Regulatory Impact Assessment: Reform of vocational education

Advising agencies	*Ministry of Education, Tertiary Education Commission*
Decision sought	*Cabinet policy approval*
Proposing Ministers	*The Hon Chris Hipkins, Minister of Education*

Summary: Problem and Proposed Approach

Problem Definition

What problem or opportunity does this proposal seek to address? Why is Government intervention required?

Government wants to ensure that vocational education is responsive to learners' needs and supports an economy that is growing and working for everyone in New Zealand. Learners, employers and the government invest over a billion dollars of time and resources into vocational education each year, and rely on it to develop the skills needed to adapt to technological, economic and social change. Effective, efficient and relevant vocational education requires appropriate modes and blends of delivery, industry-defined skill standards and qualifications, and collaboration between the skills 'supply side' (learners, education organisations, and employers as on-job trainers) and the 'demand side' (industry).

The regulatory framework for vocational education appears to have contributed to ongoing problems of poor skills matching, inefficiency resulting from unclear and overlapping organisational roles, inequitable outcomes for some groups of people, and financially unsustainable Institutes of Technology and Polytechnics (ITPs) duplicating services and functions. ITPs and other providers also compete with industry training organisations (ITOs), each specialising in a different delivery mode: 'provider-based' or 'work-based' (eg apprenticeships). Vocational education is split into educator-dominated provider-based (mainly off-job) delivery and work-based (mainly on-job) industry training, each with its own funding system, dividing educators from industry.

The Government has identified two opportunities for reform of the regulatory framework, and a complementary opportunity to reform funding.

Proposed Approach

How will Government intervention work to bring about the desired change? How is this the best option?

Consultation focused on the following options proposed by the Minister of Education:
- *Proposal 1: Redefined roles for education providers and industry bodies*: redefine the roles of vocational education organisations so they are clear and complementary, by shifting the arranging of work-based training to providers, and strengthening industry's leadership through new Workforce Development Councils (WDCs).[1]

---

[1] Workforce Development Councils were referred to as Industry Skills Bodies (ISBs) during public consultation.

- *Proposal 2: Create the New Zealand Institute of Skills and Technology*: this organisation (the Institute) would have new capabilities to support work-based training, and would bring together the ITP sector as a single entity.
- *Proposal 3*: *A unified vocational education funding system*. This proposal includes a consolidated set of funding rates for on-job and off-job delivery, and funding for strategically important delivery that has higher costs. Funding would be designed to encourage blending of delivery modes to improve access to vocational education that better meets learner and employer needs.

These regulatory and funding proposals are a linked and interdependent package. Providers with responsibility for both work-based and provider-based delivery would be better able to support and blend on and off-job learning. Through WDCs, employers and industries would have stronger roles in the purchase and quality assurance of vocational education. Regions would gain a sustainable, consolidated polytechnic provider and structured regional input into the system. Proposal 3 is included in this assessment as a non-regulatory option for system change, and as supporting the proposed regulatory system change.

The various benefits sought from these reforms need to be weighed up against the costs and risks. These are summarised in Section B. Further information is given in two Cabinet papers, which are accompanied by a Business Case for the new Institute and a summary of submissions on the proposals.

Section B: Summary Impacts: Benefits and costs

Who are the main expected beneficiaries and what is the nature of the expected benefit?

The main expected beneficiaries and the expected benefits of the proposed reforms are:
- Learners: good educational and employment outcomes because vocational education is relevant, well supported and has the right blend of off-job and on-job learning, shaped by industry and employer needs.
- Employers and industries: greater influence over provider-based education, and better support for work-based training, leading to better access to skilled, productive employees when they need them.
- Communities and regions: a vocational education system that is more responsive to the needs of employers, regions and communities, and that is sustainable.
- ITPs and other vocational providers: the ITP sector becomes more sustainable and effective; all vocational education providers gain the opportunity to arrange work-based training; and increased opportunities for marketing and developing international relationships.
- ITP staff: opportunities to engage in new activities (such as supporting apprentices and their employers) or specialise (eg in programme design).
- The Crown: improved labour and skills utilisation, employment rates, productivity, and other outcomes leading to improved living standards; reduced fiscal costs (eg welfare support); and reduced financial risk as the owner of the ITPs. Ultimately these are benefits to New Zealanders as a whole.

We estimate efficiency benefits of the reforms of $224.8–368.0 million. Monetising the wider benefits accurately is not possible. However, if, as a result of the reforms, employment improves by 0.5 percentage points and earnings premia by 1.0 percentage points, these

benefits would together yield a present value benefit of approximately $1.2 billion over 30 years, or $1.6 billion if the employment rate increased by 1.0%. In practice, the benefit of more skilled employees would be shared across the economy rather than confined to earnings premia. Overall the monetised benefits indicated by these potential outcomes range from $1.4 billion to $2.0 billion. Non-monetised benefits are noted in section 5.2.

Where do the costs fall?

Under the proposed reform of the ITP sector, the Government would need to make a substantial investment to establish the new Institute. Some assets are likely to be surplus to requirements and may be disposed of, but efforts will be made to identify assets contributed by communities and to deal with them in a way that is in the interests of those communities. Many staff would experience job change and some would experience job loss. Government will work with stakeholders to ensure that there are good processes for supporting staff affected by restructuring.

Industry owns ITOs and would need to manage the changes for these organisations and staff, with government support. The government would fund the Institute (and Wānanga, if they decide to support work-based training) to purchase some ITO assets that are needed to effectively support employers, apprentices and trainees.

Table 1 summarises our estimates of additional costs to government of the RoVE proposals. These total $1.0–1.3 billion. This assumes that the 'ongoing' costs of a unified funding system will be within current baselines (this depends on future policy decisions).

Table 1: Present value of monetised establishment and ongoing costs to government (relative to the status quo) over 30 years

$m	Establishment and transition	Ongoing
Programme costs	35.8–42.8	
Workforce Development Councils	5.1	663.1–785.1
Industry training organisation transition	9	
Regional leadership groups	1.5	122.7–183.6
New Zealand Institute of Skills and Technology	166.2–232.6	16.8
Unified funding system (design only)	13.9–27.8	
Total	**231.5–318.8**	**802.8–985.5**

Our monetised cost and indicative potential benefits of RoVE's regulatory and funding system proposals imply a net economic benefit, after discounting future costs and benefits at 6 percent per annum, of between $0.1 billion and $0.9 billion (the differences between the highest cost and lowest benefit amount, and the lowest cost and highest benefit amount, respectively). This does not take account of some potentially significant non-monetised

costs and benefits noted in section 5.2. Nor does it take account of the costs or benefits of Centres of Vocational Excellence (CoVEs), with estimated present value costs of $0.3–0.6 billion.

Budget 2019 set aside $197.1 million in contingency to manage the costs of implementing the Reform of Vocational Education, though Cabinet noted that additional funding will likely be needed [CAB-19-MIN-0174.40 refers]. The papers seeking policy decisions now confirm this.

What are the likely risks and unintended impacts, how significant are they and how will they be minimised or mitigated?

Risks

Risks under the status quo are significant and include: a continued mismatch between skills supply and demand; and ongoing risks to the viability of ITPs – which in turn risks continued retrenchment of regional ITP provision.

The key risk across the proposed reform programme is that, from 2021 when the reforms would begin to take full effect, training volumes and completions could decrease in the short term – although this risk is mainly concentrated in lower level work-based training that is already declining in favour of higher-value apprenticeships. However, there is also a possibility of wider, longer-term reductions, and of reduced international enrolments.

A decline in training and training completions could have significant economic costs, particularly in industries that rely on workers with the skills developed through industry training. We expect that these industries would increase efforts to retain existing skilled workers, recruit workers from overseas and from other industries, and make use of alternative training options (such as non-formal training).

There are also risks associated with complexity of coordinating many reforms at once, and the challenge of understanding their interactions.

Risk factors under Proposal 1 include:
- providers may 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 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.

We have not estimated the costs of the technology to deliver the unified funding system, but these will be substantial (greater than the 'design' costs). Another risk is that the proposed Workforce Development Councils are not accepted by industry (particularly smaller, less influential industries) as representing their needs in the vocational education system.

Risk factors under Proposal 2 include:

- the Institute could be 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 lose confidence that the Institute is delivering to their needs and reduce their engagement with formal vocational education and training
- the Institute fails to quickly establish the much closer relationship with employers that is needed to support work-based training and to strengthen provider-based delivery
- the desired economies of scale of a consolidated organisation are offset by transaction costs resulting from additional layers of management and the merger of multiple legacy systems
- the Institute is 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.

Risk minimisation or mitigation

The proposed legislation and policy settings leave flexibility to work with affected parties to anticipate and address implementation risks. Legislation would prescribe some high-level roles, functions and governance structures, but leave many details of the reforms for determination by the Minister, NZQA, or the Institute. Like other tertiary education institutions (TEIs) the Institute would retain significant autonomy, but under a more rigorous TEC-led monitoring and interventions framework to address risks with having a single, large ITP. The initial investment in the Institute according to a business case to be presented to Cabinet is likely to have a lasting effect on its culture and internal structure.

The transition to the new system would be carefully coordinated, communicated, managed and well-resourced, prioritising learner and employer needs and focusing first on critical industries.

Key actions to minimise or mitigate the risks under Proposal 1 include:
- a phased transition process, managed by industry or government as appropriate
- a TEC-managed process to ensure continued access to high priority work-based programmes in the regions where they are needed
- a strong, and early, voice for industry (WDCs) and regions (Regional Leadership Groups) in setting priorities for providers, TEC investment in vocational education and, in the case of industry, programme design (all programmes to be based on industry standards designed by WDCs and to be endorsed by WDCs)
- flexibility and industry influence over how each industry is represented in an ISB, and funding to enable and incentivise WDC responsiveness to all industries they cover (including smaller industries)
- explore, at policy and operational levels, opportunities to strengthen secondary-tertiary pathways that lead into work-based training
- upfront investment in the work-based training capabilities of the Institute
- clear communications with affected stakeholders.

Key actions to minimise or mitigate these risks under Proposal 2 include:
- establishing Regional Leadership Groups to represent regional employer, community (eg iwi), and other goals to the Institute and the TEC, designed with their input

- 'directional' instruments such as a Charter, Statement of Intent, letters of expectations and funding conditions to guide the culture, organisation and priorities of the Institute in keeping with the objectives of the reform
- involving the Institute in work-based learning early, while ITOs are still in place
- retaining certain ITP legacy assets communities have contributed to, in the Institute
- increased monitoring and intervention options to address performance risks
- adequate investment in the Institute, informed by engagement with the ITP sector.

We do not see the proposals as increasing the overall level of risk related to delegated powers. The regulatory framework is already enabling, the proposed legislation will be more prescriptive in some areas, and it strengthens stakeholder oversight of the system.

Risks and risk mitigations in relation to diverse learner groups

With many changes in a relatively short space of time there is a danger that important perspectives will not receive the attention they deserve. Particularly given the relatively short consultation period, there are risks across the proposals regarding the Crown/Māori relationship and responsiveness to Māori, Pacific and disabled people, whose needs are often not adequately met in the vocational education system.

Key mitigations for these risks include:
- focus throughout the project and advice on the need to reflect and give effect to Māori-Crown relationships
- design of the legislative, governance and steering arrangements to ensure that the new entities are responsive to a range of learners' needs
- shifting to more learner-focused funding under the unified funding system
- engaging with priority groups (including through new formal advisory groups) to gain their input into the design and implementation of RoVE.

Identify any significant incompatibility with the Government's 'Expectations for the design of regulatory systems'.
We consider that the Minister's preferred option is compatible with the Government's 'Expectations for the design of regulatory systems'.

Section C: Evidence certainty and quality assurance

Agency rating of evidence certainty?
We are confident in the evidence of the current state of the vocational education system and its problems. Public engagement in 2018 and during and after the seven-week consultation period enhanced our understanding of how the proposals should be implemented and their likely impacts, and alternative options. The formal consultation period was relatively short for the scale of change proposed, but was intensive, achieving high levels of quality public participation. Many agencies have contributed to the policy process, providing additional quality assurance. Much of the proposed legislation allows for engagement with well-informed stakeholders and partners to inform the implementation of key elements of the new system. This helps to address any risks due to incomplete evidence.

We have a medium to high level of confidence in the evidence presented in this assessment. The costs outlined in Section B are subject to some uncertainty, and the monetised value of potential benefits is only indicative. Uncertainties regarding costs include: decisions to be finalised as part of implementation (informed by further consultation); how quickly it will be possible to staff the new Institute; and the extent to which ITP reserves can meet some costs. Many of the costs are, however, scalable or deferrable.

Refined estimates of the costs and benefits will be submitted to Cabinet in an implementation business case and Budget proposals in late 2019. This will be informed by further engagement with stakeholders.

Quality Assurance Reviewing Agency:
Ministry of Education / The Treasury

Quality Assurance Assessment:
The Panel considers that it partially meets the Quality Assurance criteria.

Reviewer Comments and Recommendations:
The Panel considers that although the RIA is complex it is relatively concise. There is a clear problem definition and compelling case for change. The RIA outlines the trade-offs around the high-level decisions to implement the preferred package. While there are potentially significant benefits, there are also high costs and risks during the transition period. However, the Panel does not find the RIA fully convincing and complete at this stage. The costs are subject to some uncertainty and the monetised value of the benefits appears highly indicative. The costs are uncertain because the detailed design and implementation of the preferred package is yet to be done. The panel notes that an implementation business case will be submitted to Cabinet, and that the Ministry of Education will involve stakeholders in design and implementation, including through formal advisory groups. It is important that this further detailed work is done to address implementation risks and to provide better information on expected costs and potential benefits to inform subsequent ministerial decisions.

Impact Statement: Reform of vocational education

Section 1: General information

Purpose
The Ministry of Education is solely responsible for the analysis and advice set out in this Regulatory Impact Assessment, except as otherwise explicitly indicated. This analysis and advice has been produced for the purpose of informing final decisions to proceed with a policy change to be taken by or on behalf of Cabinet. Cabinet will also consider two Cabinet papers, a business case for the new Institute, and a summary of submissions on the proposals.
Key Limitations or Constraints on Analysis
For these reforms, vocational education is defined as: all industry training, and all provider-based provision at levels 3 to 7 (non-degree) on the New Zealand Qualifications Framework (NZQF), excluding te reo and tikanga Māori, English for Speakers of Other Languages (ESOL), and university provision. ITPs' non-vocational education and National Certificate of Educational Achievement (NCEA) delivery will also be affected by any re-organisation of ITPs. In 2018, driven by concerns about ITP viability and whether the vocational education system is fit for purpose in a rapidly changing world: - The TEC established the ITP Roadmap 2020 project to work with the ITP sector and communities to clarify the sector's issues and find options for a sustainable future – this included co-design of options for consolidating the sector (the Minister of Education publicly indicated that a single ITP was an option).   - The Ministry of Education reviewed how the vocational education system meets learner, employer and community needs, and the government's role in the system.   - In December, these two closely inter-related workstreams were formally merged into a single project, the Reform of Vocational Education (RoVE).   This Regulatory Impact Assessment is informed by these reviews, New Zealand and international data and evidence on the performance of vocational education systems, engagement with stakeholders and partners over many years, and a relatively short (for the scale of proposed change) but intensive seven-week formal consultation process that ran from 13 February to 5 April 2019. The proposal to transfer responsibility for supporting work-based training from ITOs to providers was first put forward as part of the formal consultation. It was informed by engagement with key stakeholders and partners regarding the vocational education system as a whole, almost 30 years' experience of the industry training system, and previous consultation on a proposal to restore the skills leadership function to ITOs. Officials discussed the possibility of shared governance of ITOs and ITPs with the sector in 2018. The Government decided in mid-2018 to reinstate ITOs' statutory skills leadership role, but the legislation was deferred. That change is incorporated into the WDC proposal. Some costs are difficult to estimate precisely due to the scale of the proposed changes and

the need for further detailed decisions. Some decisions will be informed by stakeholder engagement and some costs will be fixed through procurement processes. Costs to establish a single ITP have been estimated, drawing on the experience of the TEC and sector representatives, including experience of past ITP mergers. Broad benefits are even more difficult to accurately predict as the ultimate gains are in outcomes that are affected by many factors. We have developed indicative values for the scale of potential benefit. A detailed business case will be presented to Cabinet in late 2019.

Responsible Manager:

Andy Jackson, Deputy Secretary
Graduate Achievement, Vocations and Careers
Ministry of Education

24 June 2019

Section 2: Problem definition and objectives

2.1 What is the context within which action is proposed?

Vocational education develops skills that are essential for raising living standards and supporting a growing economy. The vocational education system enables a degree of standardisation in learning outcomes that makes training more efficient and supports labour mobility between firms and regions. There are five core functions in the vocational education system:

- skills leadership: planning for future skills needs, and taking leadership of the changes needed to respond to those needs
- standards setting: developing standards and qualifications that address skills needs, and helping to ensure that graduates meet the standards set
- learning design: developing the curriculum, programmes, pedagogy and content required to successfully deliver a programme of learning
- purchasing vocational education: making decisions about what provider-based and work-based provision government will fund
- providing education and training: teaching and providing other support to learners, in workplaces ("on-job") and/or at providers.

In 2017, vocational education involved around 250,000 learners. It is either "work-based" (delivered mainly on-job, by employers to employees) or "provider-based" (delivered by providers such as ITPs, to students, mainly "off-job"). Government provided $632m towards tuition costs and industry training, and $243m for non-vocational education tuition at ITPs. Most learners pay fees, and those who study fulltime at a provider forego a significant amount of income.

Eleven funded industry training organisations (ITOs) arrange most of the system's work-based delivery. ITOs are industry-owned, with coverage recognised by the Minister of Education. They have legislated core activities of developing and maintaining industry skills standards and arrangements for the delivery of industry training to enable apprentices and trainees to achieve these standards. Industry training is training by or on behalf of employers in the skills needed in an industry, to benefit the industry's employers and employees.

ITOs must not operate as providers so they purchase any off-job training components (these tend to be minimal for programmes below Level 3 on the New Zealand Qualifications Framework). ITOs do provide learning materials, assess against standards, award credentials, and provide advice and online tools to support the learning process. Most operate nationally and in all regions, visiting employers and learners periodically to agree training plans and provide support. One unfunded ITO, for funeral directors, works with a provider rather than arranging work-based training.

ITOs develop sub-degree qualifications and skill standards for the industries and occupations they cover. Qualifications specify the skills, knowledge and attributes of graduates. Standards are more granular learning outcomes. Industry training programmes specify how a set of standards will be delivered, leading to a qualification.

New Zealand Apprenticeships are large (120+ credit) programmes leading to qualifications at Level 4 on the New Zealand Qualifications Framework. Traineeships are usually smaller, at lower qualification levels, and less likely to contain 'off-job' components. Some are at

Level 4 or above and 120+ credits, and counted as 'apprenticeships' in Ministry of Education statistics, and a few lead to Level 5 or 6 certificates and diplomas. Trainees and apprentices must be in employment to enrol. Few enrol soon after leaving school, except in the hospitality industry. Many have a prior tertiary qualification. Trainees have a 'flatter' age distribution than apprentices, with median ages in the late-20s and mid-20s, respectively, in 2017.

ITOs are subsidised, based on how much training they arrange, to make formal training more accessible, consistent, comprehensive, and transferable. ITOs account for around 28% of government tuition subsidies for vocational education, 44% of funded vocational education credits, and 56% of vocational education learners. Funding is conditional on industry also contributing (industry, including employees, contributed around 22% of ITO income in 2017). Two funding rates cover all programmes, with the higher New Zealand Apprenticeship (NZA) rate intended to support a higher proportion of theory content and pastoral care.

Providers deliver training that is mainly off-job, requiring specialised training facilities and staff, and are funded at a level that enables this to occur. Industry delivers or pays for most of the training of apprentices and trainees, to benefit from their labour and growing skills. Accordingly, work-based training has a lower subsidy. Providers that deliver vocational education include:

- **Sixteen government-owned, regionally-based ITPs**. ITPs are required to offer a broad range of fields of study to maintain options for learners and respond to regional needs. Demand is highly counter-cyclical, driven by unemployment. ITPs provide around 55% of all provider-based vocational education, when measured in equivalent fulltime students (EFTS). There are one or two ITPs based in most regions, some with an additional campus in Auckland to serve the international education market (most also have international students at their other campuses). The Open Polytechnic specialises in distance education and operates nationally, competing with some of the other ITPs in some fields. ITPs arrange a limited amount of work-based delivery, in competition with ITOs.

- **Three wānanga.** The wānanga (two regionally based and one national) provide both vocational and non-vocational education that is largely designed around the needs of Māori learners but also serves an equal number of non-Māori learners.

- **220 private providers**. A mix of for-profit and not-for-profit private providers, mainly in the major cities, focus on programmes that can achieve viable enrolment levels.

The Education Act 1989 (the Act) aims to give tertiary institutions as much independence and freedom to make academic, operational, and management decisions as is consistent with the nature of the services they provide, the efficient use of natural resources, the national interest, and the demands of accountability. Accordingly, the Act protects the academic freedom and institutional autonomy of ITPs and wānanga (and also universities), while recognising that they need to maintain high ethical standards and be accountable for the proper use of resources allocated to them.

Vocational education organisations (providers and ITOs) depend financially on learner demand. This is mainly derived from learner perceptions of employer needs, which providers can often influence. Learner and provider perceptions of employer demand are not always

well-informed and can go out of date quickly, and employer expectations themselves can vary.

The TEC decides what programmes to fund and the total amount of delivery to fund at each tertiary education organisation, based partly on provider forecasts of learner demand and monitoring of provider performance. The TEC also monitors the financial performance of public providers and can intervene in various ways to protect the Crown's ownership interests. Provider fees are regulated while ITO fees are not. Vocational education organisations and programmes must be quality assured by NZQA to receive funding.

Rapid technological and social change is expected to increase the challenge of responding to the needs of learners and industry. There is increasing awareness of the needs of 'lifelong learners' – particularly mid-career workers with skills of declining labour market value.

The OECD recommends that all vocational education be "work-integrated". At the same time, workplace learners need access to specialised educators (eg to deliver some foundation skills and theoretical content). However, ITOs and education providers compete with each other, undermining collaboration between providers and industry to achieve the best mix of on-job and off-job learning.[2]

ITO activities sometimes 'blur' into provision but with less regulatory oversight than providers, causing resentment among providers. Some providers value their ability to deliver programmes not based on industry standards, but ITOs are often reluctant to recognise learning that trainees and apprentices have completed in these programmes.

ITPs' 'managed apprenticeships' offer an alternative for learners and employers but are relatively costly and cause resentment among ITOs delivering NZAs at around half the funding rate. Many employers are satisfied with provider and ITO services, but many are not – some saying the skills developed by providers are not relevant, or that support for work-based training is inadequate.

A number of industries have said they are struggling to hire enough employees with the skills they need or to get the right training for their employees. Where there are genuine mismatches, improving the match between the skills of the workforce and skills demand is a key strategic goal in a world of rapidly changing technology.

2.2   What regulatory system, or systems, are already in place?

The regulatory framework for tertiary education is set out in the Education Act 1989 and the Industry Training and Apprenticeships Act 1992. The Education Act sets out categories of tertiary education provider, the role of ITPs, and frameworks for funding and quality assurance. The Minister sets out high level outcomes and priorities for the system in the Tertiary Education Strategy, and determines funding rates and rules in funding mechanisms implemented by the TEC in accordance with the Strategy. The TEC has powers of monitoring and intervention (especially in ITPs as they are publicly owned). The New Zealand Qualifications Authority develops and implements rules for the quality assurance of

---

[2] In this analysis, "on-job training" is delivered to employees in the workplace. "Off-job training" is delivered by a specialised educational provider. "Work-based" training is mainly on-job, while "provider-based" is mainly off-job.

qualifications, programmes and micro-credentials, standards, and tertiary education organisations.

The Industry Training and Apprenticeships Act 1992 provides for Ministerially-recognised, industry-run ITOs, which set industry skill standards and arrange most formalised work-based training for an industry (including purchasing off-job provision on behalf of employers).

These controls and monitoring activities aim to protect learners, communities, industries, and the government's investment in vocational education by addressing market failures such as information asymmetry and incomplete markets.

2.3 What is the policy problem or opportunity?

We need a strong, unified and sustainable vocational education system

Government wants to ensure that vocational education meets the needs of diverse learners and supports a thriving, innovative economy in the face of rapid and sometimes unpredictable change in the environment, technology and work. By developing the skills needed for a fast-changing world, the vocational education system should raise living standards for and support an economy that is growing and working for everyone in New Zealand.

We need a system that delivers affordable, accessible, flexible and high-quality vocational education options to New Zealanders throughout their adult lives to deliver on New Zealand's economic goals and ensure that New Zealanders are equipped to adapt to the changing world of work. In this system:

- vocational education would be responsive to learners' needs and lead to good educational and employment outcomes
- employers would have skilled, productive employees when they need them
- the system would adapt to changes in employment and to new educational models.

Industry and educators need to collaborate to effectively and efficiently improve skills and skills matching. An under-performing system matters because learners, employers and the government invest hundreds of millions of dollars of time and resources into vocational education each year, and they rely on that education to achieve good economic and social outcomes.

The key recommendations to New Zealand of the *2019 OECD Skills Strategy* (May 2019) include:
- making each stage of learning a foundation for success in the next
- enabling policies to support learning in adulthood
- harnessing the power of technology as a tool for learning
- aligning skills with the needs of the economy and society
- aligning skills policies with industrial and innovation policies
- promoting co-ordination, co-operation and collaboration across the whole of government
- engaging stakeholders throughout the policy cycle
- building integrated information systems

- aligning and co-ordinating financing arrangements.

There are signs of strain on the current system

A number of issues indicate that the VET system is not equipped to fully meet NZ's vocational training needs and respond to changing skills needs:

- **Unclear and overlapping organisational roles** – providers and ITOs both want to deliver on-job and off-job training, while not being sufficiently joined up with each other or the wider education system to deliver what learners and employers need.

- **Poor skills matching** due to insufficient industry leadership of the skills supply chain, providers often being slow to respond to employer needs, and some providers prioritising operating margins and volumes ahead of the value and relevance of their delivery.

    - A small minority of employers have employees in industry training. Research into industry training non-completions suggests that some learners need more support from employers (such as extra time for training, or being shown how to undertake a task) and from ITOs (notably, in relation to 'bookwork' relying on self-directed learning). Levels of support vary unduly between programmes and ITOs.[3] It seems that some employers and learners need a level of support that ITOs are not able to provide.

    - The OECD's Survey of Adult Skills shows a significant mismatch between qualifications held by employees and the skills requirements of their jobs.

    - Employers often express dissatisfaction (for example, through surveys, the media, and directly to officials and Ministers) about skills shortages, graduate recruits not having the skills they expect, and ITOs not being able to provide the support some learners and employers need (ITOs see low funding levels and rules as the key reason for this). Employers and ITOs speak of inconsistencies between provider programmes. ITOs note the difficulty of recognising the prior skills of graduates of provider programmes not based on industry standards. Employers have an incentive to over-state skills shortages, but continued under-employment in the context of high overall labour demand provides support for the claims.

- **Lack of a single vocational education funding regime** – financial incentives discourage collaboration between ITOs and providers. This can lead to provider delivery that is supportive of learners but insufficiently responsive to industry needs and expectations, or industry training that is specific to a current role but not very transferrable. There are few arrangements between ITOs and providers to enable learners to easily transition between a provider and work-based training.

- **Historic undervaluing of vocational education** – many school students come to see vocational education as not as valuable or prestigious as degree-level study.

- **ITPs face challenges to their viability** – requiring three ITP capital injections in 2017 and 2018, amounting to around $100 million, and most ITPs are either under financial stress or likely to be so in the next few years. The Government has indicated its limited ability and willingness to continue with *ad hoc* capital injections. Only a minority of ITPs are projected to be financially sound in the medium term. This reflects declining enrolments, and a funding model that does not reflect high fixed costs. Fewer students enrol when the economy is strong, and ITPs often experience

---

[3] *Research report: Learning, life and work: Understanding non-completion of industry qualifications* (2016), prepared for the Industry Training Federation and Ako Aotearoa by Anne Alkema, Heather McDonald and Nicky Murray, Heathrose Research Ltd.

pressure to retain programmes that run at a financial loss. Viability issues undermine the ability of ITPs to deliver the range of vocational education needed in the regions.

- **Equity issues for some groups of learners**
  - Although Māori participation in vocational education is high, Māori learners tend to participate at lower levels of study, are more likely to be trainees than higher-level apprentices, and are more likely to be in lower-skilled, lower-paying employment. In 2016, the unemployment rate of Māori with a highest qualification of a tertiary certificate or diploma was 11.3%, compared to 3.3% for New Zealand Europeans with a highest qualification at that level. Furthermore, Māori are overrepresented in jobs that are at higher risk of displacement due to technological change.[4]
  - Pacific learners tend to participate at lower levels of study and are less likely than New Zealand Europeans to be doing apprenticeships (or apprenticeship equivalent qualifications at Level 4 and above). In 2016, the unemployment rate of Pacific people with a highest qualification of a tertiary certificate or diploma was 10.9%.
  - Disabled people are underserved by the vocational education system and have poorer employment outcomes compared to the general population (disabled young people are four times as likely as non-disabled young people to be not in employment, education or training). Education Conversation respondents say disabled learners need more support.

Evidence from stakeholders is provided in section 2.5.

The regulatory framework for vocational education appears to underlie these issues

These policy issues have been evident for some time and, based on our engagement, research, and analysis, appear to be intrinsic to the roles and functions established in legislation and their interplay with the economic cycle:

- ITOs' financial drivers do not always align with the best interests of employers, learners and the wider public interest. They have an interest in their own viability and profitability. They can have a bias towards lower-cost delivery options, some of which are of little public benefit. To an extent, ITOs compete with providers, especially polytechnics, which can reduce trust between these organisations that should be collaborating to deliver what learners and employers need.

- Under the current system, providers often have less contact with employers and industry than is desirable. It is possible for providers to develop programmes that have strong pedagogical underpinnings, but with content not well-linked to current and future industry needs.

- The 16 ITPs have institutional autonomy. They can compete with each other for learners, sometimes in the same city (notably Auckland). Accordingly, they often duplicate functions like programme design, student and learning management systems, and systems for distance learning. Expecting government support when at risk of financial failure means they may not always take difficult but necessary changes to their delivery models.

---

[4] Sources include *Profile and Trends 2016: Tertiary Education Outcomes and Qualification Completions*; *Profile & Trends 2016: New Zealand's Annual Tertiary Education Enrolments*; and *Profile & Trends 2016: New Zealand's Work-based Learners* (all published by the Ministry of Education).

2.4	Are there any constraints on the scope for decision making?

The Minister decided to focus consultation on three specific proposals, and has indicated a firm belief that rapid and significant reform is needed to ensure that New Zealand has a vocational education system fit to meet diverse and rapidly changing future needs. Accordingly, most of our advice has focused on developing significant reform proposals and addressing the risks they involve. However, the Minister invited submissions on alternatives to the proposals (for example, the main consultation document asked "What other ideas or models do you think we should be considering?").

Having a number of concurrent reviews on related matters makes it challenging to ensure that reforms are coordinated. This review is connected with other initiatives that aim to establish a skills system fit for the needs of the twenty-first century. It is informed by the Government's Future of Work initiative, and relates closely to the reviews of the National Certificate in Educational Achievement and Tomorrow's Schools. The review will inform the Tertiary Education Strategy and the broader tertiary education policy work programme, NZQA's review of the NZQF, and work on the Careers System Strategy including the Careers Action Plan. Separate work in the education work programme will directly address some of the equity issues raised in the review.

The wider skills system includes the welfare and immigration systems (which can often provide a faster response to labour and skills shortages). Again, there is a need to align any reforms with these related initiatives.

2.5	What do stakeholders think?

Stakeholder interests in vocational education

Key stakeholders and their interests in vocational education can be summarised as:

- Learners have an interest in vocational education that is high quality, relevant and responsive to diverse and changing needs, leading to good educational and employment outcomes. Māori make up a significant proportion of vocational education learners (52,000 or 21%) and this is set to increase. Accordingly, Māori have a strong interest in vocational education's quality and relevance. Pacific learners make up about 10% of vocational education leaners, also expected to increase. Disabled learners and those with additional learning needs need appropriate support to participate, succeed in, and get better educational and employment outcomes from vocational education.
- Employers, industries and communities (including iwi and hapu) have an interest in skilled, productive community members and employees when they need them.
- Vocational education organisations balance the objectives of their owners or founders (for example, improving social outcomes, addressing industry needs, or delivering a profit), with their interest in their own autonomy and viability.
- The Crown represents the national interest in improved social and economic wellbeing, including in the regions. The Crown also has an interest in reduced financial risk as the owner of the ITPs. In addition, the Crown wishes to express its Treaty partnership with Māori as learners, employers, and communities. The Crown, along with regions, has an interest in continuing to serve international students, an export market worth several billion dollars annually.

There are similar interests with respect to non-vocational delivery by ITPs.

Engagement with stakeholders

Engagement has included:
- Between April and June 2018, Ministry of Education officials met with stakeholders in Auckland, Hawkes Bay, Taranaki, South Canterbury and Otago, and Wellington to understand their experiences of the strengths and weaknesses in the VET system. Participants included learners, employers from relevant industries, providers, ITOs and economic development agencies.
- In May and June 2018 the Ministry surveyed 30 medium-to-large employers on the current and desired state of New Zealand's skill system.
- Between June and August 2018, the TEC met with a similar range of stakeholders at the 16 ITPs as part of the ITP Roadmap project, asking what was working well at the ITP and what needed to change. The TEC met with Māori and Pacific ITP stakeholders to investigate how to improve outcomes for learners and their families. The team also surveyed around 1,000 ITP staff, learners, people considering tertiary study, employers and community members, and undertook a co-design of options for the ITP sector, with the sector, in mid-2018.
- The Ministry also considered findings from other processes such as the 2018 Education Summits and consultation on a statutory skills leadership role to ITOs.
- Agencies invested in an intensive seven-week consultation on the proposals, from 13 February to 5 April 2019. There were around 2,900 written submissions on a consultation document and other supporting documents (available here: https://conversation.education.govt.nz/conversations/reform-of-vocational-education/). There were also 186 events in 23 locations across New Zealand, attended by thousands of individuals. Contractors helped agencies analyse the wealth of feedback received.
- There has been further engagement with key stakeholders (including workshops with ITP and ITO chief executives and iwi) since the close of submissions, and this will continue through to the implementation phase.

Further details of the pre-consultation engagement and its findings are available online: https://conversation.education.govt.nz/assets/RoVE/Previous-engagement-factsheet-Reform-of-Vocational-Education.pdf.

Findings from pre-consultation engagement

The vocational education system

Pre-consultation engagement during 2018 indicated broad acceptance among stakeholders that the system needs to change, identifying the following issues:
- Poor skills matching – a mix of practice, with some great examples of TEO-industry collaboration, but also some frustrated employers having difficulty hiring people with the skills they need.
- Counter-productive, system-driven competition – TEOs and employers noted that the system (especially the funding system) does not encourage collaboration between ITOs and providers. Providers offered students relatively little workplace

experience, and had difficulty supporting students to complete programmes if they found employment. Their focus on programme completions limited their focus on supporting learners into employment. Few "pre-trades" programmes had many students progress to apprenticeships. ITOs were often sceptical about provider delivery not designed around industry skills standards, making credit transfer difficult. Some employers wanted better support for trainees and access to expert tutors. Despite this, we saw many collaborative arrangements.

- Inequitable outcomes for some groups of people, such as Māori – few examples of tailored approaches to learning and/or recruitment, with the result that many groups are not well supported to participate and achieve, and some industries are not accessing all their potential workers.

In a mid-2018 survey of 30 medium-to-large employers, respondents told us:
- The primary focus of a skills system should be a learner's current and future needs. A substantial minority also said a skills system should benefit all New Zealanders.
- Equipping young people with work-ready skills (for example, a positive attitude) was important for them. Digital literacy was also seen as important.

Most survey respondents appeared satisfied with New Zealand's vocational education system, but noted a few areas for improvement. These focused on:
- Improving the careers advice system. All but one respondent noted this issue.
- Improving support for Māori and Pacific learners. Most employers said the system, including employers, could do more. Many said better support could be provided to women in non-traditional fields, or learners with additional learning needs.
- Enabling and supporting employers to provide more work-based learning opportunities for young people. Some employers noted that health and safety requirements, or a lack of time and knowledge of who to contact, prevented them from providing young people with work experience opportunities.

Employer experience of VET varied significantly, but some felt frustrated at the lack of options for how training could be delivered in their workplace, and a lack of educational and assessment support. New Zealand's overall participation in work-based training is high by international standards (Source: OECD). However, only around 10% of employers (15% of large employers) have a current employee aged 20 or over undertaking recognised industry training of at least 60 credits a year.[5] New Zealand's high levels of qualification mis-match suggest we need training that better responds to firm and industry skill needs. Some stakeholders say ITOs are biased, by their financial interest in arranging programmes with higher credit values, towards designing larger standards and qualifications than industries really need. Industry seeks more influence over provider-based vocational education.

At the Ministry of Education's 2018 Māori education hui across New Zealand, attended by over 2,000 learners, whānau and educators, Māori told us what they are looking for in tertiary education, including vocational education:

- Transitions between secondary and tertiary education need to be seamless and better supported. To achieve this, tertiary education should link up with what is happening in schools.

---

[5] MBIE, *National Survey of Employers, 2017/18*.

- Education, including at tertiary levels, should link into what's happening in the workforce, respond to local needs and prepare rangatahi to be productive members of the community – community outcomes are not all that matters.
- Choice is important and so is information about choices. Māori should not have to leave their rohe to access opportunities for tertiary education – or miss out on opportunities due to a lack of information or access. More local pathways into different types of tertiary education are needed.
- There is more than one pathway to success and there should be mana in each pathway. All rangatahi should be able to see a (tertiary) pathway that is relevant to themselves, their interests and their capabilities.
  - Specific comments were made that university is not the most suitable pathway for everyone. More emphasis should be placed on vocational education and training and trades should be valued.
  - The image that exists of university in some regions of New Zealand is that it is not financially viable and often too far away.
- Māori identity, language and culture need to be supported in all sectors. However, cultural responsiveness, support and meaningful whānau engagement reduce as you move through the sectors, with tertiary settings diminishing the groundwork laid by secondary, primary and early learning settings.

The ITP sector

In 2018, the TEC undertook an extensive consultation, co-creation, research and analytical process in partnership with the ITP sector and its stakeholders, including students, employers and communities, to develop options for change as part of its ITP Roadmap 2020 project. A summary of the findings is presented in Annex 1. The TEC also sought the advice of EY Australia, and the TEC and the Ministry met with Australian federal and state officials and TAFE (Technical and Further Education institution – equivalent to ITP) leaders, to draw on Australia's experience of consolidating and transforming TAFEs.

Overall, the ITP sector's performance was seen as variable, raising concerns similar to those with respect to the vocational education system as a whole. There were opportunities to centralise some services and share programmes across the ITP sector to achieve economies of scale and more consistent quality – but there was also a need to retain local and regional autonomy and responsiveness.

The TEC's engagement and research confirmed that:

- Most ITPs have seen nearly a decade of falling enrolment and rising average costs, resulting in a sector under significant strain.
- Some ITPs have fared better than others, but most are unable to make needed investments in buildings, technology and people to protect and maintain the quality and relevance of their provision.
- Few ITPs are well-positioned, in terms of their staffing or delivery arrangements, to deliver effectively to adults in work, who will increasingly be seeking opportunities to upskill or retrain as automation disrupts their jobs.

In December 2018 the ITP Roadmap project merged with the Ministry of Education's review of the vocational education system to form the Reform of Vocational Education project.

Consultation on the proposals

The seven-week consultation began on 13 February 2019, focusing on three proposals:

1. *Proposal 1: Redefined roles for education providers and industry bodies*: redefine the roles of vocational education organisations so that they are clear and complementary, by shifting the arranging of work-based training to providers, and greatly strengthening industry's leadership of the vocational education system, through new Workforce Development Councils (WDCs).
2. *Proposal 2: Create the New Zealand Institute of Skills and Technology*: this organisation (the Institute) would have new capabilities to support work-based training, and would bring together the ITP sector as a single entity.
3. *Proposal 3*: *A unified vocational education funding system*: a consolidated set of funding rates for on- and off-job learning; funding for strategically important delivery that comes at higher cost; and funding for WDCs focused on their unique role in the system. (No legislative implications at this point.)

Consultation was broad and intensive. Nearly 3,000 submissions were received in total. More than 5,000 people participated in nearly 200 meetings and events held around the country. They included iwi; industry training organisation (ITO) and institute of technology and polytechnic (ITP) boards, council members, staff and learners; employers; industry bodies; wānanga; private training establishments and other education sector participants; and community members and leaders. Employer and industry participants came from a wide range of sectors. Learners included Māori and Pacific people, disabled learners and learners with additional learning support needs, apprentices, trainees, international students, and degree students.

Submitters generally confirmed the need for change, including that:
- competition between parts of the system has contributed to poor performance
- the system has persistently underserved some learners and does not give Māori an adequate voice.

Learners tended to support the proposals in principle while wanting reassurance that learners would have a voice in the new system and their interests would be protected.

A complete summary of submissions is being provided to Cabinet and will be published on the Ministry of Education's website. Brief summaries are provided below, with some relevant points noted in the analyses of options and impacts.

Proposal 1: Redefined roles

Key issues raised in submissions have focussed on the:
- consultation timeframe,
- degree to which the Institute, and other providers, could effectively respond to the needs of workplace learning over a reasonable timeframe, in light of their current capacity and understanding of these functions,
- perceived loss of industry control over training arrangements,
- risk of employers disengaging from the training system, and challenges for trainees and apprentices if the transition is not very managed well, and

- need for clear transition arrangements and a reasonable timeframe, should the proposal be taken forward.

Providers, including current ITPs, tended to support the proposal.

Industry (including ITOs, industry associations and employers) generally supported the overarching goals of the RoVE and the expanded skills leadership function for industry.

Some ITOs agree system changes are needed, but there was strong opposition from ITOs (and some employers) to shifting the arranging training function to providers. Most industry submitters considered that employer and learner support should stay together (which they do in Proposal 1, albeit delivered by providers).

In terms of how reform should be implemented, larger ITOs saw a role for government in constraining the number of WDCs, would like greater cohesion and coverage within each body, and saw advantages in aligning the proposed regional leadership groups (RLGs) with the proposal from the Ministry of Business, Innovation and Employment (MBIE) to establish regional skills bodies.

Alternative proposals

ITOs supported a reformed funding system but argued that WDCs, if established, should retain most of the 'arranging training' function (considered in the options analysis below), or at least gain effective control over TEC investment in vocational education.

Proposal 2: Create the New Zealand Institute of Skills and Technology.

There was general support, including from industry and ITOs, for the consolidation of some functions in a single ITP entity, but not universal support for a centralised single entity.

Generally the ITP sector supports some level of change. Approximately half of the sector supported the proposal as articulated within the consultation document, while the other half offered more limited support, with the main caveat of retaining a degree of autonomy in regional operations (such as via 'earned autonomy' based on performance). 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.

Nearly all ITPs reiterated that they viewed the reforms as an integrated package and, where they supported Proposal Two, did so on the basis that the other two proposals proceeded. Most ITPs and their regional stakeholders commented on the appropriate level of consolidation. Most submitters saw challenges confronting the ITP sector, and that financial performance across the ITP sector has been uneven. However, some ITPs strongly reiterated that they themselves are not failing institutions, or argued that a centralised model would stifle innovation.

Stakeholders want a strong regional voice within both the Institute and RLGs. However, they sought more clarity regarding the function and purpose of the RLGs, whether they would be integrated into part of the Institute, and the accountability and relationship between the TEC, Institute, WDCs and other providers.

Several alternative proposals for structure were put forward, including that regional operations of the Institute should either be fully autonomous (or allow for earned levels of autonomy based on performance). Both Otago Polytechnic and Southern Institute of Technology (SIT) were strongly in support of a devolved model with high levels of autonomy (Otago Polytechnic specifically supporting a parent-subsidiary model), and SIT indicated that – if ITPs had to become part of the Institute – the Government should absorb those ITPs that are struggling financially first.

Those who more strongly opposed Proposal Two (such as submitters from Southland and Otago) argued that their regional ITP is performing well, and didn't see the need for change in their region. They were also worried about the potential for creating a monopoly organisation, the loss of local responsiveness and innovation, or concerned about the impacts of consolidated functions of an Institute on other areas of provision. This concern is based on the fact that degree level provision, adult and community education, foundation learning, and secondary-tertiary programmes are not technically covered by the scope of the RoVE programme, but likely structural and management changes within the proposed Institute may impact on their delivery.

Some stakeholders suggested that the roles and functions of the NZQA and TEC in vocational education be reviewed. The TANZ Accord submission – comprising Northland Polytechnic, Toi Ohomai Institute of Technology (Toi Ohomai), UCOL, Ara, NMIT and Otago Polytechnic - recommended creating a new regulatory regime to replace TEC and NZQA.

Some stakeholders were interested in who would be appointed to the Council for the Institute, but they were generally less interested in how they would be appointed. Some stakeholders said a single Council for the Institute was an opportunity to have the sector 'led by the best'. Others argued for retention of governance at the local level within the Institute, even if it is more narrowly focussed than the present model allows for. SIT suggested that the Council be made up of the individual chairs of regional operations, overseen by a chair appointed by the Minister.

Alternative proposals

ITPs put forward several alternative ways of implementing a single ITP:

- Regional arms of the ITP should be fully autonomous, have their own branding, and be led by regional management teams responsible for academic and financial management of the regional arm.
- Some ITPs proposed that there be a parent-subsidiary model, with regional arms being Crown entities in their own right.
- Other proposals did not go into this detail, and thought that the regional arms could have Institute branding.
- Regional arms should have regional investment plans.
- The Institute's head office should have a sector oversight role, and have responsibility for the ITP sector as a whole. ITPs had varying views on what should be centralised:
  - Most agreed that student administration services and quality assurance could sit at the centre.

> - o There was some disagreement as to whether finance and asset management, and programme and resource development, should sit at the centre.
> - o Some ITPs implied that the Institute (including regional arms) could be responsible for overseeing all vocational education provision (including that of wānanga and PTEs).
>
> ***Proposal 3: A unified vocational education funding system***
>
> This proposal had the overwhelming support of key stakeholders.

Section 3: Options identification

3.1 What options are available to address the problem?

There are a number of opportunities for reforming the system

The proposals are a linked and interdependent package. Providers with responsibility for both work-based and provider-based delivery would be better able to support and blend off-job and on-job learning. A robust and sustainable network of ITP provision could provide more effective support for work-based vocational education. A unified vocational education system would partly shield ITPs from cyclical variations in demand. WDCs would give employers and industries more say in the purchase and quality assurance of vocational education delivered by providers. Regions would gain a sustainable, consolidated provider and structured regional input.

We have not identified any legislative implications of Proposal 3, so it does not in itself require a Regulatory Impact Assessment. However, Proposal 3 complements Proposals 1 and 2. Officials considered whether Proposal 3 alone, or combined with selected aspects of Proposal 1, could achieve a unified vocational education system (options 2 and 3 for system reform, below).

Here, we consider four options (including the Minister's preferred options) for reforming the VET system as a whole, and then five options for reforming the polytechnic sector. The business case provided with the Cabinet papers considers four options in which role changes are assumed, but the degree of consolidation of the proposed Institute and WDCs vary. Options A and B in the business case are most similar to our Option 3 for ITP sector reform, while options C and D in the business case are most similar to this assessment's option 5 (Proposal 2) for ITP sector reform.

System reform: one VET system

1. *Status quo:* Nearly all work-based vocational education is arranged by industry bodies (ITOs) that sometimes purchase off-job training from tertiary education providers. Tertiary education providers deliver to full-time and part-time students, mostly on-campus or online. In the absence of significant system reform, efforts to facilitate ITO-provider collaboration would continue and there could be modest changes to funding rates to encourage it.

2. *Funding reform that incentivises collaboration and creates a common funding model for VET:* This is Proposal 3, without the legislative changes required for Proposal 1.

Description	Rationale / details
Unified funding system: adjust funding rates to better reflect costs of delivery and incentivise blends of on-job and off-job delivery.	The Minister can make this change under current legislation. This would give ITOs and providers a financial incentive to collaborate and would encourage 'blended' programmes that get better outcomes for learners.
The TEC could adjust its performance management and investment practices.	The TEC has a wide scope to determine which providers and programmes it will fund. It could put more weight on industry voice and encourage collaborative (ITO-provider) programmes.
NZQA rules and funding could change to support collaborative design of programmes by ITOs and providers.	Collaboration in programme design would improve the alignment of provider programmes with industry needs and bringing wider educational expertise to the design of industry training programmes.

3. *Industry gains WDC functions, retains arranging training:* This option takes the proposals that ITOs clearly supported in their submissions (a unified funding system, and establishing WDCs that give industry a much stronger voice across all vocational education) but does not include the aspect of Proposal 1 that ITOs were most opposed to (removing direct support for industry training from ITOs/WDCs).

Description	Rationale / details
Reforms as per option 2.	As per option 2.
Replace the 12 ITOs with four to seven WDCs with functions established in statute but names, coverage, governance arrangements and appointment processes confirmed by the Minister when they are formed.	The name change reflects the broader skills leadership role of WDCs. Some industry bodies submitted that government should work with industry to develop a more coherent set of WDCs that would provide coverage for a wider range of industries. Fewer, larger organisations are more likely to have the critical mass to be highly effective, but having four or more organisations will help to ensure that industries identify with their WDC and do not see their distinctive characteristics as being lost.
Reinstate a skills leadership role for WDCs – that is, identifying industry skills needs, and advocating for those needs to be met through activities including formal vocational education and training.	Giving ITOs a skills leadership function was consulted on earlier in 2018, subject to a separate RIA, but the proposal has now become part of RoVE.

WDCs would ensure industry involvement in defining the vocational education curriculum by: • setting standards and developing qualifications across all sub-degree vocational education • setting and moderating capstone assessments for learners at the end of their study • contributing to curriculum and exemplary teaching and learning resources.	Giving industry significant influence over the curriculum of vocational education is intended to ensure industry relevance and responsiveness. WDCs would act as "bookends" to the vocational education system, setting expectations at the outset of the education process about the skills and competencies learners are expected to achieve, and then assessing learners at the conclusion to ensure that learners have acquired the skills and competencies being sought by employers.
WDCs would formally endorse all vocational education programmes in fields they are responsible for, before NZQA programme approval. This differs from the 'co-approval' proposal consulted on.	This would give industry more influence over how the curriculum is delivered, with a view to ensuring that learners gain the skills, experience and knowledge they need from a qualification to work in a particular industry. 'Endorsement' rather than 'co-approval' better supports WDCs collaborating with providers on programme development: final approval should be undertaken by an organisation that has not become invested in the programme at the development stage.
WDCs would advise the TEC on all investment in vocational education. The TEC would be required to evaluate, take into account, and respond to the advice. The TEC would give direct effect to WDC purchase advice, within a funding envelope, subject to controls set by the Minister through a funding determination. This would strengthen the role of WDCs, relative to that set out in the consultation document, and has been informed by ITO submissions.	Industry bodies have said for some time that the vocational education system is not meeting employer needs. This change would give industry a strong voice in TEC investment decisions. The TEC would retain scope to balance industry advice with the broader public benefit, including the needs of Māori, other diverse learners, and regions. The stronger role for WDC advice on purchasing responds to industry and ITO concerns. The level of industry influence could vary depending on WDC performance, providing an incentive for WDCs to perform well.
WDCs would receive sufficient funding to ensure that they can undertake their core functions, and could receive additional funding for collaborative activities such as developing common standards across WDCs. The funding would be provided based on skills leadership plans setting out the activities WDCs would undertake along with key outputs.	The work of WDCs would have public benefits beyond the benefits to the industries involved. Commitments under skills leadership plans would provide a basis for holding WDCs to account for their use of public funds, and for the adequacy of their services to all employers – including those in smaller, less influential industries that might otherwise be under-served. The concept of skills leadership plans was first developed as part of the earlier proposal to restore ITOs' statutory skills leadership role.

For example, the legislation would enable ITOs to (if agreed by their industry owners) allocate assets and resources to WDCs regardless of any requirements in their constitutions.	ITOs hold significant assets that we expect industry would want WDCs to use, because the ultimate objectives of WDCs would be largely the same as those of ITOs. ITO constitutions do not appear to have anticipated this possibility.

4. *Legislate to redefine the roles of vocational education organisations:* This is Proposal 1, supported by Option 2 / Proposal 3 (a unified funding system). It involves creating clear, complementary roles by shifting most of the role of facilitating and supporting work-based training from ITOs to providers and greatly strengthen industry's role in skills leadership through WDCs. This option, which would require changes to the Education Act 1989 and the Industry Training and Apprenticeships Act 1992, involves a number of inter-related components. Giving providers a much greater role in industry training would bring New Zealand's system closer to those of other countries New Zealand compares itself with, such as Australia, Britain and Germany (which is seen as a world-leader in vocational education, with high rates of participation and excellent outcomes).

Description	Rationale / details
Reforms as per options 2 and 3, except that: • WDCs would receive more funding and would not be required to secure industry contributions as a condition of this funding • WDCs would not have the arranging training function, which would go to providers.	As per options 2 and 3. However, as noted in some ITO submissions, WDCs' ability to secure industry contributions would be reduced by removing most of their direct services to employers.
Providers would be responsible for delivering all vocational education, including supporting work-based training. WDCs could have the option of providing some related services to employers, such as providing advice on training options.	Providers could offer a complete set of delivery options and tailor delivery and delivery modes to the needs of individual learners and employers. Capabilities in different delivery modes would be brought together to improve the range and quality of learning support and pastoral care. Work-based training would have a stronger pedagogical underpinning, while provider engagement with employers would enhance providers' 'off-job' delivery – helping providers stay up-to-date with changing employer needs, and providing new opportunities for students to interact with employers, for example through work experience placements. Providing some services to employers would be an opportunity for WDCs to maintain their understanding of employer needs.
The Minister would gain a temporary power, during the transition to the new entity and system, to direct funding to a specific organisation and set conditions on this funding.	This power will enable a managed approach to the transition, reducing risks to the Crown, learners, employers, and other stakeholders.

There would be additional legislative amendments to provide for managed transitions for ITO assets and functions. The amendments would, for example, provide flexibility in when and how functions are re-assigned from ITOs to WDCs and providers.	The legislation should allow for the management of timing issues and for industry influence over the transition process. There is uncertainty as to when providers would be ready to arrange training, what ITO resources they would need to deliver this function effectively. Furthermore, different industries may prefer to dispose of their ITO resources in different ways.

ITP sector reform: a robust and sustainable ITP network

Options 2, 3 and 4 below were discussed with ITPs as part of the TEC's ITP Roadmap project in 2018. Option 5 (Proposal 2) was developed out of concern that the earlier options would not deliver sufficient economies of scale and improved collaboration across the network.

1. *Status quo:* Under the status quo, many of the 16 ITPs are under financial strain as a result of declining enrolments, and the challenge of meeting expectations to provide a wide range of delivery in all regions.

2. *Network with specialised ITPs*: centralise some ITP services; ITPs to specialise as "Programme Lead ITPs", "Regional Access ITPs", and a single provider of distance learning for the network; some ITP mergers (Unitec and MIT, Weltec and Whitireia).

   This option (described in the consultation document as *Tū Kahikatea, the Strength of a Network*) would achieve economies of scale in services such as management systems and processes, learning design, data analytics, asset management, distance learning and managing Treaty of Waitangi relationships. There would also be economies of scale in programme design, albeit centred in different ITPs for different fields of study. Regional Access ITPs would mainly broker and host delivery from other providers (including other ITPs) rather than having to maintain the full range of ITP functions. Shared assets, improved coordination and centralised functions would be likely to result in more reliable quality of services, including in programme design. Common programmes would assist learner transfer between ITPs.

3. *Federation* (central entity providing shared services, owned by ITPs) *or franchise* (central entity delivering shared services, with decision rights over ITPs) *models*: Either of these models would achieve economies of scale by centralising programme development and some back-office, marketing and delivery support functions such as those identified under option 2.

4. *Merge into a small number of ITPs*: merging the ITP network into between three and six entities, to achieve economies of scale and improved coordination. This could be delivered with little if any legislative change, informed by the experience of similar mergers in the past, and undertaken progressively.

5. *Create the New Zealand Institute of Skills and Technology*: merging all ITPs into one national ITP, the New Zealand Institute of Skills & Technology (the proposed option).

Description	Rationale / details
A single national ITP provider – a tertiary education institution under the Education Act 1989 – that would take on the assets and responsibilities of the 16 existing ITPs.	Centralisation would achieve economies of scale and improved coordination and network benefits across many ITP functions including the design and delivery of vocational education programmes, capital planning and investment and support services. Learners could transfer more easily between campuses and regions, without disrupting the learning process. A single network would maximise the use of specialised resources across the network. For example, fewer programme designers would be needed, and learners and employers inquiring about their options would be referred to the campus, distance learning or work-based learning option within the institution that would be most likely to meet their needs.
The Minister would develop a Charter for the Institute, drawing on public consultation and engagement with Māori. This would be enforced through stronger accountability mechanisms under the Crown Entities Act 2004 (a letter of Expectations, Statement of Intent and Statement of Performance Expectations) and the Education Act 1989. There would be new controls on the Institute's capital investment and debt level, the Secretary for Education could set new risk assessment criteria for different interventions in the Institute, and these criteria and interventions could apply to risks to any material part of the Institute (as well as to the whole of the Institute). The TEC would gain new powers to gather information about the Institute, or any part or subsidiary, at any time. The Institute would set its own business model and retain as much independence and freedom in academic, operational and management decisions as possible consistent with the additional accountability mechanisms needed to manage the unique risks of the Institute. The Minister would approve the Institute's regional boundaries for the purposes of administrative compliance, such as data collection. The central office of the Institute would be located outside of Auckland or Wellington.	A single dominant organisation poses higher risks than multiple organisations: there would be reduced competition (albeit some competition from private providers and wānanga) and there would not be an obvious backup in the event of failure. The large size and wide regional spread of the new organisation mean that, without adequate monitoring, significant problems could be hidden for some time before being identified. They also mean that local interventions might be more appropriate than Institute-wide interventions in some circumstances. The 'directional' aspects of these new controls and Charter would be important for ensuring that the intended outcomes of the reforms are achieved. They would be designed to ensure responsive regional delivery while consolidating those functions (such as corporate services) that offer the greatest scale economies and that would benefit least from regional variations. There need to be opportunities for stakeholders to influence the Institute, both through directional instruments such as the Charter and in its governance and operations. The Institute should have choice over its regional boundaries, but these should be sufficiently aligned with boundaries used for other government purposes to enable coordination with the regional arms of government. Placing central functions outside Auckland and Wellington would contribute scale to regional operations and allay

	fears, expressed in some submissions, that the Institute will not be regionally-focussed.
Most of the eight to twelve Council members, and its Chair and Deputy Chair, would be appointed by and accountable to the Minister. The Council would have to reflect New Zealand's diversity, be made up people with appropriate experience, and include a staff representative and a learner representative drawn from staff and learner committees. Like existing councils of public providers, the Council would be required to establish an Academic Board of staff and learners to advise the Council and exercise Council-delegated powers. The Board would be required to be responsible for work-based learning.	The proposed Council arrangements reflect the need for some central direction to ensure that the goals of the reforms are achieved. Submitters sought to retain the current mixed model of Ministerial and some Council appointments to TEI Councils. Providing for staff and learner representation responds to these submissions and gives these stakeholders a voice at the centre of the Institute. The new Institute needs to focus as much on its role of arranging work-based training as it does on traditional provider-based delivery.
Regional Leadership Groups representing local iwi, employers and communities would provide advice on regional needs to the TEC, WDCs, the Institute and other providers. (Labour Market Ministers are progressing this proposal.)	There is an opportunity to give regional voices, including iwi and employers, a bigger say in the vocational education they can access. This could be integrated with broader functions in the skills system such as immigration settings
The Minister would gain a temporary power, during the transition to the new entity and system, to direct funding to the Institute and set conditions on this funding.	This power will enable a managed approach to the transition, reducing risks to the Crown, learners, employers, and other stakeholders.
The Crown's commitment to Māori-Crown relationships with respect to the Institute would be reflected in the Education Act 1989.	Given the importance of the Institute meeting the needs of Māori and the level of Crown investment in and influence over the Institute, it will be important for the Council to partner with Māori, to improve outcomes for learners and communities.

Change could be achieved without new legislation (polytechnics can merge under current legislation), but the benefits would likely be maximised and risks best managed by aligning the legislation to the chosen model. For example, legislation can provide direction to the network regarding partnering with Māori and the balance of national and regional interests, and can set the monitoring and interventions framework for the network.

Variations of the options set out above have been used with success in a number of other countries New Zealand compares itself with, across the OECD.

3.2 What criteria, in addition to monetary costs and benefits, have been used to assess the likely impacts of the options under consideration?

Overarching objectives

RoVE seeks to deliver:
- vocational education that helps raise living standards for everyone in New Zealand, and that supports an economy that is growing and working for everyone in New Zealand
- a system that is ready for a fast-changing future of skills, learning and work

System reform: one VET system

The criteria used for this analysis focus on achieving a vocational education system that:
    a. delivers to the needs of all learners and prioritises traditionally underserved learners (especially Māori, Pacific, and disabled people)
    b. is relevant to the needs of employers
    c. is collaborative, flexible, innovative and sustainable for all regions
    d. delivers more relevant vocational education and skills across all regions
    e. integrates the system by creating clear roles and strong specialist functions and avoiding conflicts of interest
    f. upholds and enhances Māori-Crown relationships and reflects Te Tiriti o Waitangi
    g. minimises transition risks and uncertainty for stakeholders, and manages costs and risks to government.

ITP sector reform: options to achieve a robust and sustainable ITP network

The criteria used for this analysis focus on achieving a national ITP network that:
    a. delivers to the needs of all learners and employers
    b. is collaborative, flexible, innovative and sustainable for all regions
    c. delivers more relevant vocational education and skills across all regions
    d. upholds and enhances Māori-Crown relationships and reflects Te Tiriti o Waitangi
    e. puts the diverse voices of learners, employers, staff and communities at the centre of the vocational education system
    f. minimises transition risks and uncertainty for stakeholders, and manages costs and risks to government.

Trade-offs

The criteria are largely complementary. For example, delivery that responds to needs will generally be more popular, supporting enrolments and (financial) sustainability. A system or ITP model that is financially sustainable should be better able to maintain high quality delivery. The various benefits sought need to be weighed up against the costs and risks (criterion g for system reform and criterion f for ITP sector reform).

At times there will be trade-offs between what stakeholders want and what is financially viable and sustainable – as well as between different stakeholders. For example, learners and employers will generally benefit and there will be cost savings for providers from a national programme based on industry standards, but some local employers and communities may prefer tailored local delivery. The proposals offer ways for different voices to be heard and resolved – for example, WDCs can work with the employers they represent and with RLGs to check that national programmes have sufficient flexibility to respond to local needs and take advantage of local strengths. The TEC and NZQA retain ultimate oversight of the system when collaborative decisions cannot be reached.

Learner, employer and provider interests in quality, relevant vocational education are usually aligned but, where there is a 'tie-breaker' decision between the interests of learners and employers, we have assumed that the interests of learners take priority for most New Zealanders, and then that of employers.

3.3 What other options have been ruled out of scope, or not considered, and why?

The ITP Roadmap co-design process developed the following options that have been ruled out:

- A "Big Picture" model in which learners would have access to a wide variety of high-quality, tailored learning experiences. The model did not show how change might be achieved. We see the proposals as providing a means to achieve this outcome.

- An option to merge ITPs (other than the Open Polytechnic) into the universities (excluding Auckland and Lincoln). We ruled this out of scope as most university delivery is outside our definition of vocational education, the business models and strategic imperatives of ITPs and universities are fundamentally different, and any economies of scale that could be achieved would likely be limited.

- A "One VET system" model, which would bring ITPs and ITOs under one governance structure. This would have encouraged collaboration and coordination but not necessarily significant economies of scale. The proposal to transfer the role of supporting work-based training to providers would more clearly address competition between industry-arranged work-based training and provider delivery.

Section 4: Impact Analysis

4.1 What would be the impacts of the options?

System reform: achieving one VET system

Many detailed impacts are noted in Section 3.1's rationales for the elements of each option.

Option 1: Status quo
The issues with the status quo are described more fully in Section 2. Without significant reform there will be competition between industry and providers that hinders the collaboration needed to make provider-based education more relevant and work-integrated, and to provide the extra support that some employers, trainees and apprentices need.

Option 2: Funding reform that incentivises collaboration through a common funding model
Likely impacts of this non-regulatory option include:

- Funding that is better matched to the cost of meeting the needs of different learners in different delivery modes and locations would enable and encourage tertiary education organisations to respond to the needs of a wider range of learners. This could help address situations where delivery is not meeting learners' needs, including those of Māori, Pacific and disabled learners.
- More work-integrated, provider-based VET and increased collaboration with employers and industry, helping to ensure that the skills developed meet employer needs.
- Funding incentives would improve collaboration between ITOs and providers over time, but considerable culture change would be needed to achieve an integrated system.
- A relatively smooth transition, with transitional measures in place for 2020, a goal of full implementation by 2021, and costs and risks at a manageable level. This option is not risk-free, as it requires a sophisticated funding system and means of enforcing different rates for different types of delivery, which may be challenging.
- ITOs argued that a reformed funding system would be sufficient to deliver the benefits sought from Proposal 1 by incentivising collaborative delivery. We consider that there are limits in the extent to which funding rates and conditions can overcome structural barriers to greater collaboration. Relying solely on funding incentives to achieve greater integration of work-based and provider-based learning is likely to add complexity to the funding system, with different rules for ITOs/WDCs and for providers.

Option 3: Industry gains oversight functions (in WDCs), retains arranging training
Likely impacts of this option, which requires legislative change, include:

- The impacts outlined for Option 2, as this option also includes a unified funding system.
- This option would deliver a significant shift of influence over the vocational education system to WDCs, while retaining the ITO/WDC dominance of the arrangement of work-based training. ITO support for this option was therefore not unexpected.
- ITOs supported this option as it would include the benefits of a unified funding system, increase industry influence over vocational education, and retain direct ITO responsibility for industry training.
- Having the WDC advise the TEC on what it should spend on vocational education while the WDC is a recipient of that spending, creates a significant conflict of interest. As a

result of this conflict we are not confident that this option would lead to improved outcomes for learners, employers or the wider community.

- The conflict of interest could partially be managed through additional controls set in the Minister's funding determinations, but these controls would contradict the aim of a more responsive system and the stated preference of some ITOs for a simpler funding system with fewer rules.

Option 4: Redefine roles of vocational education organisations

Likely impacts of this option, which requires legislative change, include:

- The impacts outlined for Option 2, as this option also includes a unified funding system. However, greater unification of the funding system may be possible if providers take on the role of arranging work-based training, alongside their other delivery.

- Improvements to learner access to the most suitable mix of delivery modes. Providers would gain relationships with employers that could lead to new opportunities for work-integrated provider-based delivery. Similarly, they would be in a better position, and would be motivated, to identify learning needs within the firms they are working in that would be best addressed through provider-based delivery. Providers' expertise in distance learning would enhance work-based learners' access to high quality off-job learning that complements their on-job experience. Bringing different modes of delivery together into the same organisations would also deliver some economies of scale.

- A significant shift towards delivery that responds to employer needs, due to industry's strengthened roles in standard-setting and programme endorsement and providers having regular, daily contact with employers through the 'arranging training' role. WDCs will also have opportunities to influence learner demand for vocational education – for example, through the provision of careers information and advice on preferred providers.

- Clearer avenues of regional influence on providers and on TEC investment in vocational education, through Regional Leadership Groups.

- Clear, complementary roles for Workforce Development Councils and providers. The elimination of unproductive competition between industry and providers, and regular provider engagement with employers to support work-based training, would support greater collaboration. Oversight of vocational education by WDCs would not be consistent with the same organisations delivering vocational education: it depends on the separation of these conflicting roles.

- Funding for the WDCs would be designed to encourage and support them to work effectively for all of the industries that they serve, including small industries.

- The transfer of ITOs' role in arranging training to providers would risk a noticeable reduction in the system's expertise in this function, which could flow through to a period of reduced employer confidence and enrolments in work-based training. Section B, above, expands on the system-wide risks associated with this option and how they would be managed. Section 6.2, below, provides further detail on implementation risks and mitigations.

- ITOs saw Proposal 1 as removing a necessary level of industry control over work-based training and depriving the proposed WDCs of a key means of staying connected with employers. They were concerned that providers lack capability in arranging work-based learning and would over-rely on provider-based methods such as classroom teaching. They expected many employers to lose confidence in formalised work-based training and to reduce their involvement in it, for several years if not permanently, with significant economic costs for New Zealand. They noted that, without the revenue from arranging training, WDCs would need separate government funding.

- This option could encourage ITOs to establish private providers to arrange training, potentially undermining the objectives of clear roles and greater integration of delivery modes. The government will therefore need to reflect these objectives in funding conditions, work with industry, and ensure that the Institute offers an attractive arranging training service for employers – particularly in strategically important training.

The summary of submissions that will be provided to Cabinet should be read alongside this Assessment. Some key points regarding Option 4 are provided below.

Some Māori strongly opposed this option as they saw ITOs as working well for Māori. However, others saw the option as having the potential to create a more joined-up system that improves transitions between school, tertiary provision, and employment – transitions that are currently operating poorly for too many Māori.

Learners tended to support Proposal 1. For example, the New Zealand Union of Students' Associations said "Industry should play a greater role, and the proposed approach will streamline the education to work transition that students desire." Some learners saw a risk of losing the distinctive experience of campus life with its opportunities for personal development outside of a workplace context. Learners saw a risk of employers crowding out the student voice, which was not strong in the ITP sector now.

In regard to concerns about student voice, we note that the Institute would have learner representation on its Council and would be financially dependent on demand from learners and employers.

ITP sector reform: a robust and sustainable ITP network

All of the new options seek economies of scale that would affect some ITP staff but focus resources on better outcomes for learners, employers and communities. A consolidated system could be more responsive to the needs of diverse learners – for example, programmes designed by the most capable programme developers, and targeted services that meet the needs of particular learner groups.

Option 1: Status quo
With no significant planned change we expect that mergers would be forced by financial failure rather than planned, and that services in a number of regions would need to be retrenched as too many ITPs focus on survival rather than meeting skills needs. Government would need to make considerable investment to maintain the current network of regional provision. Opportunities for improved efficiency, sustainability and collaboration, and to re-focus the ITP sector on the needs of employers and communities, would be missed.

Section 2 describes the problems with the status quo and its negative impacts in more detail. Submitters generally accepted the need for some degree of planned consolidation.

Option 2: Network with specialised ITPs
This option is likely to deliver significant economies of scale and, by making better use of ITP resources, is expected to improve the financial sustainability of the network and delivery to learners and employers. It would concentrate programme design and other services on a smaller number of staff who would be specialised in these roles. This option retains a focus on meeting local needs.

There would be some flexibility to move resources around the network, but there is also some complexity and potential inflexibility with each ITP being externally assigned a certain role or roles. Overall the transition risks are moderate and manageable, with the defined roles reducing uncertainty and ensuring that each campus only undertakes functions it can sustain.

Option 3: Federation or franchise

This option provides some economies of scale. The federal option would be unlikely to maximise scale economies, collaboration and flexibility across the network as it relies consensus across a large number of ITPs. The franchise model may make more efficient use of the network's resources but risks some loss of regional responsiveness. Federation or franchise arrangements retain the disadvantages of organisations with separate governance, balance sheets and management teams competing for market share rather than collaborating to deliver consistent quality.

This option is similar to programme business case options A and B, which the business case finds offer insufficient efficiency benefits to outweigh the costs of change.

Option 4: Merge into a small number of ITPs (three to six)

This option would not achieve ITP system-wide services (such as a single Learner Management System), but may deliver some economies of scale. Larger, fewer, organisations would make collaboration across the network easier than the status quo. Coordinating the success of the mergers and the relationships between the resulting entities would largely be left to Government agencies rather than the sector being accountable for its own successful transition.

Option 5: One ITP – Create the New Zealand Institute of Skills and Technology

This option offers significant potential economies of scale and improved collaboration, maximising the value of expertise and other resources across the network. Spreading financial risks across regions would add further to financial sustainability.

This option is most similar to programme business case option C. Directional measures and oversight would be used to ensure that regional management has sufficient delegated authority to form local partnerships and respond to variations in regional needs, ensuring that the Institute does not drift towards business case option D, which the business case finds has a high likelihood of not delivering value to regions. As recommended in the programme business case, the first step under this option would be an initial move to programme business case option A – with a thin head office. This office would manage the progressive rollout of national services where they provide the greatest benefit. Current ITPs would initially be subsidiaries of the Institute, supporting continuity during the transition.

Some ITPs, like Wellington Institute of Technology (Weltec) and Whitireia Community Polytechnic (Whitireia), noted that a centralised model could create a slow moving, innovation-stifling organisation that isn't responsive to local needs. Others identified additional capabilities that could be delivered via a head office – such as Universal College of Learning's (UCOL's) professional development plan for all ITP personnel, guiding investment in re-training in preparation for transition.

A number of stakeholders wanted to retain decision making at a regional level. Some (including ITP Group members – Unitec Institute of Technology, Manukau Institute of Technology (MIT), Waikato Institute of Technology, Western Institute of Technology at Taranaki, Whitireia and WelTec, Tai Poutini Polytechnic (TPP) and The Open Polytechnic) want RLGs to align with iwi boundaries to give effect to local partnerships. MIT notes the potential that "regions" could begin to reproduce competitive behaviour (such as regional campuses continuing to compete in Auckland). Ara Institute of Technology (Ara) was unsure how an RLG could effectively support regional responsiveness.

Our engagement with Māori found that they desire a strong voice in the Institute and RLGs (including equal partnership).

A number of ITPs argued for retaining their branding within the national system, and for regional management teams responsible for academic and financial management.

NZUSA supported Proposal 2, seeing it as addressing regional ITPs' excessive focus on financial survival by enabling cooperation across the network, provided that a sense of local ownership and power over curriculum variations remained.

The potential loss of regional relevance is one of the key risks described in sections B and 6.2. However, it should not be over-stated. Firstly, while regional relevance is important, there is also value in developing skills that learners can take with them when demand shifts between regions (for example, as the Christchurch Rebuild declines and construction grows elsewhere). Secondly, providers' incentive is not just to provide the lowest-cost programme, but to offer the programme that attracts the highest enrolments across the network. One way to do that is to ensure that the programmes offered in each region meet identified needs and are regionally contextualised. Thirdly, directional measures such as the Institute's Charter and funding conditions, engagement with diverse employers, WDCs and RLGs, and NZQA's oversight, will encourage regional flexibility.

We do not expect that regional variations where they are most needed would significantly reduce cost efficiencies in back office systems. There would still be significant savings in programme design and the development of core learning materials, currently duplicated over up to 16 campuses.

Conclusion and overall package

On balance we prefer option 4 for system reform and option 5 for reform of the ITP sector.

As noted in section 3.1, the proposed reforms form a mutually reinforcing package.

Bringing the ITPs together creates a collaborative national network of vocational education expertise, and is likely to be more financially sustainable.

Integrating support for work-based learning with other provision will connect employers and workers with the full range of learning options so that they can more easily access the particular support they need. It will also be a new avenue for providers to learn from employers about current industry practice and expectations, so that even provision delivered solely on campus can benefit. We expect significant learning opportunities as former ITP and ITO staff come together in the same organisations. Furthermore, giving providers this

role will moderate the impact of the business cycle on provider revenues, adding to the financial sustainability of the consolidated ITP network.

Re-focusing industry on strategic oversight functions rather than day-to-day delivery of vocational education will encourage improved skills leadership. Industry will have a much greater role in shaping all modes of delivery, not just industry training. The funding system is likely to be more easily unified without a marked split between organisations that arrange training and those that deliver. At the same time, reforming the funding system is likely to be important for the success of the other reforms, ensuring that providers give appropriate priority to improving participation in high quality work-based learning.

Marginal impact: System reform: achieving one VET system

Criteria	Option 1: Status quo	Option 2: Funding reform that incentivises collaboration and creates a common funding model	Option 3: Industry gains WDC functions, retains arranging training	Option 4: Redefine roles of vocational education organisations
Delivers to the needs of all learners and prioritises underserved learners	0	+ Incentives for greater integration of work-based and provider-based learning.	+ Incentives for greater integration of work-based and provider-based learning.	++ Consolidated and integrated system that strengthens learning and pastoral support tailored to learner needs.
Is relevant to the needs of employers	0	+ Increased employer/provider collaboration.	++ Bigger industry say in provider-based training.	++ Bigger industry say in provider-based training but less direct industry control of work-based training. Better overall support for specific employer needs.
Collaborative, flexible, innovative and sustainable in all regions	0	+ Supports collaboration and flexibility and reduces industry-provider competition and revenue swings.	0 Bigger industry say but less provider innovation, and a bias toward funding WDC-arranged training.	++ Supports collaboration and flexibility and reduces industry-provider competition and revenue swings.
Delivers more relevant vocational education and skills across all regions	0	+ System able to address wider range of learner, community and employer needs.	0 Bigger industry say but less provider response, and a bias toward funding WDC-arranged training.	+ System able to address wider range of learner, community and employer needs.
Integrates the system by creating clear roles and avoiding conflicts of interest	0	+ Could encourage clearer roles over time.	- - Significant conflict of interest: WDCs advising TEC on investment in WDCs.	++ Creates clear, complementary roles for industry and providers.
Upholds and enhances Māori-Crown relationships and Te Tiriti principles	0	+ Improved support for diverse learner needs.	0 Supports some Māori aspirations. Could weaken Māori voice in some respects.	++ Improved support for diverse learner needs, and expanded opportunities for partnership with Māori in vocational education.
Minimises transition risks and uncertainty for stakeholders, manages costs, risks for government	0	+ Design challenges but can be phased to manage risks. Strong sector support.	0 Design challenges but can be phased. Industry support but provider concerns.	- - Risks in transferring arranging training: involves 25,000 employers and 140,000 apprentices and trainees.

Overall assessment	0	+	-	+
		Improved vocational education with manageable costs, risks.	Unacceptable conflict of interest.	Preferred on balance: significant improvements, high transition costs, risks.

Key: **++** much better than status quo   **+** better than doing nothing/status quo   **0** about the same as status quo   **-** worse than status quo   **--** much worse

Marginal impact: ITP sector reform: achieving a robust and sustainable ITP network

Criteria	Option 1: Status quo	Option 2: Network with specialised ITPs	Option 3: Federation/franchise	Option 4: Merge into smaller number of ITPs	Option 5: Create the New Zealand Institute of Skills and Technology
Delivers to the needs of all learners and employers	0	+ Scale economies, regionally tailored ITPs, network benefits	+ Scale economies, network benefits	+ Scale economies, new charters, network benefits	++ Greatest gains through scale economies, new charter, network benefits
Collaborative, flexible, innovative and sustainable for all regions	0	+ Increased coordination but some rigidity due to pre-set ITP roles.	0 Increased coordination but more complex decision-making.	+ Larger ITPs likely more capable and sustainable	++ Much more flexible, coordinated and sustainable if internal structures balanced
Delivers more relevant vocational education and skills across all regions	0	+ Scale economies, regionally tailored ITPs, network benefits	+ Scale economies, network benefits	+ Scale economies, new charters, network benefits	++ Significant scale economies, new charter, network benefits
Upholds, enhances Māori-Crown relationships and Te Tiriti principles	0	0 Service gains but could limit regional partnerships	0 Service gains but could limit some partnerships	+ Larger, more capable ITPs with better rohe coverage	+ Significant service gains, some risk to regional partnerships
Puts diverse voices of learners, employers, staff, communities at the centre of the system	0	+ New opportunities for national representation of diverse voices	0 Could limit national partnerships if federal, regional if franchise	0 Little change	+ New opportunities for national and regional representation of diverse voices
Minimises transition risks and uncertainty for stakeholders, manages government costs, risks	0	+ Significant reorganisation, but staged and middle office-focused	- Complex, risks to strategic (if federal) or regional (if franchise) responsiveness	0 Risks and costs understood and similar to status quo	- - Large, uncertain cost, single point of failure, tricky national/regional balance
Overall assessment	0	+ Improved delivery with manageable transition	- Some benefits but outweighed by costs, risks	+ Some benefits with manageable transition	++ Preferred: significant gains, albeit highest cost and risk

Key: ++ much better than status quo + better than doing nothing/status quo 0 about the same as status quo - worse than status quo - - much worse

Section 5: Conclusions

<table>
<tr><td>5.1   What option, or combination of options, is likely best to address the problem, meet the policy objectives and deliver the highest net benefits?</td></tr>
<tr><td>The analysis suggests that the status quo is not sustainable and that significant change is needed. However, the stakes are high in vocational education, with annual government expenditure over $600 million (not including student support), private expenditure or foregone income well above this figure, and success or failure having significant flow-on effects to the wider economy.

The component parts of the proposed change (Proposals 1, 2 and 3) are reinforcing and interdependent. Proceeding with only one or two elements of the package (e.g. funding reform alone), while a feasible option, will not result in a unified VET system. As is clear from our analysis and from the business case, the risk profile of the reform package, taken as a whole, is high. However, the economic and system benefits such as improved access and support for learners are greater than would be realised through an incremental or partial change path. Based on our estimates, we expect the benefits to exceed the costs.

Assessing the options is a finely balanced judgement under conditions of significant uncertainty. Realising the full benefits of the unified system in the long term will require a very high standard of implementation of each of the components of reform. Managing the risks will require strong risk mitigation through the transitional phase.</td></tr>
</table>

<table>
<tr><td colspan="4">5.2   Summary table of costs and benefits of the preferred approach</td></tr>
</table>

Affected parties *(identify)*	**Comment**: *nature of cost or benefit (eg ongoing, one-off), evidence and assumption (eg compliance rates), risks*	**Impact** *$m 30-year present value for monetised impacts[6]; high, medium or low for non-monetised impacts*	**Evidence certainty** *(High, medium or low)*
Additional costs of proposed approach, compared to taking no action			
Crown: WDCs	Establishment	5.1	Medium
	Ongoing	663.3–785.1[7]	Medium
Crown: RLGs	Establishment	1.5	Medium
	Ongoing	122.7–183.6	Low
Crown: Institute	Establishment	166.2–232.6	Low-medium
	Ongoing	16.8[8]	Medium
Crown: funding system	Systems design	13.9–27.8	Medium

---

[6] 'Monetised' costs and benefits are those for which we have indicated a monetary value. These are discounted at 6.0% per annum to determine the present value.

[7] We assume fixed annual funding for WDCs, regardless of their number or any expansion of their functions.

[8] Additional costs of the Institute's management team (more than offset by savings – see benefits table).

Crown: programme-wide	Agency costs implement reforms	35.8–42.8	Medium
Crown: various parties	Support for transition of work-based training from ITOs to providers	9	Low
Total Monetised Cost		1034.3–1304.3	Medium
Crown: Unified funding system	Other establishment (delivery/ implementation)	Low–medium	Medium
	Ongoing	Low–medium	Medium
Crown: RLGs	Establishment	Low[9]	High
Industry: ITOs/WDCs	Establishment of WDCs: transfer of assets from ITOs	Low	Low
	Ongoing	Low	Low
Industry, local authorities and communities: RLGs	Establishment	Low	Low
	Ongoing	Low	Low
Learners and employers – transition	Disruption due to challenges shifting	Low–medium	Low
Employers	Increased ongoing provision of on-job training	Low	Medium
Regulated and funded parties	ITOs: loss of arranging training function and revenue (subsidies and fees)	Medium	High
	Providers: change costs due to new funding system and programmes	Low–medium	Medium
Wider government	Increased engagement with industry (WDCs) and other stakeholders-ongoing	Low	Medium
Other parties	Regions – eg reduced enrolments	Low[10]	Medium
	ITO and ITP staff and contractors – uncertainty, some redundancies	Low	Low
Non-monetised costs		Medium	Low-medium

Potential benefits of proposed approach, compared to taking no action			
Crown - cost efficiencies	Administrative and management savings[11] Programme design and development savings Capital expenditure savings	224.8–368.0	Low

---

[9] To be determined in consultation with the Minister of Employment.

[10] Potential Medium impact in Invercargill, in the event of a significant reduction in out-of-region delivery by SIT.

[11] See Table 13 of the business case.

	Revenue change due to decline in student and trainee numbers Base case savings foregone		
Employment and productivity benefits (learners, whānau, employers, regions)	Indicative potential benefits assuming 0.5–1% improved employment rates and 1% increased income premia for vocational education graduates [12]	1220.0–1600.0	Low
Total monetised benefits		1444.8–1968.0	Low
Crown – non-monetised Vote Tertiary efficiency benefits	Shorter programmes due to removal of bias to longer programmes Shift in delivery from provider-based to (lower-cost) work-based Reduced expenditure (by Crown, learners, employers) on low-value programmes not endorsed by WDCs	Low–medium	Low
Crown – other agencies	Reduced welfare and justice sector expenditure due to improved learner access to delivery that improves employment and other outcomes	Medium	Low
Regulated and funded parties	Providers gain revenue and new opportunities from arranging work-based training	Medium	Medium
Individuals and communities	Miscellaneous benefits of sustained local ITP delivery, better skills access and matching, and a stronger voice in the system	Low–medium	Low
Non-monetised benefits		Medium	Low

5.3	What other impacts is this approach likely to have?

We expect any of the change options to affect the wider skills system including:

- NZQA and the TEC roles and functions
- cross-agency work on regional coordination of labour supply and demand
- immigration system reforms
- schools and other providers.

5.4	Is the preferred option compatible with the Government's 'Expectations for the design of regulatory systems'?

We consider that the Minister's preferred option is not incompatible with the Government's 'Expectations for the design of regulatory systems'.

---

[12] See Table 15 of the business case. We cannot predict the exact improvement in worker skills, and many factors affect the distribution of these benefits. Key assumptions behind the indicative gains include:

- Only learners who complete qualifications gain increased employment rates and earnings premia
- Approximately 30,000 individuals graduate each year
- The gains occur five years after qualification completion.

Section 6: Implementation and operation

6.1   How will the new arrangements work in practice?

Legislative and non-legislative components of the proposals

The Education Act 1989 and the Industry Training and Apprenticeships Act 1992 (ITAA) will need to be amended. The key amendments to implement Proposal 1 and Proposal 2 include:

- Provide for WDCs with core statutory functions of industry skills leadership, qualification and standards development, programme assessment and endorsement, and advising the TEC on investing in vocational education for their industries. Enable NZQA to set rules for WDCs' quality assurance functions.
- Provide for the Minister to: establish the WDCs as statutory bodies; determine the WDCs' names and the scope of their coverage (by industry and/or occupation); determine (by Order in Council) the basis for industry representation in the WDCs' governance (expected to vary by industry and be driven mainly by consultation with industry); and direct the TEC to fund WDCs.
- Provide for the establishment of the Institute (being a consolidation of the existing ITPs) with as a Crown entity with a charter and requirements for an academic board and for regional leadership of many detailed aspects of delivery and pastoral care.
- Provide for the Minister to appoint the Council of the Institute that reflects the diversity of New Zealand's population and has the appropriate skills and experience (eg governance and cultural competencies), and to set funding rules specific to the Institute.
- Provide for transitions to the new arrangements.
- Reassign industry training responsibilities from ITOs to the Institute and other providers approved by NZQA to undertake these responsibilities.

There are aspects of the proposals that will be undertaken through other, subsidiary mechanisms. These include:

- Proposal 3: the unified funding system – this can be implemented largely by the Minister issuing new funding determinations and the TEC developing new detailed funding rules and administrative systems to enable the system to operate as intended. We do not expect these to be able to be implemented before 2021.
- Changes to NZQA rules to detail how WDCs would fulfil their quality assurance functions.
- Prior to implementation of the unified funding system, new or revised funding determinations to enable the TEC to fund providers to arrange programmes of industry training in the interim.
- Establishing and funding Regional Leadership Groups.
- Incorporating key goals of the reforms into the new Tertiary Education Strategy that is currently in development.

Implementing the reforms

Significant effort is needed to implement the reforms. The Institute, WDCs, RLGs, the TEC and NZQA will need the appropriate people and organisation, governance and oversight, processes, tools and technology, and culture. For example, the Institute needs to have a much more employer-facing culture than ITPs have today. Many resources will need to shift between organisations, or be purchased new.

The TEC has commissioned a business case for the RoVE proposals. The Ministry of Education is the lead policy agency, responsible for the legislation, other regulatory, and Budget matters. The TEC will lead most aspects of the programme to deliver the reforms, drawing lessons from mergers of New Zealand ITPs and from the consolidation of Australian TAFEs (equivalent to ITPs). NZQA will lead consequential reforms of its rules, in consultation with the sector.

Proposed design principles, drawn from various sources including a co-design workshop with ITP chief executives, are, in summary:
- enable a national system that will act in the best interests of New Zealand's learners, employers, and communities
- be cost-effective and productive
- support innovation and be adaptable
- be seamless and joined up for learners
- enable quality and consistency of learning
- respond to local needs
- provide accountability for decision-making as close to the source as is feasible
- support equity of access to vocational training, improve learning outcomes, and achieve parity of educational success
- attract the level of leadership and implementation talent required in the programme and providers.

The implementation programme includes:
- designing and establishing the Institute
- transitioning all 16 existing ITPs to the Institute
- designing and establishing between four and seven WDCs
- transitioning functions currently undertaken by ITOs, including arranging and delivering training to providers
- designing and delivering any changes to monitoring and quality assurance arrangements
- developing and acquiring required capability (people, processes, and technology).

The TEC will establish formal structures to give voice to stakeholders in the implementation of the proposals and to ensure partnership with Māori. An establishment unit within the TEC or the Ministry of Education will prepare plans (for example, for the transfer of assets and the staffing of the Institute), organisational policies, and communications (for example, to staff, stakeholders, and the Minister) to enable the Institute to be effective from 'day one'. The unit will be guided by an Establishment Board made up of appointees to the Institute's Council (that is, Council designates). The Council will have expertise in vocational education, will have the skills, knowledge, and experience to work with Māori and support Māori needs, and will consult with the advisory groups. To ensure continuity, the Board will likely be chaired by a person appointed in advance as Chair of the Institute.

The Institute will be established as a tertiary education institution under the Education Act 1989.

The TEC will incur costs to:
- establish and run a programme management office and Institute programme team

- establish information systems and services for the IST
- integrate/harmonise other aspects of the existing ITPs, including assets and academic and fee structures
- develop a business strategy, blueprint, and operating model for the IST
- obtain legal advice
- market and brand the IST
- establish new facilities where existing ITP facilities are not suitable or optimal
- undertake change management – eg shift organisational culture and support staff through the change (including redundancy payments)
- establish and facilitate advisory groups, and otherwise consult and collaborate with key stakeholders

We assume that funding reform will occur regardless of the decisions on Proposal 1 and Proposal 2. Some of the programme management and advisory/consultative costs would be incurred with funding reform alone.

Proposed implementation timeline

Tranche		Milestones
July 2019 Mar 2020	**Tranche 0:** The programme prepares for delivery, which includes preparing a programme plan and establishing the entity to drive the creation of the NZIST.	• Introduce draft legislation on 26 August 2019 • Establish an Establishment Board for the Institute on 1 September 2019 • Implementation Business Case (part of seeking funding approval) for the Institute to Cabinet – late 2019
April 2020	**Tranche 1:** Start redefining system roles and establishing new organisations. Holding organisations pick up ITO arranging training role. First steps for ITP learners to have a more consistent and seamless experience across the Institute, which begins to plan and monitor its academic and financial performance.	• Establish the Institute as a legal entity on 1 April 2020 • Establish the first WDCs as legal entities from mid-2020, and establish RLGs (MBIE) • WDCs to seek Ministerial recognition in the second half of 2020 / ITOs relinquish standard setting role to WDCs • Managed transfers of support for work-based learning begin
2021	**Tranche 2:** The first WDCs and RLGs are established. Continued managed transfers of responsibility for arranging training. Institute is prepared to begin improving its efficiency and optimising its assets.	• WDCs to provide formal advice to the TEC on vocational education purchasing from late 2021
2022	**Tranche 3:** Further managed transfers of roles. Institute is improving its efficiency and optimising its assets.	

2023	**Tranche 4:** The new vocational education system is delivered. System roles are fully redefined. All WDCs and RLGs are operating as intended, and the arranging of training has shifted to providers. The new unified funding system is operating. Institute is more efficient and productive – with reduced duplication of effort and campuses focused on delivering high quality and relevant learning.	• All RLGs, WDCs established • Institute's shared systems and services in place • Unified funding system to be in effect from 2023

6.2 What are the implementation risks?

The programme is high risk, being extremely complex, with substantial scale and scope and many and varied stakeholders. The desired rapid pace of change will reduce the period of uncertainty for stakeholders while also presenting challenges for successful implementation.

As described in Section B, the key risk across the proposed reform programme is that, from 2021 when the reforms are likely to take full effect, training volumes and completions could decrease. This could result from a number of factors including reduced confidence in the system, reduced capabilities within the system, and the disruption of learning programmes in the transition. Section B also discusses some of the key mitigations for this risk and its main contributing factors. A more detailed list of risks and mitigations is provided in the table below.

Risks	Mitigations
Key risks and mitigations	
Volume: Reduced participation in and completions of vocational education programmes, as a consequence of reduced employer confidence, sector capability, and other risk factors, reducing the supply of much-needed skills.	Key mitigation strategies include: • prioritising learner and employer needs during transition and implementation • prioritising maintaining capability in formalised training (including industry training) that is fit for purpose, and is strategically important (eg primary industries and construction) • a unified funding system that supports delivery that meets a wide range of needs, including work-based learning. More-detailed mitigations are described below.
Transition: The transition may be more difficult or take longer than expected.	Adequate time, planning, funding, and engagement with key influencers such as industry and ITOs for a successful transition. A detailed business case for the Institute, and key check-in/review points including when seeking funding, issuing the Institute Charter, and transferring recognition of functions from ITOs to providers and WDCs. Choosing people with very strong skills and experience to lead the Institute, and giving them transitional leadership responsibilities.
Single point of failure: The Institute is a dominant 'single point of failure' in the vocational education system – it could behave monopolistically and, if it has significant performance problems, the Crown would have to invest significantly to ensure it continues to deliver to learners.	Application of more aspects of the Crown Entities framework than apply to other TEIs – eg Statement of Intent, Letter of Expectations. Increased government monitoring and intervention in the consolidated ITP to address performance risks, including when risks occur in one part of the organisation (rather than having to wait until they are

Evaluating the performance of the Institute may be more difficult than in the status quo because of the lack of similar organisations to act as comparators.	organisation-wide). Provider fees are already regulated. Explore fee regulation options work-based training.
Intended benefits not realised: The reforms do not deliver the intended level of benefits for the ITP network and the vocational education system as a whole	Specific risk factors and mitigations noted below.
Treaty: Māori/iwi do not feel that the proposals honour the Māori-Crown partnerships, including through the proposed governance and advisory structure for the reform programme and for the Institute; this could lead to increased uncertainty around timeframes and processes	Partner with Māori to design a system that reflects the Māori-Crown partnerships and addresses the needs of Māori, including in the governance of the new organisations. Review, and co-design with wānanga, te reo and Mātauranga Māori funding as part of unified funding system work. Establish Regional Leadership Groups to represent regional iwi and other interests to the consolidated ITP and to the TEC, and a Māori advisory subcommittee whose advice the Institute's Council must consider. Consultation with the Minister for Māori-Crown relationships and with Te Arawhiti on appointments to the Council of the Institute.
Other general risks and mitigations	
Costs of change are higher than anticipated and/or the necessary funding for reform is unavailable	Officials continue to develop detailed costings and advise Ministers about anticipated costs.
Implementation takes longer than anticipated	Deliver implementation in stages, such that each stage is realistic about what can be achieved. Ensure investment in the reform programme is sufficient and timely to enable efficient implementation.
The system does not deliver to the needs of Māori learners or support iwi economic development aspirations	Create Te Taumata Aronui – a group that advises Ministers and education agencies on ensuring that the reforms (and tertiary education generally) honour Māori-Crown partnerships. Ensure that the intent to design the system to prioritise the needs of learners and Māori is well communicated and upheld.
The system does not prioritise the needs of the most vulnerable New Zealanders and their educational and employment outcomes do not improve	Prioritise the needs of vulnerable New Zealanders in all aspects of the reform and the vocational education system. Build in TEC's learner success approach to the establishment of the Institute Use "directional" instruments such as a Charter, Statement of Intent, letters of expectations and funding to guide the Institute to prioritise the needs of vulnerable New Zealanders.
Some groups of stakeholders, including Māori, Pacific peoples and disabled people, feel: • that their voices and perspectives will not be valued and actively considered in shaping the reform • that the reform will not be responsive to, and adequately meet, their diverse needs.	Ensure that the intent to design the system to prioritise and be responsive to the diverse needs of traditionally underserved learners is clearly communicated and supported, including by seeking advice of these groups on the reforms.

Wānanga have concerns that the proposed system may not align with their aspirations or needs, or those of their stakeholders.	Continue to work with wānanga on how the reforms relate to their distinctive contribution to the tertiary education system and ensure wānanga can participate in opportunities for providers to work more closely with employers, where that is appropriate.
Staff at ITOs and providers are concerned about job losses, leading to a loss of valuable capability across the vocational education system if staff at ITOs and providers exit the system because of uncertainty about their jobs.	Communicate to provider staff that redeployment and retraining will be encouraged and incentivised, and redundancies will be minimised. Provide dedicated investment for redeployment and retraining activities, including in ITOs. Create a Stakeholder Advisory Group that includes members representing staff interests, and seek and consider advice from it.
The scale of change means it is difficult to align all parts of the education and skills systems, including other education reforms and government organisations (MoE, TEC, NZQA, MBIE, etc.), to deliver on the outcomes for the reform.	Following Cabinet policy decisions, prioritise analysing and implementing the shifts required from government organisations. Direct government organisations to prioritise and align their activities to support the outcomes of the reform. Ensure reform-related activities are sufficient funded.
Continued mismatch between supply and demand, and workplace training becomes less relevant or industry loses confidence in it due to the transfer of workplace training support to providers.	Strong industry influence through WDC standard-setting and purchase advice. Government provision of labour market information to support decisions across the system, and establish new regional entities (eg skills hubs) to align supply and demand. Establish Regional Leadership Groups to represent regional employer, iwi and other interests to the consolidated ITP and to the TEC.
It is difficult to recruit leaders and advisory group members with sufficient expertise in major organisational change, and this impacts on the success of, and timeframes for, transitions.	Adequately scope leadership and advisory positions and assess specific skills needed. Undertake wide recruitment activities, including internationally, where appropriate. Ensure investment in capability is sufficient to attract highly experienced leaders where needed.
Proposals create uncertainty in the international student market, and some international students avoid New Zealand.	International education stakeholders are actively informed throughout the process. Implementation processes address the needs of international learners and stakeholders. The Institute works with regional stakeholders and with Education New Zealand to build and retain strong international recruitment into regional locations. Ensure sufficient investment in marketing and communications capability to support campaigns highlighting the new Institute, key benefits of change for international students and support for transition.
Redefined roles for industry bodies and education providers: risks and mitigations	
ITOs and some other stakeholders continue to oppose the proposal to shift the role of supporting work-based learning from ITOs to providers.	Emphasise the expanded roles for WDCs in leadership and standards-setting. Work closely with ITOs on a managed transition for their staff.
Some ITOs focus on creating PTEs and shifting their current role in supporting	Transition arrangements manage the shift of the role in supporting work-place learning to ensure that the

work-place learning to these PTEs (which are under their control), rather than supporting this shift to the Institute, wānanga or existing PTEs, to the detriment of access in regions.	Institute and wānanga are supported to take on this role as much as possible to ensure continued access to work-place learning across regions.
Providers fail to adapt sufficiently quickly to their new role in supporting work-based learning, such as not building solid relationships with employers in order to understand how best to support apprentices and trainees in workplaces.	Upfront investment in the capabilities of the Institute and in wānanga to take on this role. See below regarding using "directional" instruments to guide the priorities of the Institute.
WDCs representing multiple industries could focus on the needs of larger and wealthier industries, at the expense of other industries.	WDCs required to address the needs of all the industries they represent, as a condition of funding.
Create a New Zealand Institute of Skills & Technology	
A mitigation strategy for most risks related to the Institute involves using "directional" instruments such as a Charter, Statement of Intent, letters of expectations and funding to guide the culture, organisation and priorities of the consolidated ITP in keeping with the objectives of the reform.	
The Institute is a dominant 'single point of failure' in the vocational education system, and could behave monopolistically.	See "Key risks and mitigations" above.
The Institute is overly centralised and less responsive to local and regional skills needs due to a remote, centralised national leadership…	Establish RLGs to represent regional employer, iwi and other interests to the consolidated ITP and to the TEC. Retaining certain legacy assets that communities have contributed to, within the regional branch of the consolidated ITP. Keep decision making as close to source of delivery as is functionally possible. Explore concept of limited earned autonomy as an option where appropriate. Require responsiveness to local and regional needs as a condition of funding.
…OR the Institute is too devolved and fails to achieve greater consistency and scale economies across regions	The use of "directional" instruments to guide the priorities of the Institute.
Integration of the role of supporting work-based learning and the operations of the 16 current ITPs takes longer, costs more or achieves less than expected	Staged approach to integration, allowing for stable interim levels of integration Appropriate funding of change and integration costs Appointment of skilled and experienced individuals to governance and management positions
There is a loss of valuable international and other partnerships involving current ITPs.	Initially placing the current ITPs into subsidiaries would allow time to transition current partnerships. The Institute works with Education New Zealand to help explain and promote the new entity internationally.

Section 7: Monitoring, evaluation and review

7.1   How will the impact of the new arrangements be monitored?

A monitoring and evaluation framework and plan will cover short term implementation and transition objectives, as well as medium to long-term objectives. They are likely to cover the following matters.

A: Short to medium-term term implementation and transition (1-3 years). How well were implementation objectives met?

- Key decisions, legislative and structural changes, and other change tasks implemented largely within planned timeframes? Transition costs to government within budget? Ideally, stakeholders report that the transition went relatively smoothly and that they felt they were consulted and their needs were considered.

- Effective transition to new structure, functions and roles?: industry bodies transitioned to an intended skills leadership role; standard settings, quality assurance, and assessment functions and roles transitioned as intended; provision function transitioned as intended; improved role clarity and cohesion between industry bodies, employers, providers, learners, community, and government stakeholders.

- New funding system implemented – key issues with previous system addressed?

- Has the transition resulted in more coherent access for learners to vocational education and clearer pathways to employment? There should be continuity of provision and support, and no significant reductions in vocational education participation, below forecast trend, during the transition period.

- Were Māori views and issues on the change properly addressed?

- Were the views of key stakeholders (including regional) properly addressed?

- Does the tertiary vocational education system now have a clearer identity and profile, and how widely and well is this understood?

We expect this part of the monitoring will come mostly from formative, qualitative information, including NZQA external quality assurance reports, and be led by the TEC, informed by its regular monitoring of providers (and strengthened monitoring of the Institute) and its monitoring of how WDCs use their funding. Monitoring of both short and long-term outcomes could be supplemented with customer surveys.

B: Medium to longer-term outcomes monitoring and evaluation (3+ years)

A framework and methodology for monitoring longer-term outcomes will be built around key objectives, intended benefits, and final policy design.

The measurement will draw on existing administrative educational collections, business survey data from MBIE, social survey data from Statistics New Zealand, and other sources. The next OECD Survey of Adult Skills, available in 2023, may contribute to some extent to the measurement, but its scope for attributing changes to ROVE is limited.

The measurement will compare the state of the sector before and after the changes in order to see the impact of the changes. This may limit the things that can be measured. We may be able to supplement this with surveys of key stakeholders asking them their perceptions of the impact of the changes.

 Broadly, the monitoring is likely to cover the following:

1) Is the system more responsive at identifying and responding to employers' skills needs?
There should be evidence that vocational education is better tailored to the needs of employers and the workforce, with improved skills matching and employment outcomes (eg incomes, productivity and employment rates).

2) Do learners have improved access to relevant quality vocational education, including successful pathways to the labour market?
Key measures will be participation and achievement in quality programmes, by different learner groups.

3) Has the profile, reputation and credibility of vocational education improved?
A key measure of this will be changes in participation rates, including signs of earlier participation and preferences between vocational and other tertiary education.

4) Financially viable and sustainable provision.
Financial monitoring by the TEC should indicate whether the ITP sector is viable and sustainable. Delivery of work-based training will provide an early indicator of the viability and sustainability of the transfer of the arranging training function.

There are key equity dimensions that are an identified focus of these changes:

5) Has this change had a positive impact on Māori and Pacific learners, and disabled learners and learners with additional support needs?
This will be assessed by ensuring that these dimensions are included in the monitoring above, and by listening to the views of Māori, Pacific and disabled people and learners with additional support needs.

6) Has this change had a positive impact on regions?
This could be assessed by ensuring a regional dimension to the monitoring above, supplemented where needed with additional regional indicators, such as regional unemployment or student mobility patterns.

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. We expect WDCs to also make considerable use of this source, and that their analyses will also inform those of government.

The Ministry of Education's senior leadership team monitors the Education Work Programme and will maintain oversight of all the reforms currently underway, through regular reporting.

7.2 When and how will the new arrangements be reviewed?

A. Short to medium-term term implementation and transition
Ongoing operational process monitoring by the TEC over the first 1-3 years, with twice-yearly reports envisaged. There will be ongoing opportunities for stakeholders to raise concerns, including through the TEC and peak body meetings with officials and the Minister of Education.

B: Medium to longer-term outcomes monitoring and evaluation (3+ years)

The reforms involve long-term changes that are not likely to be evident for 5 to 10 years following the change. The first student cohorts going through the fully reformed system are not likely to be graduating until 2022 or 2023, and we will need to track them for 3 to 5 years post-graduation to look at employment outcomes. Unless monitoring indicates urgent problems, a review after five years could focus on fine-tuning and a more significant review after ten years could provide a summative assessment. A 10-year period will be needed to assess how resilient the new system is across the next economic cycle.

We expect that the Ministry of Education will lead the review of the vocational education system while the TEC will lead the review of the Institute.

Annex 1: Key themes from the TEC's ITP Roadmap engagement

What's working well?

Learner support: Learners feel at home, respected and understood at their ITPs.
Committed ITP workforce: There are many dedicated ITP staff who will go the extra mile to help their learners succeed.

Trusted local partners: There are ITPs that work with industry to meet their needs and help to grow communities in their region.

Some areas of provision: ITPs have strengths in applied learning, vocational education and there are some innovative delivery models.

What's not working well?

Purpose and brand: ITPs are trying to be everything to everyone, and suffer from perception problems. This is a challenge for the wider vocational education and training sector, not just for ITPs.

The operating environment impacts on sustainability and quality: The environment that ITPs operate in is competitive, creates duplication and inefficiencies, and they struggle to reach economies of scale. Staffing structures can be inflexible.

Staff and student representation: Good systems and processes exist at some ITPs but, at others, staff and learners aren't being involved enough.

Learner success: There are issues of churn and some ITPs are not yet meeting the needs of Māori and Pacific learners.

Meeting industry need: ITPs aren't responding well enough to skills shortages, mismatches and gaps in local labour markets.

What needs to change or improve over the next decade?

More outward-facing, flexible and responsive: ITPs should be outward-facing partners that respond to the need of communities, industry, Māori and other stakeholders and contribute to regional transformation.

Build the ITP brand: ITPs can promote their advantages and build a stronger brand for the sector.

Focus on skills: ITPs need to develop people's skills for the future.

Diversify models of teaching and learning: ITPs should move towards more work-integrated, lifelong learning; shorter, flexible programmes; and blended models of delivery.

Workforce model: The ITP workforce can be more flexible, but it must have strong leadership, valued staff and well-supported learners at its centre.

Ideas for the future ITP network model

Balance centralisation and decentralisation: Some things could be centralised, but the model needs to retain local diversity and autonomy.

Not one-size-fits-all: Each region is different and ever-changing, and the ITP network will require a solution that can continually adapt to meet local needs.

Feedback on the funding system

Funding models and operational settings: Aspects of the system are slow, and disincentivise or stop ITPs from effectively fulfilling their roles while remaining financially sustainable.

Agency collaboration: Government agencies can improve how they work together to support the sector.

What we heard from Māori

Learning and success for Māori: ITPs can better support Māori learners and whānau by focusing on flexible learning models, improving access to education, and giving learners skills for lifelong careers as well as other social and cultural benefits.

Partnerships: Government, ITPs and Māori whānau, iwi and hapū can build stronger partnerships that help create more positive outcomes for learners. Clear roles and responsibilities are important in making partnerships work.

What we heard from Pacific people

Learning and success as Pacific people: ITPs need to ensure that Pacific learners and staff are well-supported, able to celebrate their cultures, and have culturally-relevant experiences.

Careers education and community engagement: ITP education works best for Pacific people where their families, schools and communities are actively involved, and support Pacific learners to transition into areas of study that lead to work.