responsive to and to meet the needs of the regions of New Zealand and their learners, industries, employers, and communities by utilising Te Pūkenga's national network of tertiary education programmes and activities

   iv. to improve the consistency of vocational education and training by using skill standards and working in collaboration with Workforce Development Councils (WDCs)

   v.   to improve outcomes in the tertiary education system as a whole, including by making connections with schools and other organisations involved in tertiary education and by promoting and supporting life-long learning

   vi. to improve outcomes for Māori learners and Māori communities in collaboration with Māori and iwi partners and hapū.

b. **providers taking on responsibility for delivering all vocational education**, including supporting work-based learning, with the majority of previous ITOs' arranging training functions transitioning to Te Pūkenga.

c. the **establishment of Workforce Development Councils (WDCs)** with coverage for vocational education across all sectors. WDCs took over ITOs' standards-setting and qualification development functions, plus responsibility for skills leadership (identifying and advocating for industry skill needs), and for advising the TEC on its investment in vocational education.

d. The establishment of fifteen **Regional Skills Leadership Groups (RSLGs)**. While RSLGs did not have a statutory function, they were intended to identify future skills and workforce needs of New Zealand's regions and support decision-makers, including the TEC and Te Pūkenga, to respond to these needs.

7. Given our analysis that the previous VET system was not delivering for many Māori, and did not give Māori an adequate voice, RoVE sought to embed these considerations within the institutional settings of the VET system. This included by ensuring Māori representation at a governance level, and requiring Te Pūkenga and WDCs to develop meaningful partnerships with Māori employers and communities and respond to the needs of Māori learners, whānau, hapū and iwi.

8. These changes were supported by the creation of a unified funding system for vocational education (UFS), which integrated and shifted the balance of funding for provider-based and work-based delivery, with dedicated funding for supporting learner success and for delivering on national and regional skills needs. Other non-legislative aspects of these reforms included the establishment of Regional Skills Leadership Groups (RSLGs) to connect regional skills, social and economic development and two pilot Centres of Vocational Excellence.

9. There were several transition risks identified with RoVE. In regard to redefined roles for education providers and industry bodies, these were:

- providers would take some time to develop the relationships with employers and other capabilities needed to arrange work-based training such as apprenticeships, and existing capabilities could be lost during the reform process

- employers and learners could lose confidence in work-based training for a period, reducing participation and the supply of workers with much-needed skills

- learners and employers could experience some disruption to programmes, and participation could be affected, as a result of challenges in the transition to the proposed new arrangements.

10. Identified risks of bringing together the ITP sector as a single entity included:

- Te Pūkenga could become overly centralised and less responsive to local and regional skills needs due to a remote, centralised national leadership; or, alternatively, too 'devolved', failing to achieve greater national consistency and scale economies

- regions could lose confidence that Te Pūkenga is delivering to their needs and reduce their engagement with formal vocational education and training

- Te Pūkenga could fail to quickly establish the much closer relationship with employers that it needed to support work-based training and to strengthen provider-based delivery

- the desired economies of scale of a consolidated organisation could be offset by transaction costs resulting from additional layers of management and the merger of multiple legacy systems

- Te Pūkenga could create a dominant, 'single point of failure' in the vocational education system – if it fails, the system fails – a financial risk to the Crown and more broadly a risk to learners and skills supply.

11. There was also significant opposition from some stakeholders to RoVE from the outset of the process, as well as significant support from some parts of the sector and industries. Providers, including current ITPs, tended to support the proposal to redefine roles for education providers and industry bodies. Industry (including industry associations and employers) generally supported the overarching goals of the RoVE and the expanded skills leadership function for industry. Some ITOs agreed system changes were needed, but there was strong opposition from many ITOs (and some employers) to shifting the arranging training function to providers.

12. There was general support, including from industry and ITOs, for the consolidation of some functions, but not universal support for a centralised single entity. Generally, the ITP sector supported some level of change. Approximately half of the sector supported the proposal while the other half offered more limited support, with the main caveat of retaining a degree of autonomy in regional operations. Some had strong community support to oppose any loss of autonomy while others were more focused on the potential to improve services to their regions.

13. The Government's 100-day plan included a commitment to begin disestablishing Te Pūkenga, consistent with the National Party's commitments prior to and during the 2023 election. The Coalition's Action Plan for quarter two of 2024 includes taking decisions to disestablish Te Pūkenga and consult on a proposed replacement model. The Government has also disestablished RSLGs and discontinued funding for WDCs from the end of 2024/25 in Budget 2024.

What is the policy problem or opportunity?

14. Our assessment of the policy problem reflects the change in objectives and priorities under the current Government. In particular, the Government places a significantly higher priority on local and regional responsiveness and has concerns about the efficiency, cost effectiveness and complexity of the current system. While these factors were all considerations in the original design of the system, much of the earlier decision-making placed greater weight on system coordination and integration.

15. We also note that our assessment of the problem reflects the Ministry's judgement on sometimes anecdotal or incomplete information and evidence. We will be testing our assessment of the problem through the consultation process, which will provide a stronger basis for our final analysis.

16. Where there is information on the performance of the system, it is often not available over a sufficiently long timeframe to enable firm conclusions to be drawn, with analysis made more difficult by the effects of the COVID-19 pandemic. The intended benefits of RoVE were always expected to take five to ten years to be realised, and to date the impacts in terms of outcomes for learners, employers, Māori and other groups remain highly uncertain. An assessment of likely outcomes is highly dependent on one's judgement of the relative merits of local decision-making and the

principle of subsidiarity, versus the benefits of system coordination and economies of scale within a VET system.

17. Subject to these caveats, we have identified three related policy problems in the current VET system post-RoVE, many of which were identified as risks with the RoVE proposals.

The performance, responsiveness and viability of the Te Pūkenga model

18. The key policy problem relates to the challenges and lack of progress by Te Pūkenga over the past four years (noting that the intended benefits were always expected to take five to ten years to realise). Overall progress on Te Pūkenga's transformation programme and its transition towards a new organisational structure and operating model has been slow. After four years it has yet to deliver fundamental change in outcomes for stakeholders or on the intended benefits of Te Pūkenga's national network, including any material shift in delivery models or integrating its work-based and provider-based delivery and in addressing fundamental financial issues.

19. The TEC, as the monitoring agency for Te Pūkenga, raised significant concerns about this lack of progress over the 2020 to 2022 period. While more progress was made in 2023, there remains a lot of work to do to deliver on the intent of Te Pūkenga. While the complexity and size of the task is acknowledged, as well as the impact of COVID-19 during this time, overall progress has been unacceptably slow.

20. These issues may be resolved in time, as Te Pūkenga finalises its operating model and identifies opportunities to leverage the breadth and reach of its delivery. However, it is also possible that the model is simply too unwieldy for the organisation to make this transition in a timely manner.

21. While meeting the needs of regions and empowering local decision-making are prominent in Te Pūkenga's Charter, this needs to be balanced against a range of other expectations as well as the accountability of Te Pūkenga's council and central leadership for the overall performance of the organisation. Given Te Pūkenga's size and the scale and complexity of the change that it needs to manage, there is a risk that it is simply unable to be agile and responsive enough to meet local needs and that the benefits of scale are lost by new bureaucracy required to coordinate the system.

22. One factor that may reduce the responsiveness of Te Pūkenga is the limited extent of competition which it faces in some training markets. While PTEs and Wānanga continue to provide competing offerings to learners and the intention has been to allow greater competition in work-based learning over time, Te Pūkenga dominates a range of training options, limiting the potential for employer and learner choice. Moreover, the shift from 16 entities to a single provider that has emphasised national curricula and programme design has reduced the scope for staff and managers to innovate and test different models.[2]

23. While we have not been able to engage broadly to understand views and experiences across the sector, these concerns reflect what have always been the main risks associated with the model and the main source of criticism from some stakeholders. Throughout the transformation process there has continued to be significant criticism and scepticism from some in the sector about the degree to which Te Pūkenga, as a

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[2] Previously, there was also a degree of competition between ITOs and ITPs, although as noted this was often not constructive and did not always serve learner interests.

national institution trying to achieve consistency in many areas, can effectively respond to local or industry specific priorities and skills needs.

24. These concerns have been exacerbated by the increasingly difficult financial situation facing Te Pūkenga, which both limits our ability to 'wait' for the model to bed-in and potentially calls into question its ability to deliver on its Charter commitments in the long-term. As noted above, the financial situation facing the ITPs was a key driver of RoVE. However, Te Pūkenga has made little progress in addressing those financial issues nor has it established a comprehensive plan for how it will become financially sustainable. As such, it is not clear when, or even whether, Te Pūkenga will reach financial sustainability.

25. While Te Pūkenga has strong access to cash reserves at present, the current breadth of its operations is generating deficits that are rapidly eroding these reserves and the TEC has identified that Te Pūkenga would need to make significant changes in order to be financially sustainable. This would include reducing operating costs by reducing duplication across functions and systems, addressing unprofitable delivery, improving enrolments and retention, reducing its physical footprint, and fully integrating provider-based and work-based learning. These changes would be challenging to implement and take time to deliver. In some cases, they would also require very large upfront investments, particularly to integrate information technology systems, with significant costs and risks to the Crown.

Reduced industry leadership in work-based learning

26. One of the key elements of RoVE was the greater integration of work-based and provider-based delivery of work-based training, with tertiary providers (primarily Te Pūkenga) taking over the delivery of work-based training, including entering into training agreements with learners and employers.

27. As noted above, this was intended to improve the consistency and transferability of delivery across the two modes, strengthening connections between provider-based delivery and employment and improve the pedagogical underpinnings of delivery in the workplace. Placing responsibility for the delivery of work-based learning with providers also removed the conflict of interest that existed for ITOs, meaning that WDCs could be given greater control over VET standards and qualifications across the system, as well as influence in funding decisions.

28. The reported experience of some industry stakeholders (primarily those who were well served by the ITO model), has been a loss of responsiveness to industry needs and a general perception that industry has less influence in delivery of training for apprentices and other work-based learning. This feedback is not consistent across industry sectors, and overall volumes of work-based training have been strong in recent years, particularly in the immediate aftermath of the COVID-19 pandemic (although they have fallen significantly over the past year).

29. Some of these concerns likely reflect the general dissatisfaction in the performance of Te Pūkenga including the limited progress in implementing a new operating model that integrates provider-based, online, and work-based learning. There is scope in the current model for other providers (such as PTEs and Wānanga) to offer work-based training in future, thereby providing competition and choice for employers. However, this has largely yet to occur, other than for those ITO training functions that transitioned to PTEs rather than Te Pūkenga at the outset.

30. Even if a more competitive landscape does evolve over time, offering employers choice and encouraging provider responsiveness, this would not address the loss of

the 'ownership' that some sectors felt they had under the previous training system – that is the sense that the training system is operated by industry, for industry, in the interest of industry priorities. While this concern is at least in part about perception, it does present risks to industry confidence in the training system, which is critical to its success.

Mixed perceptions of, and experiences with, Workforce Development Councils

31. The role of WDCs in the current VET system is critical in providing industry with a voice on the content of vocational programmes and ensuring that the VET system responds to current and future skills needs.

32. While we are less convinced that there is a fundamental problem with the WDC model, there are a range of legitimate concerns that might prompt reconsideration of the model. In particular:

    - The WDCs require significantly higher levels of Crown funding compared to the ITO model. The ITOs received all their public funding through per-learner subsidies; the functions that WDCs now undertake were entirely cross-subsidised by income from training activity and industry contributions. The dedicated funding for WDCs also reflects their broader scope and wider legislative functions, as well as higher expectations on standards-setting and qualification development. Given the broader fiscal pressures, the Government has identified the disestablishment of WDCs as a source of funding needed to meet its broader Budget commitments.

    - The broader industry coverage of WDCs compared to the ITOs and their status as statutory entities established via an Order in Council, has led to complaints in some sectors about their responsiveness and a loss of a sense of industry-ownership. Some industries have argued that WDCs do not pay sufficient attention to their particular needs and are less responsive than the previous ITO system. This is not, however, a consistent or necessarily widespread view across industries and WDCs, with the TEC's monitoring of WDCs highlighting that many industry stakeholders are satisfied with WDC performance and leadership.

    - The separation of standards-setting from the ITOs' arranging training function removed some useful feedback loops in terms of understanding the relevance of standards and qualifications on the ground. While understanding these concerns is a key priority for WDCs, doing so requires extensive industry and provider engagement in a way that is arguably not as efficient as the natural feedback loops under the ITO model.

    - There is a risk of scope creep as WDCs seek to address the priorities of their industries, for example by seeking to address issues outside of the VET system. This risk is potentially exacerbated by the WDCs each operating under bespoke Orders in Council, which, while set by the Government, were driven by industry expectations. This would primarily be a problem if it leads to a loss of focus on WDCs' core functions and we note that we do not have any evidence of this occurring.

    - It is arguable whether some of the broader functions of WDCs offer sufficient value to justify the cost. In particular, the WDCs' role in offering investment advice to the TEC has not yet achieved a level of maturity to offer significant benefit to the TEC's decision-making. We note, however, that this function is highly valued by some industry sectors. We have fewer concerns about the

broader skills leadership role of WDCs, which is important in terms of building understanding of current and future skills needs at an industry level and considering how the VET system can best respond to these challenges.

33. Despite these issues, our overall assessment is that most of the WDCs have made good progress in their core role of a standards-setting body. For example, they have addressed the 6,000 unit standards and 300 qualifications that were overdue for review when ITOs handed the function over in October 2022. WDCs appear to have maintained broad confidence from most (but not all) of their represented sectors and to have significantly strengthened analysis on current and future industry skill needs.

34. As per our analysis below, in our view this supports the case for more modest changes in this area.

What objectives are sought in relation to the policy problem?

35. We have identified the following objectives, based on the current Government's stated priorities and informed by the purposes of the Education and Training Act 2020 (the Act):

    a. To strengthen regional decision-making and industry involvement, to improve responsiveness to local communities, conditions, and workplaces.

    b. To support learner success, career pathways, and equitable access to all forms of VET.

    c. To ensure the system structure and settings are sustainable and deliver coherence, consistency, efficiency, and value for money for now and into the future.

    d. To be implemented quickly, providing certainty for learners, staff, providers, communities and industries.

    e. To honour Te Tiriti o Waitangi and support Māori-Crown relationships.

36. Objectives a. to d. reflect the Minister's stated priorities for reforms to the VET system, alongside a focus on progressing any change quickly (with legislative change aimed to be completed in time for implementation from 1 January 2026).

37. Objective e. reflects the Crown's ongoing Te Tiriti o Waitangi obligations, as reflected in sections 4 and 9 of the Act. This is particularly relevant given the clear messages heard through the RoVE consultation process that the previous VET system (pre-RoVE) was persistently underserving some learner groups, was resulting in inequitable outcomes, and did not give Māori an adequate voice in the system.

Section 2: Deciding upon an option to address the policy problem

38. The Ministry has identified three main design decisions that are key to any reform of the vocational education and training system:

    - Decision 1: The structure of the ITP system

    - Decision 2: The delivery of work-based learning (WBL)

    - Decision 3: Industry standard-setting and skills leadership

39. These decisions have been considered separately because different decision-making criteria are relevant and because the response to each issue has consequential impacts on the context for, and response to, subsequent decisions. In particular, our analysis for Decisions 2 and 3 assumes that the proposal for Decision 1 is progressed.

40. We have not yet sought to quantify the likely impacts of the proposals. An assessment of these impacts will be included in the final RIS and will be informed by feedback sought via the consultation process. While any Tiriti analysis of the reforms will also be dependent on feedback from Māori stakeholders and on detailed design decisions, we have provided some initial analysis of key Tiriti considerations for the reforms.

Decision 1: The structure of the ITP system

41. This analysis considers options for the future design of the parts of Te Pūkenga that have taken on the provider-based delivery of the previous ITP system.

What criteria will be used to compare options to the status quo?

42. We have used the following criteria for analysing which options are most likely to meet the objectives:

    a. Responds to local communities and economies

    b. Supports system sustainability

    c. Delivers to the needs of learners and employers

    d. Minimises implementation time and costs

    e. Gives effect to Te Tiriti and supports Māori Crown relations.

43. Our consideration of these criteria has focused on teaching aspects of Te Pūkenga's delivery. We recognise that Te Pūkenga also supports research activity, with a particular focus on applied research and the activities required under statute for it to deliver degree education. However, we do not consider that specific consideration of this would significantly alter our assessment.

What scope will options be considered within?

44. The development and analysis of options has been limited by the fact that consultation has not yet occurred and there has not been an opportunity to engage broadly on a wide range of options. We have also not had the scope to co-design options with the sector, industry or Māori groups, although their consultation feedback will inform final design decisions.

45. We also note that the proposed option is being consulted on at a relatively high level, with feedback being sought on how the model would best operate in practice. This means that we have had to analyse this option at a relatively high level and that our final analysis will depend significantly on final design decisions. Similarly, the alternative options considered are only outlined at a high level, acknowledging that there are numerous variations on these options that could be considered.

46. Options only consider the broad system design and do not generally consider the issues that would need to be dealt with in secondary legislation (such as Orders in Council) or the various funding and operational policy settings that could be adjusted as part of an option. We note that the likely success of any of the options considered in this document will depend significantly on these decisions, making it difficult to assess the impact of legislative settings in isolation.

47. In particular, we have not assessed the merits of detailed designs of the ITP network, including the specific role and number of institutions. Final decisions on the detailed design of the network would be made in parallel with, and subsequent to, any legislative change and will be informed by community expectations and financial viability assessments (as discussed in section 3). An exception is the anchor role played by the Open Polytechnic in the option under consultation, which is core to the proposal and is likely to be supported by primary legislation.

What options were considered?

Option 1 – Status Quo

48. Under the status quo, Te Pūkenga would continue to operate as New Zealand's sole ITP and continue to implement its transformation programme and operating model. Existing legislative and non-legislative tools, such as the letters of expectation and the TEC's monitoring role would continue and could be used to manage risks associated with this model and to align Te Pūkenga's focus with the Government's broader priorities.

Option 2 – Retain Te Pūkenga, with greater authority devolved to regional subsidiaries

49. This option would involve requiring Te Pūkenga to establish regional subsidiaries and to devolve as much authority and decision-making to these subsidiaries as possible, while still being consistent with the overall obligations of Te Pūkenga and its Council. Functions such as programme and assessment design, student support and representation, faculty management and quality assurance would be managed at a regional level, with each subsidiary likely operating under its own branding.

50. The Te Pūkenga parent entity would retain responsibility for the bulk of back-office functions as well as the overall finances and budget of the group. Some moves towards greater national consistency, such as on employment agreements and student management systems, would likely continue. The parent entity may also coordinate some actions to improve education quality, such as inter-subsidiary moderation, research, and sharing of good practice.

51. Under this model, Te Pūkenga would retain accountability for the performance and viability of its subsidiaries, although subsidiaries would likely be quality assured and accredited in their own right. While it would be constrained in its ability to direct these subsidiaries on specific matters, it would be required to report to Parliament on the overall performance of its network of subsidiaries. In the event of the imminent failure of a subsidiary Te Pūkenga would ultimately need to step in to support its viability.

Option 3 – Split Te Pūkenga into a small number of regional ITPs

52.   Under this option, Te Pūkenga would be split up into a small number of separate regional institutions. For example, these could be based on Te Pūkenga's four existing regions:

   a.   Northland and Auckland

   b.   Waikato, Bay of Plenty, Te Tai Rawhiti and Hawke's Bay

   c.   Taranaki, Manawatū-Whanganui, Wellington, Marlborough and Nelson Tasman

   d.   West Coast, Canterbury, Otago and Southland

53.   Alternatively, a different set of regional boundaries could be adopted if it would support viability or otherwise be considered more effective.

54.   The regional ITPs could have a simpler governance model than Te Pūkenga, focused on ensuring responsiveness to key regional stakeholders. Each ITP would operate separately, but clear regional boundaries should promote collaboration, given reduced competition.

55.   Further consideration would need to be given to the role of provision that would not necessarily operate on regional lines (such as whether the institutions should offer competing online delivery). Work-based delivery may not lend itself to regional divisions (although it would be possible) and consideration would need to be given to also splitting out Te Pūkenga's work-based learning division (see the discussion on Decision 2).

56.   Under this model, some functions could remain centralised where they supported greater efficiency and effectiveness, but they would service the ITPs rather than directing any operations.

Option 4 – Re-establish standalone ITPs where viable, with other ITPs operating in a federation supported by the Open Polytechnic (option being consulted on).

57.   This option would allow for the establishment of two types of entities:

Standalone ITPs
These ITPs would have similar governance and institutional arrangements to those that existed previously for ITPs. They would be legally separate and independent, funded directly by the TEC and quality assured by the New Zealand Qualifications Authority (NZQA). These ITPs would need to be financially viable while maintaining appropriate network of provision in their region.
Federation ITPs
While these ITPs would each be separate legal entities, they would be part of a federation of institutions with shared services and systems. The details of these services and systems are subject to consultation, but could include shared learning and teaching development materials and shared programme development, as well as student management and learning management systems. ITPs in the federation could also share some back-office functions where economies of scale exist (e.g., procurement, human resources, finance etc).
The Open Polytechnic would be the 'anchor institution' for this federation, providing core capability in extramural and online provision to allow for development of new delivery models in areas where previous models are no longer viable.

> The federation itself would be established in legislation, with specific functions, a governance framework and specified relationship and duties between the federation and member ITPs. The federation would consist of former ITPs that are not independently viable in their previous form, but which could be viable if they were to reduce costs by shifting the delivery model for some of their current provision.

58.   It is proposed that ITPs could move between these two categories over time. In particular, it is intended that some federation ITPs could become standalone ITPs in the future, if they are able to demonstrate their independent financial viability.

59.   The consultation document will seek feedback on many of the key aspects of how this model should operate and whether it can be financially viable, which will inform final design decisions and our final assessment of the option. In particular, the detailed governance arrangements for the federation and the nature of the relationship between federation ITPs (and between the federation and standalone ITPs), will be critical to the success or otherwise of this model. Feedback is also being sought on the specific role of the Open Polytechnic which is intended as providing core capability for the federation. The final funding model for the functions of the federation will also be critical in its design.

Option 5 – Reestablish a network of standalone ITPs

60.   Under this option, Te Pūkenga would be disestablished and replaced by a number of individual ITPs. While as a starting point these ITPs would likely be based on the previous ITP network, they would need to be established in a financially viable form, which will require some mergers and may be very difficult to achieve at all in some areas. Our initial expectations are that this would result in significantly fewer institutions than existed pre-RoVE and that ITPs may need to withdraw from in-person provision in some areas.

61.   Other changes to the previous system could be considered to enable greater collaboration among ITPs, such as giving ITP councils a duty to consider how they should approach operating as a single network or system, or otherwise incentivising to have some shared services and to collaborate.

How do the options compare to the status quo/counterfactual?

	Status Quo	Option 2 – Te Pūkenga devolved	Option 3 – Regional ITPs	Option 4 – Standalone ITPs + Federation	Option 5 – Standalone ITPs
Local responsiveness	0	+ May strengthen local decision-making, but constrained within a national entity.	+ May be somewhat more responsive, but regional ITPs would still be quite large and not necessarily connected to local needs.	+ Would centre authority, decision-making and accountability with locally based ITPs.	++ Would centre authority, decision-making and accountability with locally based ITPs, where viable.
System sustainability	0	0 Retains economies of scale and the ability to cross-subsidise and ensure sufficient liquidity across the network. Potentially offset by increased governance complexity.	0 Should not significantly undermine the stability of the system compared to the status quo, provided that the overall balance of provision in each region provides for entities that have a pathway to viability.	- Some economies of scale for federation ITPs, but no ability to cross-subsidise across the whole network. However, programme development support has the potential to allow member ITPs to make a credible service offer to their regions using the federation. Depends significantly on the detailed design of the federation model. Risk of failure of individual ITPs or potentially the federation.	- - More limited economies of scale and no ability to cross-subsidise across the network. Almost certain to result in failures without more Crown funding.
Learner and employer needs	0	0 Ability to cross-subsidise and dedicated funding to respond to regional and national skill needs should allow Te Pūkenga to maintain access to a breadth of training across the country, although	0 Sufficiently large regions and ability to cross-subsidise should allow regional ITPs to maintain access to a breadth of training within each region, although significant	- Impact is likely to differ depending on the financial viability of ITPs. Standalone ITPs should be viable while meeting the needs of local learners and employers, whereas federation ITPs are likely to need to make more significant changes,	- - Potentially significant loss of access to in-person study options in some regions a viable ITP cannot be reestablished or where the ITP either cannot justify offering a breadth of

		significant rationalisation would still be required.	rationalisation would still be required.	including a risk of more signification reductions in in-person learning.	provision or where it is not possible for them to maintain an in-person presence at all.
Implementation cost and complexity	0	- May require legislative change, but less complex with more limited transition costs. Would still require change, and likely further investment, to address historical viability issues.	- Would require legislative change with significant transition costs, including recapitalising new entities.	- - Legislative change would be significant and there would be large transition costs, including recapitalising new entities. Transition to a federated model would be complex and take considerable time to achieve benefits. Role and governance of the federation likely to be complex.	- Legislative change would be significant and there would be large transition costs, including recapitalising new entities. Less complex than Option 4 given no need to establish a federation in legislation.
Te Tiriti and Māori-Crown relations	0	0 May disrupt existing relationships with iwi, but devolution may provide greater responsiveness to local Māori priorities.	0 Will depend on governance arrangements and duties of the regional ITPs. Lower risk of significant loss of provision. May provide greater responsiveness to local Māori priorities.	- Risk that federation results in a shift away from in person provision and a loss of facilities in some regions, which may not meet Māori needs. Will also depend on governance arrangements and duties.	- Greater risk that loss of provision means the network does not meet Māori needs. Will also depend on governance arrangements and duties.
Overall assessment	0	0 Least complex change to implement, but limited benefits compared to the status quo.	0 Would shift decision-making to broad regions, while maintaining sufficient scale to keep some of the benefits of centralisation.	- May mitigate risks of loss of provision compared to Option 5, but highly dependent on design and funding of the federation model. Likely to be complex to develop and difficult to implement within available timeframes.	- Greatest flexibility for individual ITPs and limited complexity. Comes with greatest risks to the network of provision, given that some previous ITPs will not be viable without significant ongoing Crown funding.

What option is likely to best address the problem, meet the policy objectives, and deliver the highest net benefits?

62. Given that we have not yet consulted and that any assessment will depend on the detail of final proposals, we have not formed a strong view on which option is preferable.

63. Given the degree of change that the sector has been through over the past four years, we would previously have erred on the side of giving the status quo more time to bed in, allowing Te Pūkenga an opportunity to fully implement its transformation programme. However, this option has become less viable over time as the central capacity and capability of Te Pūkenga is reduced to reflect Government expectations. This approach would still have come with risks and costs (as outlined in the problem definition), and there are no guarantees that the new operating model would have been successful.

64. On balance we would therefore now recommend Option 3 (regional ITPs). This assessment takes into account both the Government's objectives and the lessons learned from RoVE, and provides a balance between local responsiveness and innovation on the one hand, and the benefits of consistency and economies of scale on the other.

65. Regional ITPs would provide some of the benefits of centralisation, in terms of consistency, coordination and economies of scale across a region, while allowing the regions to each develop their own educational offerings and strategies in response to local conditions. This would appear to partially mitigate many of the key concerns about Te Pūkenga, while still seeking to address a number of the concerns that prompted RoVE. We acknowledge, however, that regional ITPs would not deliver the level of local connection that communities had to the previous ITPs and may be seen as having some of the same drawbacks of the Te Pūkenga model.

66. The Minister is proposing to publicly consult on Option 4 (a federation model). As noted, this option has benefits compared to the status quo and seeks to provide the most local responsiveness where doing so is viable, while the federation structure may support retention of delivery where a standalone ITP is not viable.

67. Our final assessment of this option will be highly dependent on the feedback sought via the consultation process and the final design decisions for the federation. There is a risk that the model doesn't adequately support the retention of critical provision for parts of the network, but the extent of this risk will depend on the final role of the federation, how it is funded and more detailed analysis of the viability of ITPs that would sit within it. There is also a risk that the structure of the federation creates moral hazard issues, undermining the incentives on the leadership of federation ITPs to make difficult decisions to maintain their own viability.

68. These issues will also require careful consideration in the final design and may make this option particularly complex to implement effectively within the available timeframes.

Decision 2: The delivery of work-based learning

70. This analysis considers options for the delivery of work-based learning (WBL) at a sub-degree level – that is vocational training delivered on-the-job, primarily delivered in the workplace although sometimes supplemented with off-the-job training. This is also referred to as 'industry training'. Apprenticeships are the most common form of WBL, although it also encompasses other sorts of trainee arrangements.

71. Work-based learning is distinct from work-integrated learning – that is provider-based training that may incorporate some forms of on-the job experience, but which is not delivered as part of an employment relationship.

72. This analysis is also limited to sub-degree delivery, and does not consider policy settings for degree and above delivery.

What criteria will be used to compare options to the status quo?

73. We have used the following criteria for analysing which options are most likely to meet the objectives:

    a. Responds to industry needs and encourages employer buy-in

    b. Supports learners to succeed

    c. Supports system sustainability

    d. Role clarity and system coordination

    e. Minimises implementation time and costs

    f. Gives effect to Te Tiriti and supports Māori Crown relations.

What scope will options be considered within?

74. As with the options analysis for the other decisions, the development and analysis of options is only preliminary pending the outcome of consultation, and the options considered are only broadly representative of the different approaches considered. In particular, feedback from industries and employers who will be affected by the changes is likely to influence our final analysis.

75. As noted above, for the options other than the status quo (which we have retained for comparison purposes), the analysis considered presumes that the Minister's proposed option for Decision 1 is adopted. Our assessment of these options would likely differ if an alternative approach to the ITP network is progressed.

What options were considered?

Option 1 – Status Quo

76. Under the status quo, Te Pūkenga has inherited responsibility for the majority of WBL from the ITOs. Te Pūkenga enters into training agreements with both the employer and employee and is responsible for both the workplace-based on-the job training as well as any training that occurs in provider-based off-the-job settings.

77. At present Te Pūkenga's work-based learning functions operate as a separate business division, alongside 15 former ITP business divisions.[3] While plans are in place to separate functions within WBL between programme development and learner/employer support, Te Pūkenga is yet to develop a clear plan for how it will integrate work-based training with provider-based and online delivery.

78. Approximately 20 percent of WBL is currently delivered by PTEs. This largely consists of former ITO programmes and learners that did not transition into Te Pūkenga (or only did so temporarily).

79. While the ability for additional providers to enter into this market has been limited during the transition to Te Pūkenga, the intention is that additional providers would be able to enter the market and compete with Te Pūkenga and the existing PTEs, offering choice for employers and learners. For example, Māori-owned or operated businesses may seek out WBL options from 'by Māori, for Māori' providers such as Wānanga.

Option 2 – Current Te Pūkenga work-based learning delivered by ITP-owned central layer

80. Under this option, Te Pūkenga's existing WBL business unit would be collectively owned by the ITPs, supporting integration of work-based and provider-based learning, including off-job components of this provision being delivered by the ITPs. The WBL unit would continue to financially support the ITPs, although the extent of future surpluses will depend on changes to the funding system from 2025.

81. While other providers would be able to enter into WBL over time, the WBL business unit would have a very dominant role in the market, having inherited the national networks, connections and relationships of most parts of the existing WBL system, as well as regional connections via its parent network of ITPs.

Option 3 – All providers enabled to offer WBL, with existing Te Pūkenga WBL business unit made independent (option being explored through consultation)

82. Under this option, Te Pūkenga's existing WBL business unit would be split off into independent entities (effectively becoming TEOs in their own right), with a significant industry role in their governance. Other providers (including individual ITPs) would be enabled to offer WBL that they consider might be attractive to employers and learners, with the TEC making decisions about how best to prioritise the funding of this delivery.

83. In the consultation document, this option for the delivery of work-based learning is paired with the retention of a smaller number of industry standards-setting and skills leadership entities, with narrower functions (compared to the current WDC system). This is analysed as Option 2 for Decision 3 in this document.

Option 4 – WBL arranged by industry training boards (option being explored through consultation)

84. Under this option, work-based learning would be arranged (but not delivered) by industry training boards[4] (ITBs), under a similar model to the previous ITO system.

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[3] Two of the previous 16 ITPs, WelTec and Whitieria, are treated as a single business division.

[4] Working title

These bodies would enter into a training agreement with an employer and employee and be responsible for supporting the employer to deliver the WBL and supporting the learner to succeed in their training. Providers such as ITPs would not be able to offer workplace-based learning, although where a programme requires specialist off-the-job delivery, the ITB would be required to contract providers such as ITPs to deliver it.

85. The establishment process, governance, funding rules and operational settings for ITBs would need to be used to mitigate the risk of the unhealthy competition issues that existed between ITOs and providers reemerging and to provide for ITBs to collaborate with ITPs, PTEs, and Wānanga as part of a single VET system.

86. Under this option for the delivery of work-based learning, ITBs would also have responsibility for industry standard-setting and skills leadership. This is analysed as Option 3 for Decision 3 in this document.

How do the options compare to the status quo/counterfactual?

	Status Quo	Option 2 – WBL delivered by ITP-owned entity	Option 3 – WBL unit split from Te Pūkenga (consultation option)	Option 4 – Industry training-type model (consultation option)
Industry responsiveness and employer buy-in	0	- Risk that WBL is skewed by the interests and incentives of individual ITPs, rather than focused on the needs of industries and employers. Other players may enter, but the existing WBL unit would have a powerful position in the market.	+ Provides employers with choice and competition, with the potential for multiple WBL providers for some programmes in some regions. A possible loss of coordination at an industry level.	+ Would support industry responsiveness and buy-in as sectors would have control of the arranging of WBL. Does not provide for choice on the part of individual employers.
Learner support	0	0 An integrated model for provider-based and work-based learning avoids arbitrary distinctions and improves flexibility for learners and providers. Also allows WBL provider to offer the full suite of supports (regardless of whether or not they amount to arranging or delivering training).	0 Achieves an integrated model for provider-based and work-based learning by allowing providers to deliver WBL and the WBL unit/s to delivery provider-based learning, thereby avoiding arbitrary distinctions and improves flexibility for learners and providers.	- Delivery needs to be clearly separated between work-based and provider-based learning in a way that may not serve learner interests. Prohibition of ITBs delivering training may constrain their ability to directly support learners. e.g., where literacy and numeracy supports are required.
System sustainability	0	0 The counter-cyclical pattern of WBL enrolments vis-a-vis provider-based enrolments should allow for cross-subsidisation depending on economic conditions, supporting the financial viability of the VET system.	0 While it would not support the viability of the ITP network in the first instance, enabling providers to offer WBL should continue to support the financial viability of the VET system in the longer term.	- Shifting enrolments between WBL and provider-based learning due to economic conditions may create challenges for both ITBs and ITPs in navigating parts of the economic cycle, without the ability to cross-subsidise.

Role clarity and system coordination	0	0 Roles remain clear with continued scope for coordination between ITPs and WBL business unit.	0 Roles remain clear, but less scope for coordination.	- Drawing a distinction between 'arranging' and 'delivering' training has been challenging in the past, although the establishment of new ITBs may provide an opportunity to promote a more collaborative model from the outset.
Transition cost and speed	0	- Some complexity in establishing governance of WBL and relationships to ITPs, although limited additional costs (above those incurred in disestablishing Te Pūkenga).	- Some complexity in establishing WBL unit as a standalone entity, although limited additional costs (above those incurred in disestablishing Te Pūkenga). Allows for transition to be staged more easily.	- - Requires transitional arrangements to transfer training functions, staff and learners to re-established ITBs, as well as the establishment of ownership and governance arrangements for ITBs. PTEs will require a transition to shift out of WBL.
Te Tiriti and Māori Crown relations	0	0 Would support planned moves for some Wānanga and other Māori providers to shift into WBL.	0 Would support planned moves for some Wānanga and other Māori providers to shift into WBL.	- - This option would prevent Wānanga and other Māori providers from directly arranging the delivery of WBL.
Overall assessment	0	- Maintains close connection between ITP delivery and WBL, with the potential to better support the financial sustainability of the system, but a risk that individual ITP interests crowd out the focus of WBL on industry needs.	0 Does not draw a hard line between WBL and provider-based delivery and should ensure that WBL is responsive to industry needs.	- Provides for greater direct industry control of WBL at the expense of needing to draw a clear line between WBL and provider-based delivery and complexity in distinguishing between arranging and delivery training.

What option is likely to best address the problem, meet the policy objectives, and deliver the highest net benefits?

87. In a scenario where the Minister's preferred approach to Decision 1 is progressed (standalone ITPs and a federation of other ITPs), the status quo for WBL is not a viable option. All three of the alternative options considered have merits and will enable the ongoing provision of work-based learning without significant disruption for most current apprentices, trainees, and employers.

88. On balance, our preferred approach would be Option 3 - splitting off Te Pūkenga's existing work-based learning unit, allowing any providers that meet relevant standards to offer WBL, and not returning to the previous ban on delivery activities by WBL organisations. The key benefit of this approach is that it would restore industry governance of WBL and encourage greater responsiveness than Option 2, while providers (including ITPs) would still have the ability to enter into the WBL market and compete through innovative products. To minimise disruption, Te Pūkenga's current WBL unit could initially be moved out as a single entity and then further divided along industry-specific bodies as and if those proved to be capable, sustainable, and have industry support. This should result in a smooth transition and minimise impacts on staff and learners.

89. The other option being consulted on is to re-establish industry-led training organisations (Option 4). This approach will increase industries' influence and power over their WBL arrangements, with a Ministerial establishment model providing greater central control over coverage and business models compared to ITOs. In addition to the potential disruption involved in transferring learners and staff to newly established entities, we have two key reservations with this approach:

    a. Firstly, the distinction between 'arranging' and 'delivering' training has proved difficult to manage in the past given the distinctive nature of WBL (where the employer is the default delivery agent). This was historically the source of significant tensions in the VET system. It may also impair the access of learners in work-based programmes to some forms of support if these are deemed to resemble educational delivery, and it makes integrating WBL and provider-based delivery in a single programme more complex as it must involve a third party. More generally, establishing separate systems for provider-based and work-based VET runs counter to the trend of greater integration between these modes of delivery, creating arbitrary distinctions that may not be in learners' interests and that may create barriers to innovation in educational delivery.

    b. Secondly, preventing other organisations from offering WBL reduces competition, and provides employers and employees with limited alternative options if the mandated organisation is not meeting their needs. Implementing this will also require PTEs to exit their current programmes; while they may be encouraged to transition enrolments, resources, and staff to the WBL organisation the Crown will have limited levers to force this to occur. This increases the risk of disruption to current learning, as well as to potential legal challenges.

Decision 3: Industry standards-setting and skills leadership

90. This analysis considers how VET skill standards and skills leadership functions could work under a system where the Minister's preferred option for Decision 1 is adopted.

91. Standards-setting refers to the process of developing industry-relevant and quality-assured skills standards, qualifications, and credentials that are used to create courses and programmes of learning. It also involves ensuring consistency and quality use of those products.

92. Skills leadership encompasses the core functions needed to carry out standards-setting – such as labour market and skills needs analysis and industry engagement – but can potentially involve more strategic work around industry development, pipeline, and skills utilisation issues.

What criteria will be used to compare options to the status quo?

93. We have used the following criteria for analysing which options are most likely to meet the objectives:

    a. Responds to industry needs and encourages employer buy-in

    b. Aligns training with industry skill needs

    c. Minimises conflicts of interest

    d. Minimises ongoing costs to the Crown

    e. Minimises implementation time and costs

    f. Gives effect to Te Tiriti and supports Māori Crown relations.

What scope will options be considered within?

94. As with the options analysis for the other decisions, the development and analysis of options is only preliminary pending the outcome of consultation, and the options considered are only broadly representative of the different approaches considered. In particular, for this decision we gave initial consideration to empowering existing industry bodies to undertake standards-setting, but did not progress this further due to concerns about how this would work in sectors with multiple representative bodies, or where industry bodies otherwise lack the scale and capability to undertake this role.

95. As noted above, for the options other than the status quo (which we have retained for comparison purposes), the analysis considered presumes that the Minister's proposed option for Decision 1 is adopted. Our assessment of these options would likely differ if an alternative approach to the ITP network is progressed.

What options were considered?

Option 1 – *Status Quo*

96. Under the status quo, there are six WDCs, each responsible for specific sectors of industry.

   a. *Hanga-Aro-Rau:*   manufacturing, engineering, and logistics

   b. *Muka Tangata:*   food and fibre industries

   c. *Ringa Hora:*   service industries

   d. *Toi Mai:*   creative, cultural, recreation and technology

   e. *Toitū te Waiora:*   community, health, education, and social services

   f. *Waihanga Ara Rau:*   construction and infrastructure.

97. WDCs are responsible for four key functions:

   a. developing skills standards, capstone assessments, and qualifications

   b. industry skills leadership, including labour market analysis and strategic leadership in addressing future skills related challenges

   c. externally moderating assessments and endorsing programmes

   d. advice and representation, including advice to TEC on its investment in VET for their industry.

98. WDCs are independent, industry-led bodies, governed by their own bespoke Orders in Council, which set out core operational and governance requirements, and the industries for which they have coverage. All industries are in principle covered by one of the WDCs, so that there are no gaps in standards-setting coverage.

Option 2 – Narrower and consolidated independent standards-setters model (option being consulted on)

99. Under this option, independent standards-setters would remain, but compared to WDCs their functions would be narrower and focused on standard, micro-credential and qualification development, and moderation. These entities would not be required to provide investment advice to the TEC and their skills leadership function would be narrowed to a strategic workforce analysis and planning function. Legislative change would be required to alter these functions.

100. The legislative provisions setting out the structure and governance model would remain the same or very similar to what governs the WDCs at present, although some current entities may be merged in order to build economies of scale and lower costs. The coverage of independent standard-setting could potentially be reduced, with responsibility for standards in some sectors returned to the New Zealand Qualifications Authority (NZQA), and this may further reduce costs to the Crown.

101. In the consultation document, this option for standards-setting and skills leadership is paired with the option of splitting the work-based learning division of Te Pūkenga off as a separate entity or entities. This is analysed as Option 3 for Decision 2 in this document.

Option 3 – Industry Training Boards responsible for standards-setting (option being consulted on)

102. Option 3 is structurally similar to Option 2, but with these functions sitting alongside responsibility for arranging training (as discussed in Decision 2). New, industry-led organisations – provisionally referred to as ITBs – would be established by the Minister through Orders in Council and take over responsibility for standards-setting in a particular set of industries. As in Option 2 these bodies' skills leadership functions would likely be narrower than those of the current WDCs and they would no longer have a statutory role to provide investment advice, develop capstone assessments or undertake programme endorsement.

103. The key difference between these options is that under Option 3 the standards-setting function is undertaken by the same organisations that arrange WBL (see Option 4, Decision 2). This allows for feedback loops between standards-setting and modern work practices and contexts in an industry, potentially better connecting standards-setting with feedback from training outcomes.

104. The coverage of ITBs could be narrower than that of WDCs, focused on traditional VET industries with responsibility for standards in some sectors returned to NZQA.

105. In the consultation document, this option for standards-setting and skills leadership is paired with ITBs taking on the role of arranging work-based training. This is analysed as Option 4 for Decision 2 in this document.

Option 4 – NZQA takes responsibility for standards-setting

106. Under Option 4 the WDCs' regulatory functions (standards-setting) would shift to the New Zealand Qualifications Authority (NZQA), likely involving the creation of a vocationally focused qualifications development unit within NZQA, supported by arrangements to support industry engagement, such as sector reference groups.

How do the options compare to the status quo/counterfactual?

Key:		
++	much better than the status quo
+	better than the status quo
0	about the same the status quo
-	worse than the status quo
- -	much worse than the status quo

	Option 1 – Status Quo	Option 2 – Narrow and consolidate standard-setting (consultation option)	Option 3 – ITBs responsible for standards-setting (consultation option)	Option 4 – NZQA responsible for standards-setting
Industry responsiveness and employer buy-in	0	- Some industries likely to object to the loss of influence over TEC investment decisions. Risk that any consolidation makes WDCs less responsive to particular sectors, although mitigated by industry reference groups.	0 Likely to have a mixed response from industry – some will be supportive (particularly those who were well-served by the ITO model), while others are likely to object to the loss of WDCs' broader functions.	- - Significant loss of industry voice and control without independent standards-setting.
Supports skills needs	0	- Narrower skills leadership function may reduce WDCs' ability to look strategically at how the skills system can address broader challenges (e.g., equity etc).	0 Narrower skills leadership mandate may be offset by improved feedback loops with arranging training function.	- More difficult for NZQA to maintain effective understanding of industry skill needs.
Role conflict	0	0 No role conflict – regulatory and arranging training functions are separate.	- - Risk of significant conflict between standards-setting and arranging training roles. Would limit the level of influence that ITBs could have over provider-based delivery.	0 No role conflict – regulatory and arranging training functions are separate.
Reduces ongoing costs	0	+ Should reduce ongoing cost to the Crown.	++ Should substantially reduce the ongoing cost to the Crown, with feedback loops from arranging training reducing industry engagement costs.	0 Additional costs to NZQA likely to substantially offset savings from disestablishing WDCs.

Transition cost and speed	0	0 Could be implemented relatively quickly at a low cost, although legislative change would be required.	- More complex to implement and transition to, with additional costs associated with the disestablishment of WDCs.	- More complex to implement and transition to, with additional costs associated with the disestablishment of WDCs.
Te Tiriti and Māori Crown relations	0	0 Would not appear to significantly alter the role of WDCs in engaging with the need of Māori employers, although final assessment would depend on detail of governance arrangements and on feedback from Māori stakeholders.	- Potential that a focus on industry needs could crowd-out Tiriti concerns, although final assessment would depend on detail of governance arrangements and on feedback from Māori stakeholders.	0 NZQA would need to engage with Māori as part of giving effect to this function, although final assessment would depend on detail of governance arrangements and on feedback from Māori stakeholders.
Overall assessment	0	0 Would reduce costs, while maintaining the critical core purpose of standards-setting. Narrower role may make the funding system less responsive to industry needs. Risk that any consolidation of standard-setters is less responsive to particular industries.	- Placing a narrow standards-setting role alongside the arranging of industry training would reduce costs and improve feedback loops, but would recreate a conflict of interest, limiting the influence that ITBs could have over provider-based delivery.	- - While NZQA has the core capability to set standards, it would not provide the independent industry standards-setting role that is critical to high performing VET systems.

What option is likely to best address the problem, meet the policy objectives, and deliver the highest net benefits?

107. Pending feedback from consultation, our current view is that there does not appear to be a fundamental problem with the current model for WDCs and that they have been making good overall progress. On this basis we would prefer either Option 1 (the status quo) or Option 2 (if savings need to be made in the current fiscal environment). While anecdotally some industries do not consider that they have as much influence over the WDCs as they did with the previous ITOs, this is not consistently the case across industries and reflects at least in part the fact that WDC functions are still maturing. Industry feedback on the current system as part of the consultation process will inform our final assessment on standards-setting options.

108. Option 2 should result in reduced ongoing costs to the Crown, although the amount of these savings will depend on the configuration of the successors to WDCs and the details of their functions. Consultation feedback would inform final decisions on the preferred balance of savings via consolidation versus savings via a narrowing of functions. While we are aware that one WDC has proposed consolidating WDCs into a single entity, some industries and parts of industry would likely be concerned about a loss of influence, and about the extent to which this could effectively be mitigated by empowering industry groupings within the entity.

109. Savings in Option 2 would also come at the expense of the broader skills leadership and investment advice roles undertaken by the WDCs. While we see these roles as useful in terms of helping to provide a strategic view of sector skill needs (addressing coordination challenges within and across industries) and improving the TEC's responsiveness to industry needs, this option would still maintain the critical functions of WDCs, particularly independent standards-setting.

110. The alternative approach explored in the consultation document is Option 3, which assigns responsibility for standards-setting to the newly established ITBs (as per Option 4 for Decision 2). This option places a high priority on industry buy-in to the system, particularly from traditional trades industries (some, but not all, of who were relatively well served by the ITO model). It is also likely to further reduce ongoing costs (compared to Option 2), with feedback loops from ITBs' arranging training functions potentially reducing the level of industry engagement expenditure required and potentially improving agility and responsiveness.

111. Our main concern with Option 3, subject to consultation feedback, is the risk of a conflict between ITBs' standards-setting function and their role in arranging training. While drawing a distinction between 'delivering' and 'arranging' training seeks to mitigate this issue, as noted above the line between these two activities has proven difficult to draw in the past. Previous experience suggests that there is a risk that ITBs will set standards in such a way that supports their arranging training function over provider-based delivery, although we would seek to mitigate this risk with a different governance model and via funding levers. The application of standards-setting powers to provider-based VET would likely need to be weakened, which would reduce national consistency in programmes for those industries.

112. We do not support Option 4, which does not provide for independent standards-setting, which we consider to be a critical function of a successful VET system. This option would likely not result in significant savings, given the need to resource this function within NZQA.

Te Tiriti o Waitangi Analysis

113. As a partner to Te Tiriti, the Crown has a duty to actively promote and protect Tiriti rights and interests and to develop education settings in a way that supports Māori-Crown relationships. This duty is recognised in section 4(d) of the Act which records one of the education system's purposes as being 'to establish and regulate an education system that honours Te Tiriti o Waitangi and supports Māori-Crown relationships'. Te Tiriti analysis supports the Crown to uphold our obligations to Māori by actively considering how the proposed reforms might impact Māori.

Key context for our analysis

114. There are a variety of Māori rights and interests in the education system generally, including in the VET system. Those with interests in the VET system include Māori learners (and their whānau), Māori staff and leadership, Kaupapa Māori providers (e.g., Wānanga, some PTEs), Māori employers, and iwi/whānau/hapū. The Crown has an important role in supporting equitable outcomes in education, and in enabling Māori to exercise rangatiratanga over mātauranga Māori and in decisions about meeting the needs of Māori learners and communities (including iwi and hapū).

115. In VET, Māori make up a significant and growing proportion of learners (62,000 or 22% in 2022). Just under half are in WBL at Te Pūkenga and PTEs (46%), a quarter are in provider-based learning through Te Pūkenga, and the remainder are in provider-based programmes at PTEs, Wānanga, and some universities.

116. Previous analysis found that there are inequities in education participation, achievement and employment outcomes between Māori and non-Māori – Māori learners tend to participate at lower levels of study, are more likely to be involved as trainees rather than apprentices, and are more likely to be in lower-skilled, lower-paying employment.[5] Māori were also over-represented in jobs that are likely to be impacted due to technological change and transitions to a low carbon economy.

117. Māori are also significant employers, with particular social, cultural, and economic goals. They are particularly important for regional New Zealand and in the primary and export sectors. A 2018 report on the Māori economy estimated the financial value of the asset base to be over $60 billion.[6]

118. When we engaged with Māori in the development of RoVE, we heard a number of VET system features that are important to Māori, including that the system:[7]

    a.   upholds the Treaty in the Māori-Crown relationship (and retains and builds on existing relationships between providers and Māori representatives)

    b.   is responsive to Māori needs, industry-led systems, tailored workforce approaches, workplace recognitions, and affordability

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[5] Evidence Brief for the Tertiary Education Strategy, September 2019, p. 12.

[6] Te Ōhanga Māori – The Māori Economy 2018 (rbnz.govt.nz), p.14.

[7] What we heard: Summary of public consultation and engagement, Reform of Vocational Education.

c.　enables Kaupapa Māori education providers to operate and develop as institutions with significant autonomy (especially as regards kaupapa and Mātauranga Māori)[8]

d.　is able to respond to the diverse needs of Māori and iwi (including at the regional and local levels, with particular reference to the need for regional representation to engage with mana whenua, local tribes or hapū, and Urban Māori Authorities)

e.　provides for Māori and iwi decision-making responsibilities at national, regional and local levels

f.　is learner centric, including learners obtaining skills in a supportive environment, ensuring that older Māori learners are supported by the system, and support for programmes that are tailored to Māori learners

g.　provides for Māori employer voice to be heard in the system

h.　protects and develops te reo Māori and mātauranga Māori qualifications and delivery

i.　provides improved access for learners, and facilitates improved engagement with, and support for, hard-to-reach groups (including those in small, rural communities).

119.　Additionally, in relation to educational and career pathways for Māori learners, we have heard the importance of choice, seamless transitions between secondary and tertiary education, and a recognition that there is more than one pathway to success.[9]

Proposals for consultation

120.　As outlined in earlier sections of this document, the VET system regulatory changes proposed to be consulted on are largely at a structural level, focused on the makeup and role of new entities at a high level.

121.　The consultation document also seeks feedback on questions related to governance and functions of any new entities. Currently, the Act places a number of Tiriti-related governance and function requirements on Te Pūkenga,[10] so any changes in this area will affect Māori interests. For example, Te Pūkenga is currently required to:

a.　reflect Māori-Crown partnerships, including in order to respond to the needs of and improve outcomes for Māori learners, whānau, hapū, and iwi, and employers;

b.　improve outcomes for Māori learners and Māori communities in collaboration with Māori and iwi partners, hapū, and interested persons or bodies;

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[8] We note that since the RoVE consultation, there have been legislative changes to reflect the unique characteristics of Wānanga.

[9] Reform of Vocational Education Regulatory Impact Statement.

[10] These requirements are cross-referenced in section 9 of the Act as recognising and respecting the Crown's responsibility to give effect to Te Tiriti or as otherwise being related to Te Tiriti. See ss 9(1)(g) and 9(2)(c), (d), (e), and (h), and sections cross-referenced therein.

    c.   develop meaningful partnerships with communities at a local level, including hapū and iwi; and

    d.   establish a Māori advisory committee.

122. Similarly, Tiriti-related requirements apply to WDC governance and functions, including that:[11]

    a.   provision is made for Māori employer representation on each council; and

    b.   WDCs have regard to the needs of Māori and other population groups identified in the tertiary education strategy.

123. A key issue will be whether and how these requirements might apply to new entities, which will form part of final policy decisions on the design of the new entities.

124. Importantly, there are wider system features that are not affected by the changes, that will continue to have an impact on accountabilities/incentives for providers, and we have assumed that these will continue. Many of these requirements have both direct and indirect links to Māori rights and interests under Te Tiriti. For example:

    a.   The TEC requires TEOs to develop learner success plans (including outlining how they will address educational disparities), and TEC monitors this (alongside financials and other performance measures). It is also a function of the TEC to give effect to the Tertiary Education Strategy, which includes specific reference to Māori and Te Tiriti across the identified priorities.

    b.   NZQA will continue to play a quality assurance role in relation to the development and delivery of qualifications, credentials and standards, and the introduction of skills standards supports the transferability of learning across VET providers and the efficiency of the system.

    c.   Providers will also be subject to broader accountabilities – for example, there are requirements to publish performance information, and providers must comply with the Tertiary and International Learners Code of Practice.

Approach to analysis

125. Engagement with Māori can help us to understand how proposed changes may impact on Māori rights and interests. In advance of consultation, we have informed our preliminary analysis by drawing primarily on:

    a.   what we heard from Māori during the widespread engagement and consultation on the previous VET reforms (RoVE)

    b.   the legislative design developed through the previous reform process that was intended to honour Te Tiriti and support Māori-Crown relationships and was informed by the associated engagement and consultation processes.

126. Our approach builds on guidance produced by Te Arawhiti in conjunction with the Cabinet Office Circular CO(19)5. While the courts and previous Government guidance has developed and focused on the principles of Te Tiriti, this analysis takes the text of Te Tiriti as its focus.

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[11] See ss 363(2)(3)(b) and s 369(2)(b).

Summary of preliminary analysis

127. Changes introduced through RoVE sought to shift the performance of the VET system for Māori by embedding Māori interests in the governance, design, and responsibilities of the new VET entities (alongside funding changes).

128. The system changes had a clear intention to both signal and give effect to a shift in relation to the system's responsiveness to Māori. However, at this stage it is difficult to quantify the impacts, particularly given it is too early in the implementation process for all of the changes to have had an impact.

129. Te Arawhiti guidance points out that '[e]ffective engagement with Māori is key to producing better quality outcomes and realising Māori Crown partnerships'.[12] While the proposed consultation process does meet some of the expectations set out in Te Arawhiti's guidance, the proposed options for consultation have not been developed alongside engagement with Māori. We have identified that there are likely to be Māori interests and concerns beyond the specific matters being consulted on, and intend to engage separately with key Māori partners and stakeholders to understand what design features they consider to be critical for Māori success in VET.

130. As with any transition process, there are risks arising from change – for example, learners and employers could experience some disruption to programmes, and participation could be affected. The relationships that iwi, hapū and other groups (including Māori employers) hold with people and institutions in the VET system may also be disrupted and may need to be rebuilt in the new structure.

131. Beyond the potential transitional impacts outlined above, and the system features identified as important to Māori during the RoVE consultation, potential issues / considerations identified in our preliminary analysis include:

      a.   whether and how the existing Tiriti-related requirements that apply to Te Pūkenga and WDCs will apply to new entities

      b.   potential for new entities to take very different approaches to Te Tiriti and Tiriti partnerships, leading to significant regional variation – but, equally, a devolved model may provide opportunities for iwi/hapū to build relationships with providers at a local level, and may experience a more responsive system[13] [14]

      c.   how to support positive developments/initiatives to be taken forward as part of the transition process (e.g., Te Pūkenga's work on a taonga inventory; Te

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[12] Te Arawhiti, Guidelines for engagement with Māori.

[13] We note that in their letters to the Minister for Tertiary Education and Skills, Mātauranga Iwi Leaders Group recorded their support for devolution, and the Skills Active Group supported reinstating an industry-led approach, noting it was well placed to take on the functions that it previously held as an ITO (although it was not clear whether or not it would support the current proposal to reinstate a split between arranging and delivering training).

[14] In Te Pūkenga's insights report, it noted that some iwi were implementing a 'process of devolution' that focused on regional rangatiratanga and hapū/papatipu rūnanga development, and as such, multiple hapū/papatipu rūnanga may inevitably want an active and meaningful relationship with Te Pūkenga regional delivery. (Te Pūkenga, Te Pae Tawhiti: Insights into Te Tiriti o Waitangi and Māori Equity Practices throughout our network, p.15.)

Pūkenga's Tiriti o Waitangi Excellence Framework, Te Pae Tawhiti; functions performed by Te Kāhui Ahumahi[15])

d.   how to manage the risk that financially viable options for the number/shape/scope of new entities may narrow provision, and have a significant impact on access, participation, and choice (and particularly for underserved groups); and

e.   ensuring potential impacts on Wānanga and other kaupapa Māori providers and their future aspirations are identified and addressed.

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[15] Te Kāhui Ahumahi was not set up as part of RoVE, but emerged as a governance group made up of Māori members of the WDCs. Te Kāhui Ahumahi supports WDCs to honour, give effect to and embed Te Tiriti o Waitangi and support Māori Crown relationships.

Section 3: Delivering an option

How will the new arrangements be implemented?

132. The Minister has indicated that she expects the necessary legislative changes to give effect to her preferred options to be in place during 2025, in time for the new structure to be fully implemented from 1 January 2026. In the meantime, the Minister expects agencies to work with Te Pūkenga to put in place structures within the organisation that will strengthen the viability of regional provision and support a rapid shift to the new model.

133. Until the legislation is enacted, both Te Pūkenga and the WDCs will be limited by their statutory functions, meaning that any transition activity cannot pre-empt legislative change. While a detailed transition approach has not yet been finalised, the legislation is likely to require these organisations to help identify and determine which assets, liability and staff should be transferred to the new structures.

134. Significant further work will be required on assessing the viability of different configurations of the future ITP network. This will require modelling of financial viability, engagement with local communities and stakeholders, and analysis of operating models for the different institutions. Significant work will be required on the operating model for any ITP federation, including on its governance and funding model. We note that it will be difficult to model the financial viability of the federation model, given uncertainty about the success of the federation in maintaining enrolments and therefore revenue.

135. Similarly, further work would be undertaken on implementing final decisions on the delivery of work-based learning and industry standards-setting. The nature of this process will depend on Cabinet's final decisions on this matter.

136. The TEC will work closely with any new entities on establishment activities so that they have the best chance of success on day one. Intensive monitoring and engagement arrangements will be put in place for all new entities, given the transition risks and viability challenges for some entities. For entities with viability challenges, there will be a particular focus on forward looking monitoring and engagement on plans to move towards sustainability. NZQA will also work with the relevant entities so that they can gain the appropriate approvals for their roles.

137. Cabinet approval is also sought on initial changes to the funding system. These changes are intended to support the new arrangements by shifting funding back towards higher per learner rates for provider-based study (sourced from streams of broader strategic funding). Other changes to funding rates are likely to be required from 2026, although these will depend on final design decisions.

How will the new arrangements be monitored, evaluated, and reviewed?

138. The Ministry of Education, TEC and NZQA will work together to establish a monitoring and evaluation framework for these changes. This will include both implementation and transition objectives (looking at the process for transitioning to the new system) and medium to long-term objectives for the VET system (building on frameworks established for the monitoring of the VET system post-RoVE). We note that depending on the complexity of the final model, the transition period may be lengthy and that it may be some time before we are in a position to assess the end impact of any changes.

139. We expect that the shorter-term monitoring activities will be led by the TEC, informed by its regular monitoring of providers (with particular focus on the ITPs during the transition period) as well as monitoring of how successful funding levers are at managing any role conflicts within ITBs and in promoting collaboration and industry engagement by ITPs.

140. The medium to longer-term outcomes monitoring and evaluation (3+ years) will build on frameworks developed for RoVE, updated to reflect a greater focus on local and industry responsiveness. Monitoring would likely include looking at:

- whether the system is more responsive at identifying and responding to employers' and community needs

- impacts on labour market outcomes for learners

- any impacts on the profile, reputation and credibility of vocational education

- the financial viability and sustainability of VET provision

- whether the change has had a positive impact on Māori and Pacific learners, and disabled learners and learners with additional support needs

- how well the VET system honours Te Tiriti and supports Māori-Crown relationships.

141. We expect that both the Ministry of Education and the TEC will undertake this medium to longer-term monitoring. A key data source will be the Integrated Data Infrastructure.

142. It will be difficult to attribute changes in outcomes to these reforms, particularly because the implementation of RoVE changes has yet to flow through into outcomes and because of the level of general disruption created by the two substantial structural changes to the sector in a relatively short period of time.

143. Given that the changes are being progressed quickly and that this constrains the options that can be progressed, we expect to undertake a follow-up review of system settings for VET within three years of enactment.