



## Tertiary Education Report: Annotated Agenda to support discussion on RoVE Proposal three, and the fiscal and systems implications of RoVE

To:	Hon Chris Hipkins, Minister of Education		
Date:	9 May 2019	Priority:	Medium
Security Level:	In Confidence	METIS No:	1187912
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Messaging seen by Communications team:	No	Round Robin:	No

### Purpose of Report

The attached Annotated Agenda seeks your indicative agreement to high-level design aspects of Proposal three of the reform of vocational education (RoVE); *creation of a unified funding system*. This Agenda also provides advice on purchasing arrangements for vocational education within the new system and on the fiscal and systems implications of RoVE. We seek feedback in the week of 13 May.

A proposed Outcomes Framework for RoVE is also attached for your consideration.

### Recommended Actions

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

- a. **note** that the attached Annotated Agenda seeks your indicative agreement to high-level design aspects related to RoVE Proposal three, provides advice on purchasing arrangements within the new system, and on the fiscal and systems implications of RoVE,
- b. **note** that decisions are required on the topics outlined in the attached Annotated Agenda to inform your report back to Cabinet in June 2019 and to allow for legislation to be drafted for introduction by late August,

**Noted**

**Noted**

- c. **forward** the attached Annotated Agenda to any additional ministers you may wish to include in discussion,

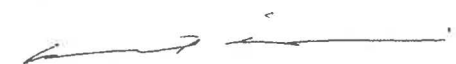
Agree / Disagree

- d. **agree** to the proposed Outcomes Framework for RoVE and that this framework should guide our future advice to you on the reforms, and

Agree / Disagree

- e. **agree** that this briefing will be proactively released once you have agreed on the RoVE at Cabinet.

Agree / Disagree



**Grant Klinkum**

Acting Deputy Secretary, Graduate  
Achievement, Vocations and Careers  
Ministry of Education

09/05/2019



**Tim Fowler**

Chief Executive  
Tertiary Education Commission

09/05/2019



**Hon Chris Hipkins**

Minister of Education

20/5/19



## Process for confirming policy and design aspects of RoVE

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1. The attached Annotated Agenda outlines high-level design aspects related to RoVE Proposal three as well as the fiscal implications and the systems implications of all three RoVE proposals.
2. We seek your indicative agreement to these design aspects (where required) in the week of 13 May. These decisions are needed to inform your report back to Cabinet in June 2019 and to allow for appropriate legislation to be drafted.
3. We have aimed to provide sufficient detail on each topic to support good decision-making while ensuring the paper is manageable. Officials can provide further information to support your decision on an item if required.

### *Previous advice on RoVE Proposals one and two*

4. Two previous Annotated Agendas sought your agreement to detailed policy and design aspects related to:
  - a. Proposal one: *changes to the roles of industry and providers* [METIS: 1184640], and
  - b. Proposal two: *the creation of a single New Zealand Institute of Skills and Technology (NZIST)* [METIS: 1187910].
5. Further advice has also been provided you on opportunities to better support Māori and Pacific learner outcomes through the design of RoVE [METIS: 1186442 and 1186869 respectively].
6. The fiscal and systems implications detailed in the attached Annotated Agenda are based on the indicative decisions you have made, through the above papers.

### *Further advice on RoVE*

7. Separate advice was provided to you on Tuesday 7 May which outlines how the core institutional arrangements for a new vocational education system could be strengthened to better support disabled learners' success and be more responsive to their needs [METIS: 1188354].
8. We are also preparing advice on the opportunity to design a vocational education system that better supports Māori learner outcomes, in response to discussion at your agency meetings on 29 April and 6 May.
9. We will provide a further Annotated Agenda that details several outstanding decisions that need to be made regarding Proposals one, two, and three. This paper will include further detail on options for a transition from the current system to the new system, including a high-level description of likely costs. Any follow-up advice on specific items will be provided as required.

## Outcomes Framework for the Reform of Vocational Education

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10. Officials have developed a proposed Outcomes Framework for RoVE which sets out a high-level vision, goals and outcomes of the reforms, along with principles to guide further design and implementation decisions.
11. This framework draws together previous advice on outcomes and principles of RoVE and will be used, with your agreement, to guide our future<sup>1</sup> advice to you on the reforms.

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<sup>1</sup> Decision making frameworks included in the attached Annotated Agenda may differ slightly from this new proposed Outcomes Framework, though these sets of assessment criteria are broadly aligned.

## Annexes

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Annex one: Annotated Agenda to support discussion on RoVE Proposal three, and the fiscal and systems implications of RoVE.

Annex two: Outcomes Framework for the Reform of Vocational Education.

Proactively Released

Annex one: Annotated Agenda to support discussion on RoVE Proposal three,  
and the fiscal and systems implications of RoVE

Proactively Released



## AGENDA

Reform of Vocational Education  
13 May, 10 am

### Attendees

Minister of Education, Hon Chris Hipkins  
Other Ministers to be confirmed  
Officials to be confirmed

1. The attached Annotated Agenda seeks your indicative agreement to high-level design aspects of Proposal three of the reform of vocational education (RoVE); *creation of a unified funding system*. This Agenda also provides advice on purchasing arrangements for vocational education within the new system and on the fiscal and systems implications of RoVE. We seek feedback on these matters in the week of 13 May.
2. The structure of this paper is as follows:
  - **Section one – Design of the unified funding system**
    - Item 1: Scope of unified funding system
    - Item 2: Design principles for the unified funding system
    - Item 3: Establishing a Funding Reference Group
    - Item 4: Timing for unified funding work
  - **Section two – Purchase arrangements for vocational education**
    - Item 5: ISB advice on purchasing vocational education and training
  - **Section three – Managing the overall fiscal implications of RoVE**
    - Item 6: Budget 2019 provided \$197 million over four years for RoVE
    - Item 7: Summary of approach to managing the fiscal implications of RoVE
    - Item 8: Managing near-term risks and costs
    - Item 9: Managing establishment costs – ISBs and NZIST
    - Item 10: Potential to increase RoVE contingency via June Cabinet paper
  - **Section four – Managing the systems implications of RoVE**
    - Item 11: Implications for different learner groups
    - Item 12: Implications for providers of vocational education
    - Item 13: Implications for non-vocational areas of education provision.



## Section one – Design of the unified funding system

### Original change proposal

3. Proposal three of RoVE, as outlined in the consultation material, proposed the development of a unified funding system for vocational education, the details of which would be worked through after consultation. The consultation materials indicated that the new funding system would likely include:
  - a. a consolidated set of funding rates for both on-job and off-job provision
  - b. funding for strategically important delivery that comes at higher costs
  - c. employer contributions to the cost of on-job training and fees to learners in some cases.
4. The consultation material also proposed that Industry Skills Bodies (ISBs) would receive funding from, and be accountable to, both the Government and the industries they represent. Funding arrangements for the ISBs are being considered alongside the Proposal one reforms [METIS: 1184640].
5. Future advice on employer and learner contributions to the cost of education and training will be developed alongside related policy work.
6. You have recently agreed to the broad direction and sequencing for advice for expanding Fees Free [METIS: 1181642]. This work programme will develop advice on targeting future entitlements towards priority areas of study/training, supporting equity for disadvantaged learner groups, and responding to particular workforce issues and skills shortages.
7. Future of Work Ministers have commissioned a literature review of industry levies and incentives related to skills and training. Treasury expects to report to Ministers on the review in June [METIS: 1184640].

### Overview of stakeholder feedback on the unified funding system

8. Based on our stakeholder engagement throughout the consultation period, and an initial assessment of online submissions, officials consider there is broad stakeholder support for funding reform. The majority of feedback on specific funding design questions came from tertiary education organisations (TEOs) and peak bodies. Common themes and priorities include:
  - a. funding levels should be sufficient to enable responsive delivery to meet the needs of learners, as well as employers and industry
  - b. the funding system should prioritise learners that require additional support to achieve success
  - c. education and training that is more expensive to deliver should be funded at (relatively) higher rates
  - d. the funding system should recognise the higher costs of regional delivery in sparsely populated and isolated areas.
9. There were some themes which were more important to particular groups of stakeholders. For example:
  - a. **Institutes of technology and polytechnics (ITPs)** expressed concerns about the current volume-driven funding model and recommended that the unified funding system should:

- enable and encourage providers to respond to changes in demand – but also to insulate providers from changes in the economic cycle
  - provide multi-year funding, as opposed to annual funding allocations
  - introduce some form of base-funding, e.g. to cover basic running costs such as administration, core staffing, and infrastructure.
- b. **Wānanga** reinforced the importance of a holistic view of learner success (beyond employment) which takes into account benefits to whānau, hapū, iwi and community. Particular priorities for Wānanga included:
- ensuring the future funding system supports Māori pedagogies, mātauranga Māori, te reo Māori and tikanga Māori delivery
  - designing a more equitable funding system to take into account factors such as geographic isolation, transportation, financial hardship, and other barriers which affect learner access to vocational education
  - building in financial incentives to encourage employers to offer work-based training (e.g. employer subsidies for employing apprentices).
- c. **Private Training Establishments (PTEs)** expressed concern that funding for education and training has not kept up with delivery costs, and indicated that any differentiation in funding rates should reflect costs more accurately. PTEs also expressed support for:
- more integrated funding, so that learners can move more easily across different modes of learning (e.g. from full-time study to apprenticeships)
  - greater alignment of work-based and provider-based pastoral care support
  - the introduction of a mixed model of volume and base funding to cover fixed costs and address sustainability issues across the business cycle.
- d. **Industry Training Organisations (ITOs)** wanted a new, fairer funding system to address unnecessary competitive behaviour, take into account differences in delivery costs, and to incentivise employers to engage in formal vocational education and training. Specific suggestions from individual ITOs included:
- targeting funding to support strategically important delivery (e.g. to address regional or industry skill shortages)
  - varying funding rates on the basis of costs associated with factors such as location, delivery mode, industry, capital investment, health and safety requirements, and learner needs.
10. Key concerns raised by submitters about the unified funding system typically related to:
- a. transition challenges (e.g. providers would like interim funding to assist them to build their capability to support work-based learning, and to develop work-integrated delivery models)
- b. uncertainty about what the final package of reforms might look like and its potential impacts (e.g. some employers were concerned that they might face higher contributions to vocational education and training in the future).

### Item 1: Scope of unified funding system

11. We are seeking your direction on the scope of the unified funding system. Key choices include whether or not the unified funding system should apply to:
- a. education for speakers of other languages (ESOL), te reo Māori, and tikanga Māori

delivery, as well as to vocational education and training

- b. university and Wānanga provision, as well as to delivery by the New Zealand Institute of Skills & Technology (NZIST) and PTEs
  - c. provider-based foundation education at Level 1-2, as well as all work-based learning and delivery at Levels 3-7 (excluding degree study).
12. We recommend that the new unified funding system applies to **all** education and training currently funded by the Industry Training Fund (ITF) and by the Student Achievement Component (SAC) fund at Levels 3-7 (excluding degree study). There are significant benefits to taking a holistic approach to future funding reform. For example, this approach would:
- a. enable major changes to funding for vocational education and training (VET) to be considered together with funding reforms to recognise the distinct role of the Wānanga<sup>1</sup>, and to protect non-VET delivery in areas of national priority, such as te reo and tikanga Māori
  - b. include university provision at Level 3-7 (excluding degree study) in the future funding reform. There is a risk of unintended impacts on the future supply and mix of Level 3-7 delivery, if, for example, classroom-based Level 3-7 provision in the university sector remains funded at current SAC rates, while similar delivery in other subsectors shifts to new funding rate(s).
13. Study at Level 3-7 (excluding degree study) makes up less than 3 percent of all enrolments in the university sector<sup>2</sup>. However, the inclusion of all Level 3-7 delivery (excluding degree study) within the unified funding system may not be welcomed by the university sector. Following initial decisions, we will need to ensure that the final scope is well-understood and that we draw on sector-specific expertise (including from the university sector) to support officials to develop and design the unified funding system. We propose that any potential lessons of the unified funding system for higher education funding at degree-level and above should be considered as part of the Ministry's longer-term funding policy work, following decisions on RoVE.
14. As we develop the unified funding system, we will explore how any proposed adjustments or changes could be adapted and applied to provider-based foundation education at Level 1-2 (e.g. to introduce a stronger learner-based funding component and to encourage work-integrated learning). However, we do not recommend including provider-based foundation education at Level 1-2<sup>3</sup> within the scope of initial policy work to develop the *core* unified funding system. See Item 13 for consideration of the implications of the RoVE on foundation education.
15. Foundation education is designed to engage a learner cohort with high learning and pastoral care needs. This means that effective foundation education may involve quite different delivery models and costs to Level 3-7 delivery. Current funding priorities for foundation education include maintaining a viable network of provision and investing in new delivery models to improve transitions into sustainable employment. Officials consider that funding policy work to address these priorities is best undertaken alongside related reforms to address the recommendations of the Welfare Expert Advisory Group.

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<sup>1</sup> See Item 12 for a discussion of the impact of RoVE proposals on the Wānanga sector and our proposed approach to further engagement with the Wānanga.

<sup>2</sup> In 2018, equivalent fulltime students enrolled in formal qualifications at Level 3-7 (excluding degree study) made up 2.7 percent (3,069) of all domestic equivalent fulltime students enrolled in formal study in the university sector. The number of domestic equivalent fulltime students enrolled at Level 3-7 (excluding degree study) as a percentage of all domestic equivalent students was highest at Lincoln University (11.5 percent) and AUT (7.7 percent) and lowest at Victoria University of Wellington (0.5 percent) and the University of Otago (0.9 percent).

<sup>3</sup> Provider-based foundation education is currently allocated through a separate fund to Level 3-7 delivery, with different funding rates and funding rules, and is provided fees-free to learners.



## Recommendations *in principle*

16. It is recommended that you:

**agree** that the unified funding system should apply to all education and training currently funded by the ITF and by the SAC Level 3-7 (excluding degree study).

*I'm not ruling out C1-2 just yet.  
Plus important to get Warranga buy-in.*

**AGREE/DISAGREE**

## Item 2: Design principles for the unified funding system

17. We propose the following design principles for the unified funding system. The unified funding system should:

- a. reward and encourage the delivery of high-quality education and training which meets the needs of learners, communities and employers
- b. support access to work-based education and training and encourage the growth of work-integrated delivery models
- c. supply strategically important delivery to meet national priorities and regional labour-market demand *and be highly responsive to employer skill needs*
- d. allocate funding through simple and transparent funding mechanisms which ensure provider accountability. *+ provide for stability as a platform to invest in innovation & growth*

18. These principles for the unified funding system align with the high-level outcomes expected from the RoVE but focus on the specific role of the future funding system in driving system change. This means addressing the challenges we have identified with our current funding system. In particular, the current funding system:

- a. is relatively polarised and inflexible, with separate funds for work-based learning and provider-based learning, and little incentive for collaboration. Providers are incentivised to offer longer pre-employment pathways to students. This also results in:
  - limited work-integrated learning opportunities for provider-based learners and limited tailoring of learning and pastoral care support for work-based learners
  - challenges in maintaining education and training capability and viability throughout changes in the business cycle (i.e. declining provider enrolments and greater demand for work-based learning during times of high employment and vice versa).
- b. generally does not incentivise or support TEOs to help those who need it most, or to tailor their learning or pastoral care support to meet individual learners' needs
- c. is enrollment-focused and one-size-fits-all. This has a history of working well for providers that can use courses with high economies of scale (e.g. first-year lectures) to cross-subsidise areas of their business with less scale. This does not work well for VET providers because there are fewer opportunities to teach VET at scale, and enrolment patterns are highly influenced by business cycles.
- d. does not actively support or encourage TEOs to supply strategically important delivery or to meet regional skill needs. In regions or areas of provision where there are significant mismatches between funding and delivery costs, TEOs have incentives to adjust the quality, volume or mix of provision. This can affect learner access and TEO decisions about the viability of delivery in areas that are relatively under-funded. It can also incentivise a relative over-supply of delivery in areas that are profitable.



19. To apply the design principles for the unified funding system, we propose to explore the development of three new funding design components:
- a new funding category system* to set funding categories for different modes or types of tuition/training, and the relative funding weight to assign to each category
  - a new learner-based funding approach* to recognise the higher costs of delivery for specific groups of students/trainees, and to encourage TEOs to tailor their support to meet individual student/trainee needs
  - a new funding approach for strategically important delivery* to support national priorities and to enable greater responsiveness to regional labour-market demand.
20. We recommend that the specific structure and design of new funding components to support the unified funding system is worked through in consultation with a Funding Reference Group (see Item 3). Table one below summarises key areas for future funding advice.

Table one – High-level scope for future advice on the unified funding system

Workstream	Future advice
<b>Develop a new funding category system</b>	<ul style="list-style-type: none"> <li>Establish a new set of consolidated funding categories, based on a small number of types of delivery or delivery modes with different underlying costs. This could include, for example:               <ol style="list-style-type: none"> <li>online learning</li> <li>work-based learning</li> <li>classroom-based delivery</li> <li>work-integrated learning</li> <li>delivery requiring specialist facilities or equipment and/or a significant component of high-cost fieldwork, studio or workshop-based learning.</li> </ol> </li> <li>Confirm the relative funding weight to be placed on each funding category (drawing on available information about delivery costs and sector expertise).</li> <li>Set a new unit of funding to apply across all education and training (i.e. consolidate the measure for equivalent full-time students (EFTS) and the single training measure (STM).</li> <li>Identify the operational and system changes required to transition current education and training to a new funding category system (in advance of longer-term changes to programmes by the ISBs).</li> <li>Confirm the proportion of total VET/Level 3-7 funding to be allocated based on student/trainee enrolments by mode of delivery.</li> </ul>
<b>Develop a new learner-based funding approach</b>	<ul style="list-style-type: none"> <li>Identify a small number of learner-based factors associated with higher delivery costs and/or system underperformance, and develop and test potential indicators. This could include, for example:               <ol style="list-style-type: none"> <li>Learners/trainees likely to require additional tailored academic or pastoral care support (e.g. learners with disabilities, those with low levels of literacy or numeracy).</li> <li>Learners/trainees living in isolated areas, in geographic areas with low take-up of Level 3-7 education and training.</li> <li>Learners/trainees from population groups with lower than average participation, retention and/or achievement at Level 3-7 (e.g. Māori, Pacific, low socio-economic status).</li> </ol> </li> <li>Confirm the basis for targeting learner-based funding and the relative weighting to be placed on specified indicators (e.g. enrolment and/or other performance measures such as retention, progression or qualification completion)</li> <li>Confirm the proportion of total VET/Level 3-7 funding to be allocated through a learner-based funding mechanism.</li> </ul>

<b>Develop a new flexible funding approach to support strategically important delivery</b>	<ul style="list-style-type: none"> <li>• Confirm policy design parameters for a new flexible funding approach to direct targeted funding to support strategically important delivery. This could include, for example: <ul style="list-style-type: none"> <li>a. The introduction of sector-specific funding to recognise the unique role and functions of the Wānanga (and potentially also the NZIST).</li> <li>b. Providing targeted funding for specific programmes or qualifications to support priority delivery with higher than average costs. Areas of focus might include: <ul style="list-style-type: none"> <li>▪ supporting nationally important delivery which might otherwise face relatively low funding rates based on delivery mode alone, such as classroom-based te reo Māori, tikanga Māori or delivery via Māori medium</li> <li>▪ areas where there's a significant mismatch between learner and labour-market demand, which require new efforts to grow the skills pipeline</li> <li>▪ safeguarding access to regional delivery in areas which might not otherwise be economical to supply due to geographic or scale challenges</li> </ul> </li> </ul> </li> <li>• Confirm approach for setting performance requirements and timescales for accessing and retaining funding to support strategically important delivery.</li> <li>• Confirm the proportion of total VET/Level 3-7 funding to be allocated through a new funding mechanism for strategically important delivery.</li> </ul>
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21. The proposed direction of the unified funding work reflects a significant shift away from the way that we currently fund delivery through the ITF and SAC Level 3-7 (excluding degree study). For example:

- a. SAC Level 3-7 funds delivery for learners enrolled with a provider. Differences in SAC funding rates are intended to reflect broad differences in delivery costs across fields of study (e.g. business, agriculture and horticulture, engineering and technology etc.)
- b. the ITF provides a much lower level of per-learner funding for work-based learners who have a training agreement with their employer. There are just two funding rates: a standard rate for all trainees, and a higher rate for apprentices.

22. The unified funding system would treat work-based learning and provider-based learning as a continuum. It would also target additional funding to learner/trainee groups with higher support needs, and provide a new mechanism to direct funding towards strategic priorities, including support for te reo Māori and tikanga Māori, and sustainable regional delivery to meet national or regional labour-market demand.

#### Recommendations

23. It is recommended that you:

**agree** to the proposed design principles for the unified funding system set out in paragraph 17

**AGREE/DISAGREE**

**note** that officials recommend that future funding work explores the development of three new funding design components:

- a. *a new funding category system*
- b. *a new learner-based funding approach*
- c. *a new flexible funding approach to support strategically important delivery.*

**NOTED**

**discuss** with officials the direction of future work to design the unified funding system.

**NOTED**



### Item 3: Establishing a Funding Reference Group

24. As with all other aspects of RoVE, we will work to ensure that end-user perspectives inform the design of the unified funding system (work is already underway to collaborate on other RoVE design aspects with different user groups). In addition, as we move into developing more detailed policy and operational advice, we will need to draw on the technical and operational experts with an understanding of tertiary education and training funding, delivery costs, and student management and financial systems. To support this, we recommend establishing a Funding Reference Group.
25. We propose that this group would support officials to:
- a. make well-informed judgements about how best to balance different strategic priorities and objectives
  - b. identify and address data gaps, including commissioning and interpreting new evidence and analyses of cost drivers associated with:
    - types of delivery or delivery modes
    - tailoring delivery to meet the needs of different learner groups
    - strategically important delivery.
  - c. generate and test change options, including the structure and design of new funding approaches, choice of funding categories or indicators, and the relative weighting to be placed on different funding components
  - d. assess potential impacts (intended and unintended) of potential funding changes on provider performance and the supply of education and training
  - e. identify related changes to central data collection, TEO student management and financial (and other) agency systems required to operationalise and implement funding system reforms
  - f. plan for a managed transition from current funding settings towards full implementation of the unified funding system.
26. We will provide you with further advice on a terms of reference, and the expertise of the people we will look to appoint. Dependent on Cabinet decisions on RoVE on June 24, we propose to establish the Funding Reference Group as soon as possible, to begin work in the second half of 2019.

#### *Recommendations*

27. It is recommended that you:

**agree** in principle to the establishment of a Funding Reference Group to support officials to develop and design the unified funding system.

**AGREE/DISAGREE**

### Item 4: Timing for unified funding work

28. The unified funding system work programme envisages fundamental changes to the tertiary education funding system. This will take time to develop, design and implement. To support a unified funding system in the longer-term we will need a reliable, flexible and sustainable information technology (IT) solution to support all provision accessing the funding system. The current funding system relies on quality data reporting to inform investment decisions, final funding paid to TEOs, and support implementation of the system generally. It also collects the data required to calculate the educational performance for reporting and monitoring.

29. Significant engagement will be required with all parts of the sector through the Funding Reference Group to support officials to develop and design the unified funding system and for relevant technical specifications and design. We expect that this process will take approximately 12 months before any system changes needed can be made.
30. The TEC advises, assuming significant transformational changes are made to create the unified funding system, that this is likely to require a multi-year programme of work to deliver systems to support the change across TEOs and the TEC. Any major change of this kind would also need to occur at the start of a new calendar year. Therefore, we recommend that funding changes be phased as we transition to a unified new funding system over an appropriate timeframe.
31. As part of this phased transition, we can begin to implement certain elements of the unified funding system sooner through changes to current policy, processes and existing technical systems.
32. We recommend that transition changes, which can be introduced on a quicker timeframe, focus on implementing aspects of the *new learner-based funding approach* and a *new flexible funding approach to support strategically important delivery*. There will be aspects of these approaches which can be implemented within the current environment and with changes to existing systems. For example:
- a. *new learner-based funding approach* – agencies collectively receive a range of data that would support targeting funding based on some learner characteristics. The quality of the data for particular characteristics may need further investigation as part of any work to identify data gaps with the Funding Reference Group. We can begin detailed analysis on historical data to test some of the elements of the design components prior to (and at the same time as) the formation and engagement of the Funding Reference Group. This would enable us to do some informal testing and modelling of the impact of some of the funding changes (where relevant supporting data is available).
  - b. *new funding approach to support strategically important delivery* – as noted above, this could enable more flexible investment, for example, through providing higher funding subsidies to priority delivery or investing in particular initiatives/services that are not necessarily tied to volume or learner characteristics. There may be some IT system changes required for elements of this approach.

#### Recommendations

33. It is recommended that you:

**note** that elements of the proposed unified funding system changes could be implemented before others as part of a phased transition, and that further analysis is required to scope this work

**NOTED**

**note** that, assuming significant transformational changes are made to create the unified funding system, this is likely to require a multi-year programme of work, and further scoping is required.

**NOTED**



## Section two – Purchase arrangements for vocational education

34. In your feedback on the detailed design aspects of ISBs [METIS: 1184640], you requested further advice on the purchase system, and in particular how to provide ISBs with meaningful influence over vocational education purchase decisions.
35. In 2017, around \$630 million was spent on vocational education through the ITF (\$176 million) and the SAC (\$456 million; approximately 60 percent of which went to ITPs).
36. The previous advice summarised consultation feedback about purchase arrangements. In short:
  - a. some industry groups (including many ITOs) sought genuine influence over purchase decisions and were sceptical about whether an advisory role would achieve this
  - b. in contrast, some providers were concerned that ISBs would not be able to take a balanced approach
  - c. submitters raised the need to 'mesh' Regional Leadership Group (RLG) advice with ISB advice.

### Item 5: ISB advice on purchasing vocational education and training

#### *Current proposals for purchase arrangements*

37. The current proposed purchase system involves three actors:
  - a. **ISBs**, providing investment advice to TEC about industry skills needs, focussed on long-term, industry-wide needs
  - b. **RLGs**, providing investment advice to TEC about regional skills needs, taking into account community, Māori, economic development, and whole-of-education (e.g. schooling interfaces) needs
  - c. **TEC** making purchase decisions which integrate the advice from ISBs and RLGs, as well as providers' own proposals and performance information. TEC must also balance these different sets of advice with Government priorities (e.g. Tertiary Education Strategy priorities).
38. The key benefits of this arrangement are that there is a single purchase relationship for providers and that TEC has the flexibility to balance investment choices across social and economic factors, and across regional and industry needs. However, there is a risk that industry or regional actors will be less engaged than they would be if the ISBs and/or RLGs had direct purchase responsibilities.
39. The sections below explore different options to increase industry and/or regional actors' influence over vocational education purchase decisions.

#### *Reconciling industry and regional needs*

40. If we wish to create a stronger influence over purchase decisions, we will need to establish a way to reconcile industry and regional needs and to determine which one has precedence if there is a conflict in recommendations.
41. At present, ITOs' funding decisions tend towards immediate employer needs. However, with ISBs moving away from the direct management of apprentices and trainees, they are likely to take a longer term view of their industry's needs. ISBs are also likely to be more focussed on the need for providers to respond with agility to employer needs.

42. However, there remains a risk that ISBs may focus on shorter-term business needs. They may also be less likely to emphasise provision focussed on the learners who need the most help.
43. In contrast, RLGs are more likely to consider the full range of regional needs but are less likely to drive strongly to a system that adapts quickly to the changing nature of work. In addition, we do not currently have a function akin to RLGs in the tertiary system, so there would be considerable capability building required for RLGs to develop sophisticated purchase approaches.
44. Taking these factors into account, we propose that RLGs' advice would influence either ISBs or TEC – i.e. RLGs would not have the lead purchase advice role.

#### *Recommendations*

45. It is recommended that you

**agree** that RLGs would provide purchase advice to either ISBs or TEC.

**AGREE / DISAGREE**

#### *Choices between ISB and TEC purchase roles*

46. If you agree with the proposed role of RLGs, this returns us to the question of how ISBs would have meaningful influence over vocational education purchase decisions.
47. The spectrum of choices are:

**Option 1: TEC acts on advice from ISBs** – as proposed in our advice on detailed design aspects of Proposal one (Role changes), TEC would collaborate with ISBs on VET purchasing and publicly respond to formal ISB advice [METIS: 1184640]

**Option 2: Shared responsibilities - TEC delegates some purchase activities to ISBs**

This arrangement would allow ISBs to focus on the volume and mix of provision to be funded, while TEC would manage contracts with individual providers. It would involve ISBs providing advice on the whole of vocational education for their industries, but with the ability to direct TEC decision-making over part of the funding (i.e. within a fixed funding envelope). The envelope could be increased as ISBs' capability improves in taking a long-term perspective on industry need, and in reflecting social and regional interests

**Option 3: ISBs hold all VET funds and purchase directly** – this approach would involve ISBs allocating funding directly. Work would be needed to develop an approach that ensures ISBs are making investments based on long-term industry needs and are balancing these appropriately against regional and social needs. Work would also need to consider whether ISBs could face incentives to trade off quality objectives (from their standard-setting role) with quantity (through their purchase role) – these roles are currently separated in TEC and the New Zealand Qualifications Authority (NZQA).

48. Because option 3 would require ISBs to take direct control of public funds, there are further implications that need to be considered:
  - a. **perceived RLG influence** – RLGs are likely to consider they have more influence if TEC's role is to balance RLG and ISB advice
  - b. **governance** – a greater responsibility for reflecting social and regional needs could require more direction on the governance of ISBs (e.g. representation of worker, iwi, regional, and learner groups)
  - c. **organisational form** – if ISBs are to be fund holders (as per option 3), Government may require more ability to monitor and intervene in areas of performance concern, for example by establishing ISBs as Crown Entities

- d. **multiple purchasers** – if ISBs are to hold funds directly, providers would deal with multiple purchasers (and potentially multiple investment plans). This could lead to higher compliance costs in the negotiation and monitoring of provision, for example, to divide funding clearly across ISB areas of responsibility. It would also create a system with multiple funding 'pots' (leading to higher underspends). Some of these issues could be mitigated through shared service arrangements (e.g. development of standard investment plan processes and forms) or through an overarching Vocational Education Council comprising representatives of relevant stakeholders (as suggested at the ITO chief executives workshop on 18 April)
- e. **scope of purchase advice** – as discussed in our earlier advice [METIS: 1184640], the scope of ISBs' advice/purchase is a further consideration. Under options 1 and 2 there is the choice to restrict ISBs advice to the volume and mix of delivery (allowing TEC to bring in wider information from their own and NZQA monitoring in making provider choices); under option 3 ISBs would need expertise about individual providers as well.

49. Some design features are the same across all options:

- a. **ISB funding** – ISBs should receive separate funding for their own operations. This is a standard approach across government to ensure that organisations do not expand their own activities at the expense of the services they are allocating funding to
- b. **funding determinations** – we propose that Government should continue to set funding rates and other rules, under any of the options above (this is currently provided for under section 159L of the Education Act 1989)
- c. **multi-year planning** – ISB investment advice and/or purchase should be supported by skills leadership plans that look across multiple years (e.g. four).

#### Analysis of options

50. The table below assesses the different options based on the criteria for RoVE (which have been modified to draw out the importance of meeting employer needs).

Table two – Assessment of options for ISB influence over purchase decisions

Assessment criteria	1. TEC acts on advice from ISBs	2. Shared responsibilities – TEC delegates some purchase activities to ISBs	3. ISBs hold all funds and purchase directly
More and better VET: across all regions, and all learners (including the traditionally underserved)	✓✓ TEC has the most flexibility to reflect learner needs	✓ Employment and other objectives balanced	XX Risks insufficient attention to diverse learner needs
More and better VET: that meets employer needs	-- TEC to balance industry and other needs	✓ Industry influence is more explicit	✓✓ Strongest industry influence on purchase
Integrated system that incentivises collaboration	✓✓ Enables TEC to purchase drawing on widest range of interests	✓ Stronger industry voice improves their engagement	-- Strong industry integration but weaker social and regional integration
Enhanced Crown-Māori relationships	✓✓ TEC partnerships (and influence of RLGs) able to fully influence purchase	✓ TEC partnerships (and influence of RLGs) able to partially influence purchase	X If ISBs remain industry-owned, their approach to Māori partnerships would be variable



Clear roles with strong specialist functions, avoids conflicts of interest	✓ Roles are clear but ISB influence is less explicit	✓✓ Clear roles including explicit role for ISB	✗ Roles are clear but potential for trading off quality against purchase goals
Future proofed system that responds to new challenges	✓ TEC has the flexibility to purchase according to changing needs to ensure system capability	✓ As 1, but ISBs likely to be more aggressive in pursuing industry interests	-- ISBs likely to pursue industry interests more aggressively, but with limited regard for system capability
Transition risks	✓✓ TEC already fulfils system-wide purchase functions	✓ Flexibility to manage new functions as capability emerges to deliver them	✗ ISBs would need to build new capability

51. Officials would like to discuss these options with you. Following your decisions on these matters, we will provide further advice about organisational form and governance of ISBs.

#### *Recommendations*

52. It is recommended that you:

**discuss** options for purchase arrangements with officials.

**NOTED**



### Section three – Managing the overall fiscal implications of RoVE

53. The Cabinet paper(s) seeking approval to implement RoVE (due for consideration on 24 June) will need to:
  - a. address the overall fiscal implications of the proposed reforms
  - b. seek agreement to appropriate funding for the key first stages for implementation of the reforms (such as funding for an NZIST Establishment Board).
54. The overall costs of RoVE will be dependent on decisions on the scope, scale, and the pace of implementation of the three reform proposals. This section outlines the range of costs that will need to be managed and our proposed approach to managing them.
55. Detailed costings on Proposal two (NZIST), and high-level costings for Proposal one (Role changes) – including a preliminary assessment of costs for the transfer and integration of industry training responsibilities into NZIST – will be available through a business case to support Cabinet decisions on 24 June. Detailed costings for Proposal one will be available later in 2019.

#### ***Stakeholders' views on the overall fiscal implications of RoVE***

56. The RoVE consultation material did not seek feedback from stakeholders on the overall fiscal implications of RoVE. Our initial analysis of stakeholder feedback indicates that most comments about funding were in relation to the proposed unified funding system (see Section one).
57. However, several submitters:
  - a. expressed concern about the absence of the estimated costs and/or cost-benefit analysis in the consultation material, and/or that costs would likely exceed the benefits
  - b. noted or agreed with Treasury's comment in the January RoVE Cabinet paper (which was proactively released) about the lack of detail on the potential fiscal implications
  - c. suggested that any estimated costs would likely underestimate the full costs and time needed to implement the proposals, overestimate the cost savings that are likely to be achieved through consolidation of functions within the NZIST, and would not take into account the costs incurred by businesses.
58. Organisations that placed particular emphasis on these points included ITPs created by mergers, the workforce strategy group for District Health Boards, and the Office of the Auditor-General (OAG). Manukau Institute of Technology highlighted the cost increases due to the protracted process to consolidate local government councils in Auckland. The OAG also noted the Auckland council example as well as projects to consolidate back-office functions and IT systems across the health sector. The last point (about costs incurred by businesses) was expressed by businesses, industry representatives, and ITOs.
59. A number of submissions and stakeholders also expressed concern about the potential opportunity and productivity costs of RoVE. The risk of employers disengaging from the formal industry training system during the transition of the arranging training function, with a consequential impact on training volumes, was highlighted in recent discussions with you.
60. The Building and Construction ITO, for example, highlighted modelling it commissioned from Infometrics that suggested this risk could lead to lost productivity of \$30 million to \$150 million over five years, and up to \$450 million over 10 years across the building and construction sector due to uncertainty and disengagement. We are unable to verify this modelling, but it highlights the types of concerns held by organisations potentially impacted by the proposals.
61. Further stakeholder views on the overall fiscal implications of RoVE and how they will be managed may emerge as we continue to analyse submissions.

## Item 6: Budget 2019 provided \$197 million over four years for RoVE

62. Through Budget 2019, \$197.1 million has been set aside as a tagged contingency to manage the implementation of RoVE. Cabinet noted that this amount is based on reprioritisation of available Fees-Free funding, rather than an estimate of the costs of RoVE. Cabinet also noted that additional funding would likely be sought at Budget 2020 [CAB-19-MIN-0174.40 refers].
63. The RoVE contingency is available for the next four years, but it does not provide on-going (out-year) funding. A tagged contingency of this nature is best suited to cover one-off or short-term costs, such as costs of the transition and establishment phase of RoVE. Therefore, funding for on-going RoVE costs would need to be managed through reprioritisation or new funding.
64. s 9(2)(f)(iv)
65. The NZIST business case, which is currently being developed, will update this indicative cost estimate. Updated estimates for the establishment of NZIST are expected in late May, including preliminary estimates for the integration of industry training into NZIST. More detailed costings for Proposal one will be available later in 2019.

### Recommendations

66. It is recommended that you:

**note** that your June RoVE Cabinet paper(s) will need to clearly outline the range and likely scale of costs of implementing RoVE and how they would be managed

NOTED

**note** that updated estimates of potential costs for Proposal two (NZIST) will be available later in May 2019 – including preliminary estimates for the integration of industry training into NZIST – and that detailed costings for Proposal one (Role Changes) will be available in late 2019

NOTED

**note** that funding for ongoing costs will need to be secured through future Budgets.

NOTED

## Item 7: Summary of approach to managing the fiscal implications of RoVE

67. Implementation of RoVE will have several potential capital and operating costs. There are three types of funding discussed below:
- funding that will be sought immediately (i.e. as a draw-down of the RoVE contingency) to begin implementation
  - funding that is required to implement decisions sought in the 24 June Cabinet paper, but where further work is required to determine these costs
  - funding that is subject to separate policy decisions – i.e. where Government can reserve its investment choice until further design work has been completed.
68. We recommend that the June Cabinet paper should prioritise draw-downs to fund the crucial first steps to implement the reforms, with larger draw-downs at later dates.

69. Should the original contingency be insufficient, there is likely to be scope to manage some costs through a reprioritisation of existing funding and potentially also through the transfer of ITPs' assets and reserves to NZIST – with consequential risks. You may also wish to consider other potential funding sources for specific aspects of RoVE, such as the Provincial Growth Fund.

**Table three – high-level summary of expected RoVE costs arising from decisions sought in June**

Item	Cost drivers	Current information about cost	Ability to influence these costs
<b>Proposal one: Redefining roles of industry bodies and education providers</b>			
Establishment of ISBs	Funding to stand up and establish capabilities of ISBs. This includes agency funding to support work with the sector to design the number, structure and coverage of ISBs.	Establishment costs currently unclear, particularly for initial stages of ISB formation. ISBs' operating funding currently estimated at around <span style="background-color: black; color: black;">§ 9(2)(b)(iii)</span> .	Costs will be influenced by the number and responsibilities of ISBs, and the proposed speed of establishment.  Operating funding for ISBs could be funded as a top-slice from EFTS/STMs funding, but new funding may be preferred.
Transfer of arranging training from ITOs to providers	Funding may be required to secure a smooth transition, potentially 'buying out' some ITO assets, and building capability within NZIST (and possibly other providers).	Costs currently unclear due to limited information on ITO assets and transition process.  Preliminary estimates will be in the business case for June decisions, with more detailed estimates available later in 2019.	Costs will be influenced by the design of transition process (speed, the extent of government management, level of direct employer engagement). Ensuring a smooth transition is likely to have a significant cost.
<b>Proposal two: New Zealand Institute of Skills and Technology</b>			
Creation of NZIST establishment board	Funding for initial steps and capability to establish and develop NZIST.	The business case will provide more clarity. Initial estimates of this cost will be provided later in May.	Costs will be influenced by decisions on NZIST structure and desired speed of implementation.
Establishment of core NZIST functions, regional network, and integration of ITPs.	Significant investment to ensure NZIST has appropriate capability and systems to manage the network of delivery.	The business case will provide more clarity. To meet RoVE objectives, a significant investment is likely to be required to build capability and strong relationship across regions and campuses.	Costs will be dependent on decisions on NZIST structure and desired speed of implementation. <span style="background-color: black; color: black;">§ 9(2)(f)(iv)</span>
<b>Other near-term costs</b>			
Ensuring sustainability of at-risk ITPs	Funding will be required to address viability of at-risk ITPs in 2019, particularly if enrolments are lower than expected.  Some funding may also be required in the period between the establishment of the NZIST and the implementation of the unified funding system.	TEC has previously advised <span style="background-color: black; color: black;">§ 9(2)</span> may be needed to manage ITP viability issues in 2019/20.	Government could impose conditions on the use of any funding provided



RoVE programme costs	Significant and expert resources to develop and deliver detailed establishment and transition (change management) plans, including design work with stakeholder groups.	Significant baseline resources across agencies are committed to RoVE – but specialist expertise is needed for detailed business cases, and to support shared design work.	Agencies have redirected significant resources, but the need for specialist expertise and the scale of the proposed changes will mean that additional funding will be required (from the contingency).
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70. In addition to this, there are further costs which are not yet well understood, but which are not determined by the decisions sought in June. These are:

- a. **unified funding system:** it is likely that, as part of seeking improved reach and performance from vocational education, the new funding system may justify increased public investment. However, this additional investment should be considered once options for a new funding system have been developed
- b. **CoVEs:** we provisionally estimate that these would cost from \$2m to \$5m per annum per CoVE. This would need to be ongoing funding (which the contingency does not provide), so some reprioritisation is likely to be required. We will provide you with further advice on CoVEs next week
- c. **RLGs:** the costs of RLGs are not yet known; these bodies would support multiple policy objectives, so the source of funding would also need to be resolved. Further work on the potential design and cost of RLGs will be developed as part of the RoVE work programme
- d. **existing ITP debt:** the establishment and transition to NZIST will need to include management of existing ITP debts as a significant amount of the RoVE contingency may need to be drawn down to ensure NZIST is not encumbered by debt. We will update you on this work next week.

#### Recommendations

71. It is recommended that you:

**discuss** the treatment of potential RoVE costs with officials.

**AGREE/DISAGREE**

### Item 8: Managing near-term risks and costs

#### ITP viability issues in 2019/20

72. The RoVE contingency may need to be called on to manage the viability of some ITPs before reforms can be implemented. The financial situations of both Tai Poutini Polytechnic and Whitireia Community Polytechnic have been discussed with you recently.

s 9(2)(f)(iv)

73. The key factor in this risk will be enrolments in 2019. The April Single Data Return (SDR) will inform an updated view of viability risks. Initial analysis of this is expected to be available in mid-May, with advice to you on its implications later in May.

74. s 9(2)(f)(iv)

75. Depending on when the financial stability (or otherwise) of ITPs are confirmed, other interim options may also be available. For example, if recovery of funding from an ITP due to under-delivery would be a key factor in undermining its viability, you could consider TEC exercising discretion as to when and how debt could be recovered, such that it becomes part of the transition arrangements of that ITP. This would need to be balanced by an assessment of risks (including perverse incentives), transparency and opportunity costs. These may be able to be managed through appropriate incentives and conditions attached to the funding.

#### *RoVE programme costs in 2019/20*

76. RoVE proposes the largest changes to the vocational education system for at least 30 years. As such, the resources and capability necessary to ensure its success are considerable.
77. In December 2018, you and the Minister of Finance agreed to reprioritise \$5 million of the funding earmarked for RoVE in Budget 2019 to fund policy and design costs in 2018/19. This funding covered the cost of the RoVE consultation period and the development of the business case for the NZIST, as well as other necessary expert input (e.g. legal advice). The costs of managing and implementing RoVE in 2019/20 and through the transition period will also be significant, and will not be manageable within agencies' baseline funding.
78. We are currently developing the work programme to deliver on the initial detailed policy and design decisions made over the last three weeks and expect to have estimates of the funding required by the end of May. We will update you next week on the scale of funding we will be recommending drawing down from the RoVE contingency to manage RoVE programme costs.
79. Alongside ongoing significant prioritisation of baseline resources toward RoVE in both MoE and TEC, a draw-down from the RoVE contingency will ensure both agencies are able to continue delivering on your expectations of the RoVE programme. Key aspects of this work will be:
- a. the development of an Implementation Business Case for NZIST (which will include detailed cost estimates to transfer and build the NZIST's capability to arrange industry training)
  - b. sector engagement to help define the number, structure and responsibilities of ISBs (discussed further below) and RLGs.
80. The funding is necessary to ensure the RoVE programme has the expertise needed to advise on the commercial and legal aspects of RoVE, particularly in relation to transition arrangements for existing ITPs and ITOs.

#### *Recommendations*

81. It is recommended that you:

**note** that your June RoVE Cabinet papers will need to seek approval to draw down funding to manage RoVE work programme costs in 2019/20, which would include sector engagement on the design and functions of ISBs and RLGs.

**NOTED**

#### **Item 9: Managing establishment costs – ISBs and NZIST**

82. The June Cabinet papers will need to seek approval to draw-down funding from the RoVE contingency to fund the key first steps to establish and develop the capability of ISBs and NZIST and their advisory frameworks. The amounts to be drawn down need to be sufficient to ensure progress, balanced by factors such as the capability available, cost-effective investment and other calls on the RoVE contingency in 2019/20 and beyond.

#### ***Transfer of arranging training and establishment of ISBs***

83. The Annotated Agenda which set out detailed policy and design decisions for Proposal one (Role changes) [METIS: 1184640] outlined how a 'sooner rather than later' approach to the



may be critical to ensure the continuity of key industry training assets and to support a smooth transition process that mitigates the risk of losing arranging training capability and industry and employer disengagement.

84. Initial estimates of the potential costs of this approach are being prepared as part of the business case which will support Cabinet decisions in June, although more work will be required beyond June to finalise this figure. Detailed costings on this aspect will be available in late 2019. This work would include which (if any) ITO assets could be purchased as part of the transition.
85. It is too early at this stage to develop a clear estimate of the likely costs of ISBs, as this will be influenced by future decisions on the number of ISBs and the scope of their responsibilities. A provisional estimate, based on an approximation of government funding currently directed towards ITOs skills leadership functions, suggests an investment of around **S9 (2) (f) (iv)** per annum. However, this will be preceded by initial establishment costs.
86. We propose that the June Cabinet paper draws-down funding to enable a government-led design process to determine the number and structure of ISBs and how they would give effect to their responsibilities, and to conduct detailed analysis and information gathering about the arranging training transition. This work will be managed as part of the RoVE programme.
87. This process would support Cabinet decisions later in 2019 seeking to draw down additional funds for the establishment and administrative arrangements of agreed ISBs.

#### Recommendations

88. It is recommended that you:

**agree** to a government-led design process (managed as part of the RoVE programme) to determine the number and structure of ISBs and detailed analysis of the arranging training transition in the second half of 2019, and s 9(2)(f)(iv)

*I'd like the June Cab paper to make  
Some in-principle decisions re number &  
structure with detail design to follow.*

**AGREE/DISAGREE**

#### Establishment of NZIST and its administrative and advisory framework

89. The cost of establishing the NZIST and integrating the functions of ITPs into the new entity is a highly complex picture, including scope to manage costs through the consolidation of ITP reserves and assets. We see the key first step as standing up an NZIST Establishment Board to lead the consolidation process and to determine the operational structure, business model and internal capabilities of the new NZIST, within the parameters specified in the Annotated Agenda which set out detailed policy and design decisions of Proposal two [METIS: 1187910].
90. The June Cabinet paper(s) will need to draw-down funding for standing up the NZIST establishment board. This funding would be primarily to establish the governance and business development capability needed to design its operating model (including its relationship with regions and campuses). This will require establishing a new appropriation. The NZIST business case currently being developed will outline the costs of this. We will update you on initial estimates next week.
91. We consider it necessary to provide more than one year of funding (though the Establishment Board itself would not exist for that long) to ensure the board is able to enter into contracts that extend beyond 2019/20 and can be integrated into the NZIST once it is established as a Crown entity.



92. The NZIST business case will more accurately assess the core functions that will need to be funded prior to and in the initial stages of its establishment. An Implementation Business Case will then be developed in the second half of 2019 for Cabinet to consider prior to providing significantly more funding to progress implementation.
93. Future advice and decisions on the NZIST will need to cover how its on-going core costs could be managed, given that the RoVE contingency does not provide on-going funding. We propose that the Establishment Board be responsible for developing a business case articulating its operating model and the ongoing funding needed to implement it, and that this is used to seek Cabinet approval of ongoing funding. This will need to take account of the emerging design of a unified funding system.
94. There will also need to be decisions on issues such as establishing a single Student Management System (SMS) and/or Financial Management System across the NZIST network. These systems would involve significant up-front purchase costs and could involve asset write-offs of existing IT assets and equipment that have a remaining useful life, as well as larger investments to integrate existing ITP (legacy) systems and data.
95. We recommend that such decisions are led by the Establishment Board or Council of NZIST, although the scale of the cost may mean that funding may need to be subject to Cabinet approval of specific business cases for them.

#### *Recommendations*

96. It is recommended that you:

**note** that the June Cabinet paper(s) will seek to draw down funding for *initial* NZIST establishment and capability-building costs, with funding for more substantive functions and capabilities subject to approval of separate business cases.

**NOTED**

#### **Item 10: Potential to increase RoVE contingency via June Cabinet paper**

97. The RoVE contingency was funded through the reprioritisation of Fees-Free Payments funding identified in October 2018 [METIS: 1160852]. This was established following analysis of the amounts needed following receipt of final 2017 delivery volumes and initial uptake of the policy through to August 2018. It included an estimate of the potential underspend in 2018/19 (\$54.5 million) and estimates of the amount that the Fees-Free Payments appropriation could be safely reduced by in 2019/20 and subsequent years.
98. At the time Budget 2019 initiatives were submitted in December, that remained our best estimate of the potential Fees-Free and other underspends in 2018/19.
99. Data from the April 2019 SDR will be analysed over the coming weeks, leading to a clearer picture of TEC's likely final Fees-Free expenditure for 2018/19. TEC has provisionally estimated that additional funding of between \$30 and \$50 million could become available, subject to confirmation by its Board. Unless Cabinet makes an in-principle decision to reprioritise it in June, it will be returned to the centre once 2018/19 financial statements are finalised.
100. Data from the April SDR may also indicate further 2018/19 underspends elsewhere in Vote Tertiary Education above those returned to the centre in Budget 2019 due to final 2018 delivery being lower than the level funded. Given that decreases in demand for provider-based tertiary education have contributed to the need for – and the costs of – RoVE there is a rationale for this funding being retained in the Vote to help manage the costs of RoVE rather than be returned to the centre.
101. We therefore recommend that the June RoVE Cabinet paper(s) propose to direct any additional 2018/19 Fees-Free and other underspends into the RoVE contingency, given the high likelihood that the \$197m provided through Budget 2019 will be insufficient to manage the full costs of RoVE.

*Recommendations*

102. It is recommended that you:

**discuss** the June Cabinet paper(s) seeking in-principle agreement to transfer to the RoVE contingency additional 2018/19 Fees-Free Payments and other delivery-related underspends identified since Budget 2019 was finalised

**AGREE/DISAGREE**

**note** that in the absence of in-principle decisions to reprioritise available 2018/19 funding in June, that funding will be returned to the centre.

**NOTED**

## Section four – Managing the systems implications of RoVE

103. This section provides detail on how RoVE is expected to impact on different learner groups, types of providers, and aspects of vocational education provision. This section includes an overview of stakeholder views on these systems implications and highlights how specific aspects of the reforms have been designed to respond to these views, where appropriate.
104. This section discusses most of the system implications of RoVE. The effects are less complex for other areas (such as women learners and for universities) and we therefore propose to address those directly in the draft Cabinet paper(s) (to be provided to you on 23 May).
105. We are also preparing advice on ensuring the new system supports disabled learners' success [METIS: 1188354], and on designing a system to better supports Māori learner outcomes, in response to your agency meeting discussions on 29 April and 6 May.

*RoVE provides an opportunity to build a better vocational education system*

106. The proposed reforms will create a fundamentally new VET system, with a different set of institutional arrangements, with new and different roles and relationships, and a new unified funding system.
107. This provides Government with a significant opportunity to design the new system in a way that will improve responsiveness and effectiveness for those learners who tend to be underserved by the current system – for example, Māori, Pacific peoples, and disabled learners.
108. While getting the institutional arrangements of the new system right will not in itself guarantee improved outcomes for all learner groups, alongside other changes (particularly the funding reforms), it offers a chance to ensure the system is better able to meet the aspirations and needs of underserved learners and to work in partnership with these learners and their stakeholder groups. In particular, for Māori it offers the chance to put in place measures to ensure the new NZIST has the capacity and capability to work in partnership with Māori in the delivery of VET for Māori.
109. The design of the new vocational education and training system:
  - a. **will improve the transition from study into employment** – those learners underserved by the current system may not have the connections and opportunities to gain employment post-study. A core objective of RoVE is to create better integration between off-job and on-job learning (e.g. by transitioning the 'arranging training' function to providers). The more integrated approach to learning will, over time, help to improve transitions from study into employment.
  - b. **could ensure that governance arrangements for the NZIST** support positive outcomes for all learner groups. For example, the Government could set a duty for the NZIST Council that it must deliver high-quality vocational education and training to meet the needs of a diverse range of learners. Government could also influence the direction of the new organisation through:
    - the appointment process for the NZIST Council (i.e. who the Minister must consult in the appointment process and who provides nominations)
    - the mix of skills and knowledge required on the Council and within the senior leadership of the NZIST (e.g. to understand and support the needs of different learner groups).
  - c. **could drive better outcomes through a range of steering instruments** – for example, the NZIST Charter could set the expectations that the new organisation must build and maintain a strong cultural competence, prioritise equitable outcomes, and support regional, social, and economic goals. More detailed steering instruments such as a statement of intent (SOI) or a letter of expectations could require, for example,



that a Māori cultural competence programme for staff be put in place (similar to the Māori cultural competence programme at the Eastern Institute of Technology (EIT)). These steering instruments could also require the NZIST to use data analytics to tailor support to learners to better ensure engagement, achievement and positive employment outcomes.

110. These opportunities underpin the approach to system design for priority learner groups. Further discussion on Pacific learners is provided below, and separate advice is being prepared regarding Māori and disabled learners.

## **Item 11: Implications for different learner groups**

### ***Pacific learners, families and communities***

111. There are around 24,300 Pacific learners in VET in New Zealand (about 10 percent of all learners). Almost half of these learners are engaged in work-based industry training organised through ITOs, around one-quarter are learning through ITPs, and the remainder through PTEs or Wānanga. The majority of Pacific learners are in Auckland. Pacific men and women participate in VET in about equal numbers.
112. Pacific learners are underserved by the current VET system (and the wider tertiary education system). A range of levers can be used to improve the responsiveness and effectiveness of the system for those learners currently under-served. Identifying Pacific learners, their families and communities as a priority in key government and accountability documents is an important system-level lever.
113. Alongside this, RoVE presents an opportunity to design a new vocational education system that better supports Pacific learner success. While there is good practice occurring currently in some TEOs to support Pacific learner success, this is not consistent throughout the VET system.
114. We provided you with advice on ensuring a new vocational education system supports Pacific learner success [METIS: 1118689] and met with Minister Salesa on 29 April. Minister Salesa sought clarification on how RoVE will address Pacific stakeholder priorities. Seven key themes on matters important to Pacific people have emerged from submissions (from analysis to date). These themes outline that to best support Pacific people's success in vocational education, the system should:
- a. ensure Pacific representation in key leadership and decision-making roles
  - b. support and acknowledge Pacific people's diversity (and that this diversity is not static given changing demographics)
  - c. be culturally competent to ensure TEOs, staff, and employers are responsive to the needs of Pacific students, their families, and communities
  - d. recognise multiple entry points into vocational education and the difference in the support that Pacific learners need (e.g. secondary-tertiary vs upskilling existing vocational education workforce), and within these different pathways a clear line of sight to outcomes for the learner, including progressing to higher level study and job progression
  - e. work with and include Pacific parents, families, and communities in vocational education
  - f. ensure there are dedicated Pacific staff positions at all levels of the vocational education system so the workforce reflects the student population it serves
  - g. implement a funding system that best supports Pacific success.

*RoVE presents an opportunity to design a vocational education system that better supports Pacific learner outcomes and works closely with aiga, Pacific communities and organisations*

115. Key opportunities are outlined below, and include how at this stage the design new system can reflect priorities highlighted by Pacific stakeholders. In particular, for the NZIST to work well for Pacific learners, the organisation needs to understand the identities, languages and cultures of its learners. The NZIST Council and accountability settings for the NZIST (outlined further below) are key levers to enable this as the new entity is established.
116. Dependent on initial Cabinet decisions, further work will progress on the design of, and transition to the new system. It will be important that the key priorities of Pacific stakeholders continue to inform detailed design work and transitions arrangements, including those of which are not yet reflected in the design of the new system.
117. We consider it is likely that the most significant improvements will come from changes to funding and financial incentives, as these are the strongest levers. The current funding system means that TEOs are generally not incentivised to help those who need it most or to tailor their support to individual learners' needs.
118. More detail on the proposed unified funding system, including the potential to develop a learner-based funding mechanism is outlined in Section one. For example, this could include a small number of learner-based factors associated with higher delivery costs, potentially including learners/trainees from population groups with lower than average participation, retention and/or achievement at Level 3-7 (e.g. Māori, Pacific, low socioeconomic status).
119. Moving to an integrated VET system with providers taking on the 'arranging training function', could also (in time) address issues with the existing system in relation to inequitable access of Pacific people to employer networks. In the new system, more Pacific learners would have access to workplace-based learning opportunities as part of their learning through a provider. This would support more Pacific learners to gain exposure to the workplace, build workplace skills and competencies, and make connections with employers, and as a result, enable more Pacific learners to gain employment.
120. An integrated VET system could also better enable more 'end-to-end' education to employment type arrangements, for example, as the Māori and Pasifika Trades Training consortia approach currently facilitates. The new system could also be more responsive to support learners moving in and out of work, including during changes in the economic cycle.
121. The governance arrangements, the Charter and other key steering documents (e.g. letter of expectations) for the new NZIST are key levers to set expectations that the new NZIST would be governed and operate in a way that supports Pacific learner success.
122. Key levers to ensure a culturally competent NZIST include the appointment process for the Council (i.e. who the Minister must consult in the appointment process and who provides nominations), the mix of skills and knowledge required on the Council and within senior management of the NZIST (e.g. to understand and support the needs of different learner groups).
123. For example, when making appointments to the Council, the Minister could be required to take into account the ethnic, socio-economic and gender diversity of New Zealand. Furthermore, the skill-set and competencies expected of Council members and within senior management of the NZIST could include being 'culturally competent', for example, that they understand the diversity and needs of Pacific learners and communities in New Zealand.
124. The accountability settings for the new NZIST, including those established through the Charter and other key steering documents (such as the letter of expectations), could set specific expectations in relation to Pacific learner success. For example, the NZIST could be required to put in place a cultural competency programmes, including in relation to Pacific learners, families and communities. Including this as part of the accountability settings would ensure that such requirements are embedded into the new system, and any cultural competency programmes that were put in place could build off good practice that currently exists.

125. For example, the Ara Institute of Canterbury has implemented an Academic Capability Framework to support staff to develop insights into Pacific attitudes and cultural contexts, and strategies to create a safe teaching and learning space relevant to the cultural context of the Pacific learner. Key deliverables for the staff include maintaining close links with Pacific communities across the region, and regular engagement with schools, churches and other groups.
126. The organisational design of the new system can also embed practices the better support Pacific learner success, building on good practice that currently exists. For example, better use can be made of the Student Management System to inform the type of tailored support a learner might need to stay engaged in learning, attain a qualification and progress to further study, an apprenticeship or other employment.
127. For example, EIT is currently improving its use of data about student participation and achievement to address disparities in educational outcomes, including a focus on programmes where there are significant disparities in performance for Pacific learners. Relevant departments are working with other EIT staff to develop interventions to address these disparities.

#### *Recommendations*

128. It is recommended that you:

**note** that a range of levers in the design of the new system will take into account feedback from Pacific stakeholders and better support Pacific learner success, these include the funding system, moving to an integrated VET system which will provide more opportunities for workplace-based learning, alongside governance and accountability settings for the NZIST.

**NOTED**

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### ***International learners***

#### *Key themes from consultation and submissions analysis*

129. Submitters commenting on the expected impact of RoVE on international learners provided a variety of views. Based on an initial assessment, there was a general agreement of the importance of international learners, with several submitters highlighted the valuable economic and cultural contribution that these students made to regional economies and communities (in addition to the provider they were studying at).
130. Some submitters saw opportunities, commenting that the centralised NZIST would have greater capacity and global access for marketing New Zealand to international students and that this would benefit the whole ITP sector. Some submitters felt that RoVE should aim to more evenly distribute international learners across the regions (noting that around one third are currently based in Auckland). Several submitters commented that a key aim of the RoVE should be to reduce providers' reliance on funding from international students. Others felt that the reforms should aim to increase:
- a. international student participation in vocational training in New Zealand
  - b. offshore delivery of vocational education by our ITPs
  - c. international applied research and development partnerships
  - d. academic and student exchange.
131. However, a number of submitters voiced strong concerns, particularly regarding the proposed creation of a single NZIST. These submitters were concerned that recruitment of international students would be done by a centralised entity (NZIST), meaning that individual regions could not leverage their unique qualities and local relationships to attract students to their region. There was also concern that the timing of the RoVE and the Ministry of Business, Innovation



and Employment's (MBIE's) proposed changes to immigration settings could lead to disruption and possibly a skills shortages for sectors particularly reliant on foreign workers (e.g. arboriculture).

132. Some submitters (particularly, but not limited to, the Southern Institute of Technology (SIT)) felt that the national and international reputation of New Zealand's ITP sector had been damaged by the suggestion made through in RoVE consultation material (and as the rationale for the RoVE more broadly) that New Zealand's vocational education sector was 'broken'. They felt that this had devalued high-performing ITPs, noting that some agents were now hesitant to place students in ITPs as a result.
133. A number of submitters were concerned that the reforms would result in a significant decrease in international learners and revenue from these learners, which would hurt regional economies and communities.
134. Based on the summary of stakeholder feedback above, and through further analysis by officials, there are four areas to consider for international education:
  - a. international education opportunities for the NZIST
  - b. international workers on temporary work visas
  - c. foreign workers who had their training arranged by an ITO who will now be classed as international students
  - d. international student visas for those studying at an ITP.

*International education opportunities for the NZIST*

135. As outlined above, a number of submitters highlighted the potential for the new NZIST to market New Zealand more effectively to international students and to support a more even distribution of students across the regions. This is a key opportunity created by RoVE, and it will be important to allow the NZIST flexibility to determine how it takes advantage of it.
136. The NZIST's responsibilities would include considering matters raised about what decisions and activities would be undertaken at a national level versus a regional level, such as recruitment of international students, the setting of fees, distribution of fees, and responsibility for fee refunds. Decisions on these aspects of the NZIST will impact how effective the new institute is in attracting and retaining international students.
137. The NZIST would also need to decide who is responsible for day to day pastoral care and whether that sits at the national or regional level of the NZIST structure. All providers who enrol international students must be a signatory to the Education (Pastoral Care for International Students) Code of Practice 2016 (the Code).
138. During the NZIST transition, engagement with international counterparts will be needed, for example, to ensure that countries update their 'approved lists' of courses which their students can attend to reflect the new institute's name.

*International student visas for those studying at an ITP*

139. As part of managing the NZIST transition, we will work with Immigration NZ (INZ) to ensure that international student visas are not disrupted by the disestablishment of existing ITPs.
140. Currently, international student visas specify the provider and the location of study (for example, a specific ITP and campus location). At the point that ITPs are disestablished (and replaced by the NZIST), should the proposed reforms process, student visas which are linked to individual ITPs would become invalid.
141. We have discussed this with INZ and consider that this issue could be resolved without legislative change by deeming all current ITPs to be 'NZIST' for visa purposes through INZ's 'Rules'. This change to INZ's Rules would require Cabinet agreement later in 2019, once the

legislative drafting process for the NZIST is underway (should the proposal proceed).

142. MoE will continue to work with INZ to develop a solution which:

- a. ensures that no additional administrative or financial burdens are placed on students who have met current visa requirements
- b. ensures a seamless transition for holders of international student visas
- c. minimises any additional costs to INZ.

*Foreign workers who had their training arranged by an ITO*

143. Under the current system, a foreign worker whose training is arranged by an ITO is considered to be a domestic student by virtue of an exemption by Gazette notice to the international student definition. This means that they attract funding as a domestic student, and the provider is not required to be a signatory to the Code.

144. This exemption is for "a person who is enrolled at a tertiary education provider for the purpose of participating in industry training funded under the Industry Training Act 1992". Changes to the Industry Training Act proposed through RoVE will mean that this current exemption will be void and that a new Gazette notice will be required if this distinction is to be retained. This may impact on funding and numbers of students. A decision on this issue can be made following Cabinet decisions on RoVE on 24 June.

*International workers on temporary work visas*

145. Whilst not directly related to RoVE, it may be timely to address a minor issue in the application of the Code of Practice, which dictates pastoral care requirements for international learners.

146. A foreign worker on a temporary work visa who is required to undertake study as part of their job does not meet the legislative definition of a domestic student and by default are considered an international student. Being classed as an international student means that the provider of the training must be a signatory to the Code. This applies to all short-term workplace and provider-based training, regardless of whether this is arranged by an ITO.

147. Becoming a signatory of the Code places significant requirements on the provider. These requirements are entirely appropriate to ensure providers support the wellbeing of international students who are more vulnerable due to distance from family and friends, language issues and being in a different culture to their own. However, these requirements are onerous and unnecessary for a provider who is supporting a foreign worker undertaking short-term training.

148. Some providers of short-term training will already be signatories to the Code if they also deliver education or training to international students. However, some providers will not be signatories and face unnecessary costs from this provision.

149. RoVE presents an opportunity to resolve this issue by adding 'workers undertaking short-term training courses for the purpose of work, as required by their employer' to the list of students who are deemed to be domestic students. Other declarations on who is deemed to be a domestic student have been made by the Minister of Education through Gazette notice – this approach would not require legislative change.

*Recommendations*

150. It is recommended that you:

**note** that officials are working with INZ to ensure that international learners whose visas are tied to a specific ITP would not be adversely impacted should the proposal to create a single NZIST proceed, and will seek the necessary Cabinet approval for a change to INZ Rules in late 2019

**NOTED**

**note** that under the existing system, a foreign worker whose training is arranged by an ITO is considered a domestic student by virtue of an exemption by Gazette, and that for a similar distinction to be maintained under the new system, a new Gazette notice will be required

**NOTED**

**agree** that foreign workers on temporary work visas undertaking short-term training courses for the purpose of work, as required by their employer, should be deemed 'domestic students'.

**AGREE/DISAGREE**

## **Item 12: Implications for providers of vocational education**

### **Wānanga**

*RoVE proposals will have some direct impacts for the Wānanga sector*

151. In March, we advised you of some likely implications of RoVE for Wānanga and sought your decision on an approach. You asked us to explore further the Wānanga sector's views on RoVE and to look at options to manage (e.g. adapt, delay or limit) the effect of RoVE changes on the Wānanga. Since that time, officials from MoE have met with the leadership and council members of each Wānanga to explore their concerns and discuss options.
152. While each of the three Wānanga is very different, broadly speaking they consider that the current system settings do not enable them to fulfil their role. They each have concerns about the inequity of the system and how it affects them compared to other tertiary providers, and they are interested in engaging in a broader dialogue with the Crown on what the future of the sector might look like. Consistent with your discussions with the Wānanga, we have signalled that this dialogue could cover any issue including ownership, governance, funding and regulation.
153. All three Wānanga are supportive of the rationale for change to the vocational education system, but were wary, to differing degrees, of the impact this could have on them.
154. Te Tauihu o nga Wānanga (the combined Wānanga representation) has also emphasised that the proposed reforms should have been discussed with them prior to public consultation.
155. It has taken some time to reach a common understanding about the potential implications of RoVE for Wānanga. The sector does not in general view their activities as VET, although they do rightly consider that the skills learned will often contribute to a graduate's success in the workplace. Overall, due to the applied/occupational nature of some of their delivery, around 30 percent could be considered vocational education, using the working definition we established for analytical purposes. This proportion varies significantly across the three institutions, being highest at Te Wānanga o Aotearoa.
156. There are three key aspects of RoVE that could affect Wānanga:
  - a. **the creation of a unified funding system**

Wānanga were consulted on how this funding system could apply to them. While broadly supportive of the rationale for change, they were concerned about how the funding changes could apply to them, particularly given the limited detail, and their past experience that funding changes have often disadvantaged them. On the more positive side, this is an opportunity for the Wānanga sector to partner on the design of the new funding system to ensure the system is able to recognise the specific contribution of Wānanga, as well as ensuring that they are not disadvantaged by any potential changes.



b. **ISBs could influence Wānanga delivery through their standard-setting role**

In particular, Wānanga would be required to use vocational qualifications developed by ISBs, and seek ISB endorsement for their vocational programmes. This is an extension of the current relationship between ITOs and Wānanga. While they could see the value in their graduates being able to demonstrate that they met the industry-defined standard, they were concerned that ISBs' skill standards might not align well with kaupapa and mātauranga Māori frameworks, or deliver to the needs of Māori businesses.

c. **the establishment of a national institution could become a competitive threat to Wānanga.**

This is a particular concern for Te Wānanga o Aotearoa, which already operates at a national scale, has roughly 50 percent Māori students, and is most heavily involved in certificate and diploma level provision.

*Indirect impacts and missed opportunities from RoVE are likely to be more significant for Wānanga*

157. It will also be important to consider the indirect effects of RoVE on Wānanga. Indirect impacts on the Wānanga sector could include:

- a. *RLGs* – Wānanga involvement in these groups will be important for several reasons, including: to achieve the advantages of a joined-up regional network of stakeholders; to enable connections between providers to meet regional needs including programme design and pathway development; and to enable these groups to advise government directly on purchasing Wānanga provision
- b. *capability and programme development* – currently the Wānanga sector partners with several ITPs and ITOs to develop and share programmes and approaches to supporting learners and meet regional needs. The aim of any transition should be to support and enhance these relationships while avoiding harm to the Wānanga and their ability to perform as those organisations or relationships are reconstituted.

158. Furthermore, the place of mātauranga Māori and te reo Māori in VET, while not exclusively a Wānanga issue, could be strengthened through RoVE, for example:

- a. *through standard-setting via an ISB equivalent* – as ISBs will be focused on setting skills standards for the industries they represent, embedding and contextualising mātauranga Māori within these standards may be best achieved if there is a specific body charged with this role, complementing the work of ISBs. This would be preferable to VET with mātauranga Māori components or characteristics not using standards set by the ISBs at all, as this could risk problems with recognition of provision by employers
- b. *CoVEs* – a CoVE focused on mātauranga Māori and te reo Māori teaching and learning could support capability in the system, driving excellence in the integration of te reo and mātauranga in vocational teaching, training, and qualifications across sectors
- c. *through having Wānanga involved in arranging workplace training* – Wānanga did not give a clear view on this topic, but there was some interest in taking on an expanded role of this nature, and also interest in being involved in directly responding to the skills needs of Māori businesses.

*Engagement with the Wānanga has generated some options for how to manage the sector's relationship with RoVE*

159. To date, the Wānanga have reserved their judgement on the implications and relevance to them of much of the RoVE proposals, particularly where the detail is yet to be finalised. However, they are concerned to ensure that their freedom to operate and develop as institutions with significant autonomy, and the resources available to them for their provision are not impaired by any changes.

160. We tested a number of proposals informally with them, including the options that you had earlier signed off, of full or partial carve-outs from RoVE changes, and a parallel review of funding for non-VET certificate and diploma provision in te reo and tikanga Māori.
161. Following those discussions, we have identified a number of components of a future approach which we believe will start to demonstrate the Crown's commitment to the Māori-Crown relationship, secure a clearer relationship between Wānanga and the VET system, and advance wānanga issues more broadly.
162. **We propose that Ministers commit formally to the broad strategic dialogue** with the Wānanga on the future of the sector that you have previously offered. The Wānanga are currently working on proposals for this, and we recommend that as well as accommodating these, the review also focus on issues arising from RoVE proposals. We consider that formalising this dialogue with a terms of reference and process commitments from Ministers and officials will be required.
163. **The Crown should commit to a parallel review of funding for te reo and tikanga Māori provision, on the same timeframe as the RoVE funding reforms.** This work has already been signalled in response to the Raukawa treaty claim WAI2698 and will contribute to the objectives of Maihi Karauna. In the RoVE context, it should serve to de-risk engagement in RoVE for the Wānanga so that they should be no worse off by opting to be either in or out of the RoVE funding approach. Keeping to the same timeframe is integral to Wānanga having confidence that RoVE reforms will not see some of their focus areas neglected in funding terms. For this reason, we have also proposed that all level 3-7 funding system (including te reo and tikanga Māori) is within the unified funding system.
164. **Address the uncertainty over ISBs' compatibility with Wānanga provision** by enabling Wānanga to opt into the ambit of ISBs at a later date – once the details of their function have been worked through. We propose that this carve-out is limited to off-job provision and that if they wish to move into arranging training, they will need to do this within the framework set by ISBs. We may need to place requirements on ISBs to ensure that they are able to work with Wānanga on ensuring that their standard-setting role is open to embodying concepts drawn from mātauranga Māori. This is the most risky proposal, as it opens the possibility that students may not all graduate with a single set of standards – however in practice the wider rationalisation and harmonisation of standards and qualifications is going to take some years, so it is likely that this carve-out is unlikely to be significantly different to the multiple sets of parallel standards that we are likely to see operating during the transition period.
165. **Clarify that there is potential for wānanga to take a leading role in standard-setting** for provision across the system that has te reo, tikanga or mātauranga Māori components. This will help ensure that we draw on their considerable existing expertise in this area, and also clarify that the effects of the reforms are not one-way, i.e. that the wider system can learn from them, as well as vice versa.
166. **Offer wānanga an opportunity for their personnel to be involved in co-design of RoVE settings,** in particular the establishment of the NZIST and its capability to offer culturally responsive teaching and learning.

*Process for engaging with Wānanga*

167. Given that we did not consult Wānanga before the RoVE changes were developed, and given their status as Treaty partners, we consider that it is important to keep the dialogue going as openly as possible. We already have regular meetings with the Wānanga as a sector, and have committed to regular dialogue with all three institutions. Te Wānanga o Aotearoa raised with us the possibility of sharing drafts of advice and cabinet papers, as this has been their experience (in roles outside Wānanga) in other areas of Crown business. We would like to discuss this with you, and seek your agreement to sharing with them a draft of a letter formalising the future relationship and their role in RoVE.

## Recommendations

168. It is recommended that you:

**agree** to offer a strategic dialogue with Wānanga encompassing their future ownership, governance, funding and quality assurance arrangements

**AGREE/ DISAGREE**

**agree** to commit to a parallel review of te reo and tikanga Māori funding rates, on the same timeframe as the RoVE funding system changes

**AGREE/ DISAGREE**

**agree** that any ISB provisions be drafted to enable Wānanga to come under their standard-setting role at a later date, and allowing for the potential for an alternative standard-setting arrangement for Wānanga and for kaupapa Māori provision if later deemed necessary, with the exception of where Wānanga are moving into arranging workplace training

**AGREE/ DISAGREE**

**agree** that officials will draft a letter committing to these points and circulate this to the Wānanga as a draft for discussion, prior to your signature

**AGREE/ DISAGREE**

**note** that officials will provide you with further advice on the potential scope and areas of focus for a strategic dialogue with Wānanga, and how it could be sequenced to align with RoVE work

**NOTED**

**note** we propose to explore opportunities for Wānanga in the establishment of CoVEs.

**NOTED**

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## Private Training Establishments

### Key themes from consultation and submissions analysis

169. Some submitters highlighted opportunities for PTEs that arise from the proposed reforms, in particular for more PTEs to become involved in on-job training. Independent Tertiary Education New Zealand (ITENZ) noted that PTEs with strong existing connections to industry would be well-placed to take up this role. Some submitters saw an important role for PTEs in supporting the transition to the proposed new vocational education system, by ensuring work-based training continues while the NZIST is established.

170. Some submitters raised concerns that the RoVE may undermine PTEs' existing role and strengths in vocational education. For example:

- a. submitters highlighted the strong industry connections that some PTEs have developed, the ability of PTEs to be responsive to industry and learner needs, and their capacity to support niche industries. Submitters felt that the important role of PTEs in the current system should be maintained under the new arrangements
- b. some submitters were concerned that PTE's existing vocational education provision might be crowded out by the NZIST, and were concerned that RLGs seem to fall under the NZIST rather than being independent of it
- c. ITENZ objected to the proposal that ISBs would develop or approve programmes that



PTEs deliver. While it saw a role for ISBs in ensuring consistency of qualifications, it was concerned that ISBs determining essential training components would undermine PTEs' ability to develop innovative programmes to meet immediate industry needs, and would lead to a one-size fits all approach.

171. Several submitters also noted that further detail was required to clarify what the implications of the RoVE proposals would be for PTEs.

#### *Design decisions made in response to stakeholder views*

172. You have agreed in principle to an approach where ISBs would endorse a proposed programme to ensure that it incorporates industry skill standards and meets employer and industry needs. In our detailed advice on ISB's programme-approval role [METIS: 1184640], we proposed further work (with input from key stakeholders) to allow flexibility for ISBs and providers to design programmes to avoid a "one size fits all" approach. We consider that this would help to mitigate submitters' concerns with ISBs developing or approving programmes.
173. We will be mindful of the implications for PTEs, and their role in the system, as we continue to work on options for the transfer of the arranging training function from ITOs to providers. We consider this, and ongoing work on ISBs' programme approval role, will address PTEs' concerns. We do not propose any additional design changes in response to submitters' points regarding PTEs at this stage.

#### *Recommendations*

174. It is recommended that you:

**note** that some submitters have raised concern that RoVE may undermine PTEs' existing role and strengths in vocational education

**NOTED**

**note** that officials intend to work with key stakeholders (including PTEs) to ensure flexibility for ISBs and providers to design programmes in a way that avoids a "one size fits all" approach

**NOTED**

**note** that officials will consider implications for PTEs, and their role in the system, as we work on options for the transfer of the arranging training function from ITOs to providers.

**NOTED**

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### **Secondary schools**

#### *Key themes from consultation and submissions analysis*

175. Overall, relatively few stakeholders commented on what the proposals might mean for schools and senior secondary school students (those that did include some schools, ITPs and ITOs).
176. Of those that did comment, many considered that the proposals provided little indication of where schools and school students would fit in the reforms. Submitters highlighted that it was critical for the new VET system to connect and align more closely with schools; in particular, they considered that:
- VET learning opportunities available in senior secondary schools (e.g. currently through Secondary Tertiary Alignment Resource (STAR), Gateway and Trades Academies) are valuable, but these should connect more seamlessly with post-school VET
  - Careers education in schools should be strengthened so that young people have a greater awareness of the range of VET career opportunities, and to increase the pipeline of schools leaver going directly into full-time VET (rather than seeing university as the

only pathway). Some submissions highlighted that better support and engagement is needed when students are making decisions about learning options in school, and on post-school transitions.

177. Submitters also commented on the following aspects of RoVE:

- a. *Concern about disruption to secondary-tertiary initiatives and ITO set-Unit standards* - some submitters were concerned that programmes such as Gateway and Trades Academies might be stopped or disrupted as a result of RoVE. While some ITO and school submissions highlighted the importance of ITO-set Unit Standards which are used by secondary school students, including in Gateway and Trades Academies, and the potential disruption to these
- b. *Maintaining local relationships between providers and schools* – some submitters also commented that under the new system it will be important that relationships between providers and schools can be maintained at the local and regional level (including for ITPs), including making sure that existing relationships providers have with schools are not lost as part of any changes.

*Opportunities to improve VET for senior secondary school students, for VET in schools to support a high quality general education, and pathways into higher-level VET*

178. There are opportunities through RoVE and the NCEA Review to strengthen industry-derived learning that is part of NCEA, and the credibility of VET in schools. For example:

- a. as part of changes to ISBs' and providers' roles, it is proposed that programmes should have more national consistency and be better aligned with the needs of industry; there is also an opportunity to improve industry derived skills standards and align those at Level 2-3 more closely to NCEA
- b. The NCEA Review includes a proposal to investigate the development of a Vocational Entrance Award(s), to enable direct entry into higher-level VET (and prevent churn between senior secondary school and post-school VET).

179. The creation of RLGs and a more consolidated VET sector provides an opportunity to improve pathways from school into vocational education by strengthening relationships between schools, TEOs and employers. This will build off the connections already developed through programmes like Gateway and Trades Academies. Further work is also planned, once decisions relating to RLGs are confirmed, to consider how ISBs and RLGs would work with schools – this will be done alongside the Tomorrow's Schools Review.

180. As outlined in Annotated Agenda to support discussion on Proposal one (Item 11), once RoVE decisions are approved by Cabinet, officials will undertake further work in partnership with ISBs (once formed), schools, and other providers offering NCEA, to review how industry-derived learning could be aligned with NCEA requirements.

181. A multi-pronged approach is needed to raise the status of VET amongst schools and the wider community. Other work underway as part of the Education Work Programme (EWP), including the Careers System Strategy, will also seek to do this.

*It will be critical to support schools through the RoVE transition*

182. Good communications and transition management will be critical to ensure existing VET delivered by schools and through secondary-tertiary programmes and initiatives are not disrupted through the RoVE transition. Overall messaging will need to emphasise that existing programmes will continue, while there will be some changes in terms of how they operate.

183. Specific transition issues that will need to be managed include:

- a. *Standard setting* – where schools currently have consent to assess ITO-set Unit Standards, they will need to be supported to transition to the new system where ISB's are the standard-setters



b. *Trades Academies:*

- 10 of the 23 Trades Academies are currently led by ITPs, with the many of the remaining 13 Academies involving ITPs as key delivery partners. In planning the transition to the new NZIST, consideration will need to be given to the Lead Provider arrangements for the 10 ITP-led Academies, and ensuring ITP provision for other Academies purchased by school-led Trades Academies is able to continue
- One Trades Academy (with over 500 learners) is led by the Primary ITO. Arrangements for this will be considered as part of the transition of ITOs' arranging training function to providers.

- c. *Gateway programme* – a number of ITOs work with schools to support senior secondary school students with work placements (for example, some ITOs offer Gateway packages for school to purchase). There is a risk of some schools opting out of Gateway or there being a gap in provision, where schools are currently reliant on an ITO for arranging and assessing Gateway placements. We will consider options for managing this as part of the transition of the 'arranging training function' to providers.

*Recommendations*

184. It is recommended that you:

**note** that submitters considered that programmes such as Gateway and Trades Academies should be maintained through RoVE and that careers education in schools should be strengthened through the reforms

**NOTED**

**note** that the creation of RLGs and a more consolidated VET sector provides an opportunity to improve pathways from school into vocational education by strengthening relationships between schools, TEOs and employers

**NOTED**

**note** that RoVE transition planning will ensure that existing VET delivered by schools is not disrupted, with particular consideration will be given to impacts related to standard setting, Trades Academies, and Gateway programmes.

**NOTED**

**Item 13: Implications for non-vocational areas of education provision**

***Foundation education***

*Key themes from consultation and submissions analysis*

185. Relatively few submitters commented on the connections between RoVE and foundation education. Those that did generally emphasised the importance of foundation education and its relationship to RoVE, including pathways from foundation education into vocational education. Some submitters also noted the importance of improving foundation skills (including literacy and numeracy) for those in already in work.

186. A few submitters raised concerns that the NZIST may favour distance provision for foundation education when face-to-face provision was more appropriate for those learners.

*Design decisions made in response to stakeholder views*

187. Officials agree with submitters that connections between foundation education, vocational education, and industry are important. For many learners, foundation education is not currently



providing direct pathways into further study or training leading to skilled employment.

188. The design of RoVE is likely to strengthen these important connections and improve pathways and outcomes from foundation learning; for example by:

- a. *strengthening industry's role in the vocational education system* – under the proposed reforms, industry will be more involved in vocational education (through ISBs' standard-setting and programme endorsement roles, and through RLGs) and connections will be strengthened between providers and employers. This is likely to improve the relevance and pathways of foundation education, particularly for providers that offer both foundation education and vocational education, such as the NZIST.

Over time we would expect to see industry skill needs, and providers' increased capability in arranging on-job provision, to be reflected in the design and structure of foundation education provision, and improve pathways into work-based learning and apprenticeships.

- b. *improving access to quality foundation learning* – the potential for consolidated programme development at the NZIST could improve access to, and the quality of foundation education provision. However, ITPs currently provide only around 20 percent of foundation education provision. Therefore, other work to improve the quality and relevance of foundation education will be critical; for example, through the NCEA review, and the Government's response to the Welfare Expert Advisory Report.

189. Work through RoVE and the NCEA Review to strengthen industry-derived learning that is part of NCEA will also improve foundation tertiary education.

190. As discussed in Section 1, we do not recommend including provider-based foundation education at Level 1-2 in the new unified funding system at this stage

#### *Recommendations*

191. It is recommended that you:

**note** that submitters emphasised the importance of strengthen the connections between foundation learning, vocational education and industry, and in building better pathways from foundation learning into further study or training leading to skilled employment

**NOTED**

**note** that RoVE is expected to contribute to these outcomes by strengthening industry's role in the vocational education system (through ISBs and RLGs), and by improving access to quality foundation learning through the NZIST.

**NOTED**

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#### ***Degree-level provision***

192. Degrees are a significant part of the current ITP network, with around 35 percent of delivery at degree level and equivalent. Funding for this provision in 2018 was around \$185 million. The provision is dominated by health (in particular nursing, but also occupational therapies and medical imaging technologies). Other significant areas of provision are human welfare, creative arts and business studies.

#### *Key themes from consultation and submissions analysis*

193. During consultation and engagement, there was significant interest in the place of degree-level provision in the proposed NZIST structure. This was driven by the lack of attention on this issue in the consultation material, which was because there was – and is – no intention to restrict degree level provision through the RoVE proposals. Some providers were concerned that

regional autonomy over degree-level provision may be lost, as degree level provision would be offered through a consolidated entity that lacked sufficient regional autonomy to make decisions over its degree provision.

194. ITP staff, managers and students gave consistent feedback that including the term 'skills' in the Institute's name will deter international student enrolments at degree level, as 'skills' and 'vocational education' denote lower-level study rather than higher education in most overseas markets.

195. Key themes from consultation and submissions included:

- a. *Lack of information regarding impacts on the degree-level provision* – a number of submitters inferred that the new NZIST would not deliver degree-level programmes in the future system. They emphasised the importance of this provision by ITPs, in particular for regional New Zealand. Some submitters considered it is essential that education for their professions remains local, and that quality assurance of degrees and the integrity of schools remains under the control of the statutory body.
- b. *Support for flexibility in provision* – submitters noted that degrees had different focuses across different ITPs and felt that there was value in allowing for this type of differentiation between providers, e.g. unique pedagogies in some programmes and opportunities for Māori and Pasifika students to learn in culturally inclusive environments.
- c. *Some submitters considered that degree-level provision should not change at all.* However, they also noted that degree provision would need to be looked at in the future and that universities would need to be brought into this discussion.
- d. *Some support for degrees being considered directly as part of RoVE* – conversely, several submitters thought that degrees provided by ITPs should be within the scope of the reforms (particularly nursing and teaching), including the new unified funding system, as this would support pathways to higher study. Some felt that the reforms should go even wider to also look at university and Wānanga provision to ensure alignment across the full spectrum of learning (though one submitter felt that ITPs should not deliver degrees at all)
- e. *Importance of pathways into higher study* – many submitters commented on the importance of clear pathways from lower-level vocational education into degree-level and higher programmes.
- f. *Some submitters highlighted that the attractiveness of ITPs to international learners is largely tied to the pathways higher studies, and that maintaining these pathways, and existing international accreditations, would be critical.*
- g. *Strong emphasis on the need to consider the impacts on degrees and ensure pipeline* – the New Zealand Nurses Organisation, and others, emphasised that the transition to the NZIST would need to carefully consider impacts on degrees, and the pipeline of skills.

196. Submitters sought clarification regarding:

- a. whether the NZIST would assert centralised control over development and delivery of degree-level programmes
- b. the role of ISBs in development and provision of degree-level programmes (e.g. who would be providing advice on these, if not an ISB?)
- c. the relationship between ISBs and Provisional Bodies of certain degree-level programmes (such as nursing and social work)
- d. how degrees would be funded under the new system
- e. Impacts on pathways of the reforms
- f. whether professional bodies (such as the Nursing Professional Body), and other entities

such as the Ministry for Health would play a role in shaping the NZIST's academic boards with regards to nursing degrees.

#### *NZIST's role in degree provision*

197. We propose that the NZIST should continue to teach and award degrees and postgraduate qualifications under broadly the same settings as apply to ITPs now. Withdrawing the NZIST from degree provision would end a wide range of successful and valued degree programmes, reduce access to higher education in the regions, and compromise the institute's financial viability. It would also forego the significant opportunities for system integration available in consolidating the ITP system.
198. However, as with its lower-level programmes, the NZIST should bring greater national consistency to its degree and postgraduate teaching, consolidating the various programmes developed by separate and competing ITPs. This will be guided by the heightened capability available in a national-level academic board structure, improved industry input into decisions, and the requirements of the proposed organisational charter.

#### *Likely improvements from the status quo*

199. The current system has uneven degree coverage in regions and some pockets of genuine excellence. We think that a national Council and Academic Board will, once the NZIST has begun to work through the process of consolidating its overall business, improve the overall quality and value of its vocationally-focussed degrees. It would also improve overall access to degree study in regions. For example:
- a. Where the different degree programmes are relatively generic (e.g. some nursing and business programmes), we should see a move to a single national degree programme (with allowance for regional variation as for other NZIST provision). Specialised programmes and qualifications (for example in Maori and Pasifika nursing or education) would continue to be differentiated where this has clear academic merit and is valued by learners, employers and professions.
  - b. Greater student mobility and access. More programmes specialisms would be available to students in each region because they can complete them using programmes delivered in other regions, through campus transfer or other flexible or distance delivery methods.
  - c. Greater work-integrated learning components in degrees as the NZIST develops its relationships with employers and industries (including the ISBs), responds to demand for better pathways and system integration, and takes opportunities for placements of degree students opened up by the relationships with employers.
  - d. Greater quality from the network and CoVEs making best practice available and incorporated into degree programmes.
  - e. Opportunities to make gains in quality and access through generating scale economies in degree development and peer review.
  - f. Improved opportunities for applied research through contact with employers, which will lead to improvements in teaching and learning, business investment in training, and greater research activity.

#### *Link to ISBs*

200. It will be useful for ISBs to work with degree providers, but it is not necessary that they have a mandated role. Professional bodies (e.g. Nursing Council) work with degree providers in the sector now, and we see a possible expansion of ISB roles into vocational areas at higher levels as a development for the future. The immediate priority of ISBs will however be in establishing standards and systems to govern sub-degree vocational education.



201. Over time, ISBs should develop interest in ensuring that there are pathways through the system for students and access to higher level skills grounded in current research for industries. This could play out in different ways, e.g. because ISBs will have greater influence over vocational educational providers they might attempt to influence degree-level provision within the NZIST and other providers with a vocational focus (e.g. to advocate for the creation of a degree where there has not been one), or they might attempt to drive greater formal articulation between vocational providers and universities.
202. We would want to initially ensure that ISBs are highly performing for the core vocational system before they use some of their focus on how to influence degree level provision.
203. Other aspects of the reformed system will also become influenced by or influential for degree-level provision, for example:
- a. Regional Leadership Groups are intended to provide advice to vocational providers and the TEC on regional skills needs, and over time to be at the core of regional skills systems, working across areas that include migration and welfare systems. We expect that RLGs will want to advise about access to degree level provision, and are likely to influence the development of degrees in different regional providers.
  - b. We would want to empower CoVEs to form consortia that include degree providers with flow-on inputs into degrees within the system. Where it makes sense for the consortia, CoVEs could include academic staff that specialise in degrees in a core area of excellence in the system, and where this happens, it could also lead participating ISBs to develop industry advice about the provision of degrees.
  - c. Over time, we could expect the consolidated NZIST to start to grow Performance-Based Research Fund income and participate in some Centres of Research Excellence.
  - d. We are not proposing to include degree study in the unified funding system for vocational education for cost and complexity reasons, and also because of the likely impacts on the wider system. Longer term reforms to the funding system can pick up any changes to degree provision that are needed to drive greater connectivity and outcomes for degree study.

*Challenge for quality assurance arrangements*

204. Moving to a single NZIST will not affect the overall quality assurance arrangements for degrees. However, it may have some operational implications for non-university degrees. Currently NZQA has a network of degree providers (including ITPs and some Australian academics) to draw upon for panels used to approve degrees. These give the system in depth reviews of proposed degrees and benchmarking – the same role as the Committee on University Academic Programmes (CUAP) takes on for the university system. Once NZIST is in operation, much of this structure will move to being internal to the NZIST.
205. It will therefore be important to ensure the new arrangements maintain the transparency and credibility of the process, in light of NZIST's future dominance in the system. As this may require more overseas input, this could involve slightly greater costs (although the consolidation would still make it cheaper overall), but could result in greater research links and standing for NZIST's degrees.

*Recommendations*

206. It is recommended that you:

**agree** that NZIST teach and award degrees and postgraduate qualifications with much the same settings as the ITP sector has now

**AGREE/DISAGREE**

**note** that we expect the NZIST to streamline the Level 7-10 programmes and awards developed by competing ITPs, offering more consistent quality and content to learners and employers nationwide, while retaining local differentiation in content and specialist qualifications where warranted

**NOTED**

**note** there is an opportunity for degree level study to improve significantly across the regions in time, through improved student access and mobility, greater work-integrated learning options and higher quality and co-ordination driven by the NZIST's single academic board and more efficient use of expertise across its national academic workforce

**NOTED**

**note** that we will work through implications for quality assurance of degrees, to maintain the quality and reputation of non-university degrees, as we consider other changes to quality assurance following Cabinet decisions.

**NOTED**