



Tertiary Education
Commission
Te Amorangi Mātauranga Matua



Tertiary Education Report: Annotated Agenda to support discussion on RoVE Proposal one

To:	Hon Chris Hipkins, Minister of Education		
Date:	26 April 2019	Priority:	Medium
Security Level:	In Confidence	METIS No:	1184640
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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 some detailed policy and design aspects of Proposal one of the reform of vocational education (RoVE); *redefining the roles for industry bodies and education providers*. We seek feedback in the week of 29 April.

Recommended Actions

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

- note** that the attached Annotated Agenda seeks your indicative agreement to some detailed policy and design aspects of Proposal one of RoVE,
Noted
- note** that these decisions are required to inform your report back to Cabinet in June 2019 and to allow for legislation to be drafted for introduction by late August,
Noted
- note** that this advice follows on from the two RoVE Strategy Sessions you held on 10 and 24 April and seeks your agreement to points discussed at these sessions,
Noted
- forward** the attached Annotated Agenda to any additional ministers you may wish to include in discussion, and

Agree / Disagree

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

Agree / Disagree



Grant Klinkum

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

26 / 4 / 2019



Tim Fowler

Chief Executive
Tertiary Education Commission

26 / 4 / 2019



Hon Chris Hipkins

Minister of Education

28/4/19

Process for confirming policy and design aspects of RoVE

1. As outlined in our briefing which supported your RoVE Strategy Session on 10 April [METIS: 1183856], officials intend to provide you with a series of Annotated Agendas to seek your indicative agreement on detailed policy and design aspect of RoVE.
2. The attached Annotated Agenda outlines a range of detailed policy and design aspects related to RoVE Proposal one. We seek feedback on these design aspects in the week of 29 April, to inform the preparation of Cabinet papers (due to be considered at Cabinet on 24 June 2019).
3. We have aimed to provide sufficient detail on each of the design aspects to support good decision-making while ensuring the paper is manageable. Officials can provide further information to support your decision on a particular area, if required.

Additional advice on Proposal one

4. There are several additional detailed design aspects of Proposal one that we will provide advice on in a future Annotated Agenda, or through separate briefings. Some of this advice will be dependent on an initial decision made through the attached material.
5. Topics to be covered in future advice include,; more developed transition options for the arranging training function, implications on wānanga, impacts and opportunities for disabled learners, and more.
6. Separate advice was provided to you and Minister Davis on Wednesday 24 April on opportunities to better support Māori learner outcomes through, and to work with Māori on, the design of RoVE [METIS: 1186442]. Advice was also provided to you and Minister Salesa on Friday 26 April on opportunities to better support Pacific peoples and communities through the design of RoVE [METIS: 1186869]. Key opportunities identified in these papers have been woven through the recommendations set out in the attached Annotated Agenda, where relevant.

RoVE Strategy Session on 24 April

7. The second RoVE Strategy Session on 24 April focused on options for the formation and scope of Industry Skills Bodies (ISBs) and how the transition of roles from ITOs to ISBs and providers could be managed (as well as options on transition arrangements for the New Zealand Institute of Skills and Technology).
8. A summary of this discussion is included in the Annotated Agenda (Section two) and the advice has been updated to reflect this.

Annexes

Annex one: Annotated Agenda on detailed policy and design aspects of RoVE Proposal one – *Redefining the roles for industry bodies and education providers.*

AGENDA

Reform of Vocational Education
29 April, 10am

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

This Annotated Agenda seeks your indicative agreement to some detailed policy and design aspects of Proposal one of the reform of vocational education (RoVE); **Redefining the roles for industry bodies and education providers**. These decisions are needed to inform your report back to Cabinet in June 2019 and to allow for appropriate legislation to be drafted.

This advice follows on from the two RoVE Strategy Sessions you held on 10 and 24 April and seeks your agreement to points discussed at these sessions. The structure of this Annotated Agenda and the detailed design questions that require your direction are as follows:

- **Overview of stakeholder feedback**
- **Section one: Core design principles for Proposal one**
 - Item 1: What are the goals and critical success factors for Proposal one?
 - Item 2: How do we apply the principles of the Treaty of Waitangi and the Maori Education Strategic Framework?
 - Item 3: How do we apply the Pacific Education Strategic Framework and ensure the vocational education system supports Pacific peoples?
 - Item 4: How do we ensure the system supports disabled learners and those with additional learning needs?
- **Section two: Where the 'arranging training' function should sit**
 - Item 5: Should the arranging training function shift to providers?
 - Item 6: Should Industry Skills Bodies (ISBs) or providers offer 'arranging training' support to employers?
 - Item 7: How should the arranging training function be transferred to providers?
- **Section three: The role of ISBs within the new vocational education system**
 - Item 8: What is the role of an ISB in relation to skills leadership?
 - Item 9: What is the role of an ISB in relation to setting skills standards and their scope of influence over qualifications and programmes?
 - Item 10: What is the role of an ISB in providing advice to TEC on industry skills needs?
 - Item 11: What are the implications for NCEA delivery by schools and tertiary education organisations?

- **Section four: Process for the formation and recognition of ISBs**

- Item 12: How should ISBs be structured?
- Item 13: How should the ISBs be formed?

- **Section five: Operating funding for ISBs**

- Item 14: What funding is required to support ISBs?
- Item 15: What should happen with the levy provisions in the Industry Training and Apprenticeship Act 1992?

Overview of stakeholder feedback

1. In preparation for your 10 April Strategy Session on the RoVE, you were provided with a briefing and Annotated Agenda which included an early summary of stakeholder views on the reforms [METIS 1183856]. Further analysis has been undertaken (including an initial assessment of online submissions), and we are now in a position to provide a more detailed summary of views (this also fed in to the Strategy Session discussion on 24 April).
2. Based on our stakeholder engagement throughout the consultation period, and a preliminary assessment of online submissions, officials consider that while most industry groups (including Industry Training Organisations (ITOs), industry bodies, and employers) generally support the overarching goals of the RoVE and in the expanded skills leadership function of industry through ISBs, there is strong opposition from ITOs (and some employers) to the shift of the arranging training function to providers. There is also limited support for the separation of employer and learner support, with industry considering these must sit together.
3. Where issues have been raised, they have focussed on the:
 - a. consultation timeframe,
 - b. degree to which the New Zealand Institute of Skills and Technology (NZIST), and other providers, could effectively respond to the needs of workplace learning over a reasonable timeframe, in light of their current capacity and understanding of these functions,
 - c. perceived loss of industry control over training arrangements,
 - d. risk of employers disengaging from the training system, and challenges for trainees and apprentices if the transition is not very managed well, and
 - e. need for clear transition arrangements and a reasonable timeframe, should the proposal be taken forward.
4. Stakeholders have made constructive suggestions about a number of system changes. Larger ITOs see a role for government in constraining the number of ISBs, would like greater cohesion and coverage within each body, and see advantages in aligning the proposed regional leadership groups (RLGs) with the proposal from the Ministry of Business, Innovation and Employment (MBIE) to establish regional skills bodies.
5. There are also a number of positive suggestions for transition planning, both from a process perspective and from a structural perspective. There is a recognition from at least some ITOs that change is needed, although all ITOs express doubt about the extent to which providers would be able adapt to serve the needs of employer effectively.
6. Further detail on stakeholder feedback is incorporated throughout this Annotated Agenda.

Advice set out within this Annotated Agenda may change as submissions are analysed

7. Please note that where the views of stakeholders are incorporated throughout this paper (including the above summary of views), that this is based on an initial review of online submissions and feedback from stakeholder events and should not be considered a comprehensive submissions analysis.
8. A full assessment of stakeholder views will be provided to you once the submissions analysis process is complete. For any areas where the final analysis differs substantially from our initial assessment (in particular where this affects officials' advice to you), this will be flagged and revised advice will be provided.

Section one: Core design principles for Proposal one

Item 1: What are the goals and critical success factors for Proposal one?

Original role change proposal

9. Proposal one, as outlined in the consultation material, involves redefining the role of industry bodies and education providers as follows:
 - a. extend the leadership role of industry and employers across all vocational education, including provider-based vocational education, through new ISBs,
 - b. transfer to vocational education providers the ITOs' current role of supporting workplace learning and assessment for work-based vocational education (i.e. the 'arranging training' function), and
 - c. provide industry with a purchase role across all vocational education, through advice from ISBs to the Tertiary Education Commission (TEC), which TEC must give regard to.
10. The proposal also sought feedback on where brokerage and advisory services for employers should rest in the new system.

Key principles and outcomes of the RoVE

11. Based on the high-level objectives of the RoVE, as set out in the consultation material (which were generally supported by stakeholders), combined with further principles and objectives identified by stakeholders, we consider that the reforms should aim to:
 - a. deliver **more and better vocational education** across all regions that is relevant to the changing needs of employers and learners, resulting in more employers engaging in the industry training system,
 - b. create an **integrated system** where collaboration is incentivised, and which gives voice to the users of the system: learners, employers, regions, communities, and the staff within it,
 - c. uphold and **enhance Māori-Crown relationships** and the principles of the Treaty of Waitangi, which includes imbedding the implications of this partnership in governance and structural arrangements across the new system,
 - d. create **clear roles** to support integration, strong specialist functions, and avoid conflicts of interest,
 - e. ensure the new system is **future proofed** so that it can respond effectively to new challenges and opportunities as they arise, and
 - f. take into account the **transition risks**, and the potential effects of uncertainty and/or disengagement by learners, employers, tertiary education staff, and other stakeholders.

Item 2: How do we apply the principles of the Treaty of Waitangi and the Maori Education Strategic Framework?

12. The ROVE proposals present an opportunity to design a system that recognises and incorporates the principles which underpin the Treaty of Waitangi. This could mean that the new system:

- a. involves iwi, hapū and wider Māori stakeholders in its design,
 - b. operates consistently with 'the principles of the Treaty', meeting the Crown's commitment to honour the Treaty with regard to the two parties of the Treaty,
 - c. operates in partnership with iwi, hapū and wider Māori stakeholders,
 - d. operates in a way that improves outcomes for Māori (including learning and employment outcomes), and
 - e. protects and further develops te reo Māori and mātauranga Māori and does not limit provision within a Māori kaupapa.
13. This approach would also reflect the Ministry of Education's (MoE) updated Māori Education Strategic Framework and aligns with the partnership guidelines developed by Te Arawhiti.
14. We consider that there are two key opportunities to support these frameworks within the design of Proposal one:
- a. ensuring Maori and iwi have a partnership role in the governance of the proposed ISBs, reflecting the interests of Māori employers, and Māori dominated industry sectors, and
 - b. maintaining flexibility for Māori and non-Māori providers to deliver programmes that lead to recognised industry qualifications, without unnecessarily restricting delivery in te reo Māori, adding mātauranga Māori learning outcomes, and supporting a Māori kaupapa.
15. Further advice was provided to you and Minister Davis on Wednesday 25 April on opportunities to better support Māori learner outcomes through, and to work with Māori on, the design of RoVE [METIS: 1186442]. Key opportunities identified in this paper have been woven through the recommendations set out in this Annotated Agenda, where relevant.
16. The implications of RoVE for wānanga are also being worked through, and advice on this matter will be included in a future Annotated Agenda.

Recommendations

17. It is recommended that you:

note that in applying Te Tiriti, the principles of MoE's Māori Education Strategic Framework, and Te Arawhiti's partnership guidelines, the detailed design of Proposal one should ensure:

- a. involvement of iwi, hapū and wider Māori stakeholders in the detailed design process,
- b. Māori representation on the governing bodies of ISBs, and
- c. quality assurance rules for programme delivery that maintain and support Māori delivery in all its forms.

NOTED

Item 3: How do we apply the Pacific Education Strategic Framework and ensure the vocational education system supports Pacific peoples?

18. Through the consultation process, Pacific peoples have emphasised that the proposed reforms should ensure that the vocational education system better serves the needs of their Pacific learners, families, and communities, including by putting the learner at the centre.
19. MoE has developed a Pacific Education Strategic Framework, which will be used as part of the design of the new system.

20. Within Proposal one, there are also opportunities to support better outcomes for Pacific learners, for example by:
- a. ensuring (through NZQA rules) that qualifications and skills standards are culturally-neutral¹ and that assessment is as culturally relevant as possible, and
 - b. reinforcing the need for ISBs to be responsive to Pacific employers, in particular by including this in recognition criteria and performance monitoring arrangements.
21. Further advice has been provided to you and Minister Salesa on Friday 26 April on opportunities to better support Pacific peoples and communities through the design of RoVE [METIS: 1186869]. Key opportunities identified in this paper have been woven through the recommendations set out in the attached Annotated Agenda, where relevant.

Recommendations

22. It is recommended that you:

note that the key opportunities to support better outcomes for Pacific learners are through ensuring qualifications, skill standards and assessment are culturally neutral, that assessment is culturally relevant, that appropriate pastoral care is available, and setting requirements on ISBs to be responsive to Pacific employers. ✓

NOTED

Item 4: How do we ensure the system supports disabled learners and those with additional learning needs?

23. The RoVE also provides an opportunity to create a vocational education system that delivers better outcomes for disabled learners and those with additional learning needs. A key part of this will enabling enough flexibility in how vocational education is delivered to suit the particular needs of the disabled community.
24. Item 9, discusses how we could balance national consistency of programme delivery while allowing flexibility for providers to design programmes that work for different learner groups (including those with disabilities).
25. Stakeholder views on how the proposed role changes will impact on disabled learners will be identified through the submissions analysis process and will feed into a future Annotated Agenda. This may identify additional opportunities or challenges that we will need to address in the design (or the transition) of the new system.

¹ While skills standards and qualifications should reflect the needs of employers, there should be flexibility in design and deliver of programmes to ensure they are culturally relevant.

Section two: Where the 'arranging training' function should sit

What is 'arranging training'?

26. Arranging training is currently a core function of ITOs and is a combination of services for:
- employers**, by assessing training needs and brokering training arrangements (i.e. identifying delivery options and helping employers access them efficiently), and
 - learners and learning**, including direct support for learners through pastoral care, monitoring learners' progress, arranging formal assessment of learning, registering achievement with NZQA, and issuing qualifications and micro-credentials, and support for their learning through either by supporting employers to develop their staff e.g. with learning materials, or by purchasing services from providers.

Strategy Session discussion on 10 April

27. The RoVE Strategy Session on 10 April included an initial discussion on the future of ITOs' responsibilities for arranging training [METIS 1183856]. You discussed several alternative options for where the arranging training function could sit within the new system, and how transition of this function could be managed. The options were based on different choices about three key issues:
- whether to shift arranging training to providers at all* – If we are going to extend ISBs' standard setting powers across the whole of vocational education, we should also change arranging training, to achieve integration with the provider-based system, and to avoid conflicts of interest with the ISB's extended standard-setting powers,
 - whether to locate employer-facing services (e.g. brokerage, assessing workplace training needs) with ISBs or providers* – The benefit of locating these with ISBs is that it would create a much faster feedback loop to their standard setting activities, but the disadvantage is the potential for double-handling (the "two cars up the driveway" problem), and
 - how to manage the transition of arranging training from ITOs* – How to retain ITO capability through the change and employer confidence and engagement.
28. During this Strategy Session on 10 April, we discussed these three key issues, including whether to:
- explore further the original Proposal one, that would see the transfer of responsibility for the arranging of training function from ITOs to vocational education providers,
 - explore how to establish ISBs earlier rather than later, in order to ensure the NZIST business model is built with the right skills and capabilities from the outset, and
 - develop transition arrangements that addressed some of the key concerns raised by employers, to be activated should the shift of arranging training proceed.

Strategy Session discussion on 24 April

29. The RoVE Strategy Session on 24 April focused on options for the formation and scope of ISBs and how the transition of roles from ITOs to ISBs and providers could be managed (as well as options on transition arrangements for the NZIST).
30. In relation to the formation of ISBs, we discussed the view, consistent with many of the ITOs, for a government-led co-design process to determine the number and structure of ISBs. This would likely result in a consolidation in the number of ISBs (compared to ITOs), with more coherent and complete coverage by the resulting set.

31. We also discussed the proposed functions for ISBs, as articulated in consultation documents, and the need to establish an interventions framework which could require recognition of bodies in statute. This included the idea of giving ISBs greater scope in relation to workforce development more generally. These matters are covered in more detail in Section four of this Annotated Agenda.
32. In relation to the transition of the arranging training function from ITOs to ISBs, we presented two key options:
 - a. the first was a flexible transition process where ITOs would lose their monopoly on 'arranging training', allowing providers to begin offering this service. Under this option, ITOs may negotiate transfer of arranging training activities, people and assets to the NZIST, wānanga, or PTEs (government could facilitate in this process). Some ITOs may choose to reform as a PTE.
 - b. the second approach was based around a more managed transition, where some critical capabilities would be acquired immediately from ITOs by the NZIST or wānanga in order to both ensure an acceleration of system integration and to maintain critical training throughout the transition period.
33. Further analysis around these options will be undertaken. This could involve a mix of approaches and would also involve identifying the critical capabilities requiring careful management through this transition.
34. In light of these two Strategy Session discussions, the section below explores these arranging training issues in further detail. Other topics discussed at the 24 April session (i.e. the formation of ISBs) are covered in later sections of the paper.

Item 5: Should the arranging training function shift to providers?

35. As set out in the Annotated Agenda for the 10 April Strategy Session [METIS 1183856], the proposed transfer of responsibility for arranging training is intended to:
 - a. establish clear roles and responsibilities for industry and providers that removes the undesirable competition that currently exists between these organisations,
 - b. achieve a unified system, where learners could move between study and work without disruption to their learning, and
 - c. address the growing conflict of interest between ITOs' responsibility for qualifications design and standards setting and their reliance on revenue from arranging training in the workplace.
36. The feedback on this proposal was mixed:
 - a. All **ITOs** raised concerns (often very strong concerns) that shifting the 'arranging training' function from ITOs to providers (where variable levels of capability exist to deliver) would reduce the quality of work-based training and employers' willingness to train, leading to a reduction in training volumes,
 - b. **Employers'** views on this were mixed. Some employers received a good service from ITOs and were very concerned about the capability of providers to match this. Other employers were attracted to the potential for more choice and a more integrated system, and
 - c. **Providers** were generally supportive of the proposed expansions of their responsibility into workplace learning.
37. This choice can be evaluated against the key principles set out in paragraph 12 above.

Table one: where should the arranging training function sit?

Assessment criteria	Status quo – ITOs/ISBs arrange training	Providers arrange training
More and better vocational education	X Expertise and networks in ITOs and providers remain disconnected	✓✓ Likely to be the most effective at engaging with diverse learners and employers over the long run
Integrated system	X Relies on funding reforms to connect provider-based and work-based learning	✓✓ Connects provider-based and work-based learning through shifts in roles
Enhanced Crown- Māori partnership	-- No change to ITO governance or role of providers with Maori partnership approaches.	✓✓ New roles for ISB and providers create opportunity for new partnership approaches
Clear roles that avoid conflict of interest	XX Roles remain unclear, and any extension of standard setting would increase conflict	✓ Conflicts of interest addressed, removing risk of stronger industry role in programmes and assessment at providers
Future proofed system	XX Providers are likely to be slower to respond to changing workforce needs	-- More responsive, connected providers and ISBs able to take a longer view. However, weaker feedback loops to standard-setting function
Minimises transition risks	✓✓ Trainees, apprentices, and their employers maintain current relationships	XX Significant risk of loss of employer/trainee engagement. (See Item 7 below)

38. In short, there are strong policy reasons to pursue a change in roles. The benefits of a system that integrates provider-based and work-based learning and creates stronger standards (enabled by addressing conflict of interest issues in ITOs' roles) outweigh the disadvantage of a weaker feedback loop between the arranging training and standard setting functions that are currently combined within ITOs.

39. The major issue is a practical one – whether such a change can be effected without undermining the stability of the system. This concern is discussed further below, and the transition options are discussed in Item 7 at the end of this section.

Concern that employers may disengage from training due to lower confidence in providers

40. A theme emerging from submissions and wider engagement is that many ITOs (and some employers) are concerned that providers do not have, and would struggle to acquire, the capability and culture necessary to meet the needs of employers. This related to a seeing the proposed IST as a larger version of the current 16 ITPs, rather than as an entirely new organisation with new capability. Some of the concerns arising from this should be able to be addressed by clarifying how we expect the new system to work (e.g. concerns that all industry training will be classroom based, happening in standard teaching hours and semesters).

41. A more substantive concern is that providers do not have the capability to take on industry training, and that even if the capability is transferred from current ITOs to providers, that providers' culture (particularly the public sector providers) will not support maintaining the flexibility and responsiveness of the ITOs.

42. The submission of the Building and Construction ITO (BCITO), which suggested the idea of a transition through a holding company, includes modelling of the significant economic costs that could occur if employers concerns translate into reduced participation in formalised industry training. We are unable to verify this modelling. These scenarios envisage short-term reduction of between five and 20 per cent on apprenticeship sign-ups.
43. However, some employers supported the shift of the arranging training function to providers (if this transition was managed effectively), either because they were dissatisfied with their current ITO or they saw significant benefit from greater choice and from the consolidation of activities currently spread across multiples ITOs.
44. Without more detailed information about how the new system will work, and based on their experience in the current system, the transition to something new will be seen by employers as a significant leap of faith. There is a risk of some employers could react by withdrawing from the formal training system; it will be critical that the transition is managed so as to mitigate this risk.

Providers would need to build capability to support employers

45. Formal education providers traditionally see learners, rather employers, as their customers, and the services they provide reflect this:
- a. providers tend work to academic years, rather than fitting into the peaks and troughs in business activity,
 - b. ITPs' employment contracts and other systems have origins in technical high schools rather than business, and
 - c. provider fees also tend to exceed ITO fees for similar credit values, and the relatively few provider-arranged apprenticeship programmes depend on higher funding than industry training.
46. It is likely that providers could, with the right incentives and opportunities, develop sufficient capabilities to effectively arrange workplace-based training. Ensuring providers do develop this capability will be critical to the success of reformed system; this will require a carefully planned and well executed transition.
47. Maintaining (and ideally increasing) employers' confidence in workplace-based training would require:
- a. a business model for the NZIST that accommodates both workplace-based (mainly on-job) delivery (i.e. highly flexible timing and duration), and provider-based (mainly off-job) delivery that makes efficient use of specialised teaching facilities,
 - b. providers (NZIST, wānanga, and PTEs) that work closely with employers at governance, management and operational levels, that understand the fundamental differences between workplace-based and provider-based training, and work to gain the trust and confidence of employers, and
 - c. programmes to be designed to meet the needs of both learners and employers,
 - d. a regulatory and funding system that supports and incentivises providers to develop these types of business models and programmes,
 - e. a transition in which industry retains control over workplace-based training until providers can prove they are ready to take over this function, or in which government manages a transfer process from ITOs to providers.
48. A key to meeting these conditions would be enabling legislation that leaves space for deep engagement with stakeholders on the implementation of the proposals. The approach to managing these risks and the transition is discussed further below.

Recommendations

49. It is recommended that you:

agree in principle that the arranging training functions should transfer to providers, subject to development of transition plans that can address the risk of employer disengagement.

AGREE/DISAGREE

Item 6: Should ISBs or providers offer 'arranging training' support to employers?

50. As discussed above, arranging training activities can be roughly grouped into support for learners and learning, and support for employers. The transfer of arranging training would clearly relate to support for learners and learning, but the consultation document asked whether support for employers such as brokerage and advisory services should be offered by ISBs.
51. The majority of submissions we have processed so far do not provide specific comment on who should provide support to employers. However, many industry organisations (including ITOs) felt that support for employers could not be readily separated from support for employees (i.e. trainees and apprentices), which ITOs currently provide. In other words, these stakeholders considered that support for employers could only be achieved through the arranging training function. The Primary ITO, on the other hand, argued strongly that the support for employers function should lie with ISBs.

Support for employers should sit with providers

52. As discussed at the Strategy Session on 10 April, if ISBs were to provide these employer-facing services, this would help maintain the relevance of ISBs' work by giving them daily feedback from employers about their needs. However, it is likely that employers would face some duplication and extra work, because providers would need to understand employers' needs before they could effectively meet them.
53. The table below assesses the option to group support to employers with ISBs compared to the option to transfer the full current 'arranging training' function to providers.

Table two: who should provide support for employers?

Assessment criteria	Providers arrange training	ISBs support employers; providers support learners and learning
More and better vocational education	✓✓ Likely to be the most effective at engaging with diverse learners and employers over the long run	-- Stronger connection between employers and ISBs but employers could face 'double handling' between ISBs and providers
Integrated system	✓✓ Connects provider-based and work-based learning	✓✓ Connects provider-based and work-based learning, and offers help to employers in choosing between different providers
Enhanced Crown-Māori partnership	✓✓ New roles for ISB and providers create opportunity for new partnership approaches	✓✓ Same
Clear roles that avoid conflict of interest	✓ Conflicts of interest addressed, removing risk of stronger industry role in programmes and assessment at providers	✓ Same

Future proofed system	-- More responsive, connected providers and ISBs able to take a longer view. However, weaker feedback loops to standard-setting function	-- More responsive ISBs (and hence standard setting) offset by slower process to access training (because of double-handling)
Minimises transition risks	XX Significant risk of loss of employer/trainee engagement. (See Section two)	X ISBs able to provide some continuity for employers, but transition challenge for learners and learning remains

54. On balance, this analysis suggests that providers should take on all the aspects of arranging training.
55. ISB skills leadership responsibilities will provide some (albeit less intensive) engagement with employers, such as: promotion of the industry and careers within it, and providing information to employers.
56. Funding mechanisms will be designed to support a clear delineation of roles between ISBs and providers (i.e. ISBs would not receive government funding for services related to arranging training – such as brokerage). There remains a question about whether legislative restrictions would be required to mitigate potential conflicts of interests; for example to prevent an ISB from providing advice to an employer on selection of a particular vocational education provider if the ISB holds an interest in that provider. This question would be addressed alongside development of the ISB interventions framework proposed in Item 13.

Recommendations

57. It is recommended that you:
- agree** that providers should be responsible for providing support to employers (such as brokerage and advisory services).

AGREE/DISAGREE

Item 7: How should the arranging training function be transferred to providers?

There are considerable risks in transitioning the arranging training function to providers

58. As outlined above, and as discussed at the two RoVE Strategy Sessions, there are several risks that would need to be mitigated when transitioning the arranging training function from ITOs to providers. These include:
- loss of ITO capability for arranging training** – the roughly 700 to 800 staff at ITOs currently involved in arranging training are mostly from industry, and may not want to work in a provider due to the different culture and environment. There is therefore a risk that this existing capability will be lost, and
 - difficulty in changing provider culture and building capability** – stakeholder views differ on whether providers could develop the culture and capability required to effectively deliver work-based learning. Currently, most of providers' delivery, staffing arrangements, and support for individual learners are not well aligned to work-based learning. If providers do not change their culture and build capability, there is a risk that work-based learning would decrease or would be delivered poorly.
59. If these risks are not effectively mitigated, it could result in a significant fall in training volumes due to employers disengaging from the formal industry training system.

How do we design a transition process that mitigates these risks?

60. As discussed on 24 April, there are two key options for transitioning arranging training:

Flexible transitions	<ul style="list-style-type: none"> • ITOs would lose their 'retail monopoly' on arranging training, • employers would be able choose providers (or ITOs) to arrange training, • providers would build up capacity to meet employer demand, starting with their existing strengths, • ITOs (who would no longer control standards or access to funding) may become providers (i.e. set up, buy or merge with a PTE), • new training standards and funding arrangements would inform ITOs' and providers' choices and speed of transitions, • ITOs (with industry) may negotiate the transfer of arranging training activities, people and assets to the NZIST, wānanga, or PTEs (government could facilitate in this process), • a deadline would be set for these negotiated transfers, after which a government-managed transfer process would begin.
Managed Transition or Build and wind-down	<p>Under a managed approach to transitioning the arranging training function:</p> <ul style="list-style-type: none"> • government would manage the transfer process in close consultation with industry, and • decisions on if/where/when ITOs' operations are transferred could be negotiated following bids or expressions of interest from industry. <p>Under a build and wind-down approach:</p> <ul style="list-style-type: none"> • the process would be more directive, with government identifying the activity and capability it wished to transfer directly to the NZIST or wānanga, and effectively buying ITOs' arranging training function. <p>A more directive (build and wind-down) process may be required where ITOs risk losing key capability/viability as employers switch to training arranged by providers through organic transitions, or where ITOs may stall/delay/disrupt transitions.</p>

61. Key objectives in any transition of arranging training to providers would include ensuring that: disruption to current training activity is minimised (which would require a continuation of support for trainees, apprentices and employers); the end state delivers higher quality, more seamless training; the end state is clear and built into NZIST's organisational design, mission and culture from the outset; employers have choice of providers (at least in the end state); and the solution is cost effective.
62. Officials consider that the major trade-off in transition options is between i. maintaining training volumes through the transition period and ii. accelerating system integration.
63. You indicated at the Strategy Session that you would like to see further analysis around these options that could involve a mix of approaches, and would like critical capabilities that may need to be managed carefully through this transition to be identified.

Recommendations

64. It is recommended that you:

note that more developed transition options and a broad indication of costs will be provided to you in advance of the June Cabinet paper, but that detailed costings will not be available till late 2019.

NOTED

Section three: The role of ISBs within the new vocational education system

Item 8: What is the role of an ISB in relation to skills leadership?

Industry skills leadership would be the core purpose of ISBs

65. One of the key roles of ISBs would be to identify industry skills needs and advocate for these needs to be met through the education and careers systems. Most submitters who commented on this proposed role supported it. For example, Toyota advocated for 'industry skills plans' to capture industry needs. However, some industry and professional bodies, particularly smaller ones, doubted whether a large ISB would be sufficiently responsive to their needs.
66. ISBs will need to maintain regular contact with industry, occupational regulators, professional bodies and employers in the course of their day-to-day operations. This will ensure they develop an informed view of future industry skills needs. They are likely to need to provide some services to employers in order to maintain an active network of employers.
67. We envisage this being a core part of all ISBs' roles (e.g. sharing what they have learnt about provider capability from their standard setting role), but not of the scale and depth of the employer support currently provided as part of arranging training (see Item 6). Further development of operational rules will seek to maintain flexibility in this area, but also to guard against any risk of provider capture of ISBs' advice

Skills leadership plans could be a condition of ISB funding

68. In 2018, Cabinet agreed [SWC-18-MIN-0059] that skills leadership be reinstated as a core role of ITOs. Stakeholders wanted a flexible and robust approach that would adapt to the needs of each industry. In draft legislation, ITOs were to submit satisfactory skills leadership plans, developed with employers, and supported by industry, to gain recognition. The plans would commit ITOs (and industry partners) to research, planning, engagement and collaboration activities leading to:
- a. industry skills needs being identified, understood (by industry, education organisations, and careers services), and addressed through ITO and employer activities, and
 - b. clear pathways for learners to progress into vocational education and employment.
69. We recommend that completed skills leadership plans be mandatory for ISB funding rather than for recognition. This will ensure that they are regularly updated, and will help to clarify what is being funded. The plans might be amended in the process of negotiating the level of ISB funding and commitments.

Recommendations

70. It is recommended that you:
- agree** that ISBs should submit an industry-supported skills leadership plan or plans when seeking funding.

AGREE/DISAGREE

Item 9: What is the role of an ISB in relation to setting skills standards and their scope of influence over qualifications and programmes?

71. The proposed reforms aim to strengthen the role of industry and employers (through ISBs) in setting mandatory requirements for provider programmes, resulting in fewer and more consistent programmes nationally.
72. Changes to the design of skill standards and requiring these standards to be incorporated into programmes would give employers more certainty that vocational education graduates have the skills and knowledge they need to effectively function in the workplace.

Consultation feedback

73. A preliminary review of consultation feedback indicates that ITOs welcome a regulatory role for ISBs in relation to provider programmes. Some ITOs see this regulatory role as a trade-off for losing their current arranging training role. Consultation feedback indicates that industry and providers have not yet turned their minds to the detailed implications for standards, qualifications and programmes, although providers would be concerned if their programmes were overly constrained by ISBs.

Enabling ISBs' functions for standards, qualifications and programmes

74. The high-level functions of ISBs could be set through amendments to the Education Act. Decisions relating to the detailed nature of skill standards, qualifications and programmes could be enabled through amendments to NZQA rules.
75. NZQA's rules regime sets out detailed quality assurance requirements for education organisations in relation to standards, qualifications and programmes. NZQA rules are made under section 253 of the Education Act 1989, approved by the NZQA Board and signed by the Minister of Education. The rules regime would also maintain overall coherence and alignment between skills standards, qualifications and programmes in an industry.
76. Changes to NZQA rules would be consulted on with stakeholders and progressed over the coming year in a co-design process. The sections below list the areas where legislative changes to enable high-level functions and consequential rule change would be required.

Transfer the current ITO qualification development function to ISBs

77. ITOs currently develop qualifications for industries they represent, although this function is not set in legislation. Defining ISBs as statutory 'qualification developers' for the industries they represent would strengthen the role of industry and communities in the design of qualifications listed on the New Zealand Qualifications Framework (NZQF).
78. NZQA qualification listing rules encompass any mandatory requirements for provider programmes that lead to qualifications listed on the NZQF. As qualification developers, ISBs would be able to propose mandatory requirements on provider programmes that lead to qualifications in the industries each ISB represents.
79. It should be noted that this proposed role for ISBs as qualifications developers is only in relation to vocational education qualifications listed at level one to seven (non-degrees) of the NZQF (as set out in the consultation material). Current qualification listing rules make provision for iwi/wānanga specific qualifications. Therefore, the rules may need to enable other qualification developers under specific circumstances. NZQA would work through these details in developing rules.

Standard-setting functions of ISBs and proposed changes

80. The consultation document proposes that the ITO standard-setting function would transfer to ISBs for the industry and employers they represent.
81. The consultation document suggests ISBs could set industry skills standards (for all providers) that express a 'common core curriculum'. This could include: sequencing of learning, resources,

protocols for workplace training and apprenticeships, and moderation requirements. If this was to occur, skill standards would become similar to training or skills packages used in other jurisdictions. This would be a considerably strengthened role for industry compared to current ITO unit standards and it would result in greater standardisation (and consequentially less flexibility) across all providers. This would require a minor change in the existing legislation to allow standards to be wider than assessment standards. It is important to bear in mind the likely concern of providers that their programmes may become overly constrained by ISBs.

82. The detailed nature of skill standards or training packages could be determined in the further NZQA rules work with stakeholders that is proposed above.

ISBs could set capstone assessments

83. As part of their expanded skills standards-setting role, ISBs would have the option to set and moderate capstone assessments.
84. The intention of a qualification graduate profile is to provide information about what a graduate knows and can do. However, early feedback from employers suggests significant variation in the skills, competencies and experiences of graduates who have all achieved the same qualification. Capstone assessments are designed to confirm that students have achieved the qualification graduate profile.
85. Preliminary feedback from consultation shows that submitters:
- a. general support that ISBs should develop and moderate capstone assessments (where it was desired by industry) and providers should conduct the assessments,
 - b. saw capstone assessments as an opportunity to both assess and formally recognise the holistic capabilities of a graduate, and
 - c. emphasised the importance of getting the assessment design and specifications right, including that the assessments should:
 - i. be developed by experts with industry, teaching and assessment experience,
 - ii. focus on the evidence needed to demonstrate that a graduate is work-ready, and
 - iii. consider different delivery modes.
86. Furthermore, while some licensing and registration bodies highlighted their statutory role of setting the end-of-study exams for registration and licensing purposes, some submitters considered the proposal to be an opportunity for the industry and registration bodies to negotiate the need for additional capstone assessments. This was not intended.
87. There will need to be oversight for the design of capstone assessments to balance the needs of industry and that of learners and employers. The assessments should respond to industry but not create barriers and high transaction costs for learners and employers. They are typically high-stakes assessments for learners and can be complex to administer for providers. Therefore, NZQA would need to maintain some oversight to ensure their appropriateness in assessment and moderation design. Other assessments would still be needed to credential learning throughout programmes, and accommodate trainees who need to transfer between providers.

NZQA oversight would set clear expectations for capstone assessments

88. Light regulatory oversight of capstone assessments would avoid misuse and/or poor-quality design (e.g. assessments that suit only a narrow range of employers or workplaces, or assessments that set the bar too high or over-assess learners, leading to barriers and delays). NZQA is the most appropriate body to provide this oversight as part of its wider stewardship of the NZQF, and also its quality assurance roles and responsibilities under the Education Act 1989. Extending NZQA's functions to include oversight of national external moderation by ISBs would not require legislative change.

*Why is an expansion of NZQA
oversight of moderation
desired/justified?*

Moderation of assessment would transfer to ISBs

89. ITOs currently moderate assessments of the standards they set. Under RoVE this role would transfer to ISBs. Moderation, which is integral to good assessment, is an on-going, improvement-focussed process that gives providers feedback on assessment design and decision-making. Moderation is a powerful role as moderators can require education providers to change invalid or inconsistent assessment practices. ISBs would include the moderation of capstone assessments in their moderation systems
90. To maintain NZQA regulatory oversight of moderation systems, ISBs could be required to report to NZQA about the performance of their national external moderation systems, including reporting concerns about providers participating in moderation.

A mandatory programme endorsement function for ISBs

Do ITOs currently do this?

91. Programmes are a coherent arrangement of learning or training with clearly linked aims, outcomes and assessment practices that lead to the award of a qualification listed on the NZQF. Under the proposals, vocational education providers will be required to develop programmes that contain ISB-set skills standards or training packages. This would ensure employers have confidence in the skills all graduates have achieved.
92. In the consultation document ISBs were conceived as having a 'co-approval' role with NZQA for provider programmes. The document also suggested a programme co-development role for ISBs, CoVEs and providers.
93. Officials have considered consultation feedback regarding the potential conflict of interest in ISBs co-developing and approving programmes, and recommend that the best approach to strengthening ISB influence over programmes is by requiring providers to secure ISB endorsement of a proposed programme prior to lodging the application with NZQA. If a provider, such as the NZIST, was enabled to undertake approval and accreditation of their own programmes (as discussed in paragraph 109 below), the provider would still be required to gain ISB endorsement. This will encourage ISBs to work closely with providers when they develop programmes, and would speed up the approval process.
94. Officials also considered several alternative approaches. For example, we considered establishing ISBs in an advisory role to NZQA, but we do not think this would go far enough in guaranteeing industry voice over standard setting. We also considered making NZQA and ISBs jointly responsible for programme approval (as originally proposed), but this could create a stand-off where only one party approves the qualification leading to significant delays in the approval process.
95. Under the proposed 'endorsement' approach, ISBs and NZQA would have different but complementary roles to determine provider programmes:
 - a. ISBs' main interest would be to confirm that the proposed programme incorporates industry skill standards and meets employer and industry needs, and
 - b. NZQA's responsibility, as the statutory quality assurance body, would be to assess overall educational coherence and quality. NZQA oversight would help to avoid over-prescription by ISBs, manage any conflicts of interest, and maintain national consistency of programmes across all levels of the NZQF through its approval and strengthened monitoring of programme delivery.
96. Current legislation differentiates between programme approval and provider accreditation to deliver the approved programme. At levels 7 and above on the NZQF, NZQA concurrently approves the qualification, the programme and accredits the provider. At levels 1-6, vocational qualifications are usually developed by the ITO and approved by NZQA. Following which the provider seeks concurrent programme approval and accreditation. It is important for the integrity of the NZQF that all qualifications are quality assured consistently. This is undertaken by the statutory quality assurance bodies, NZQA and Universities New Zealand.

97. To build greater agility into the system, it may be appropriate for NZQA to reach agreement in some situations where capability has been confirmed (for example, to the NZIST) to undertake approval and accreditation functions for vocational education. Programmes would still require ISB endorsement. Enabling programme approval and accreditation functions to be undertaken in this way could be done for a specified time by agreement or through NZQA rules and would not require legislative change. If this idea proceeds, wānanga may also seek an equivalent agreement. Any risks to the quality of programme delivery would need to be managed through NZQA's monitoring and other quality assurance functions. If you agree in principle to this approach, we will report back with further advice on the implications of such an agreement, including for universities and an approach to Universities New Zealand.

Managing national consistency while enabling flexibility

98. ISBs and NZQA would both have a role in managing national consistency of programmes, which would be complementary rather than overlapping. Further work would be needed (with input from key stakeholders) to allow flexibility for ISBs and providers to design programmes that can:
- a. take a kaupapa Māori approach,
 - b. support the needs of Pacific learners,
 - c. be delivered to people in part-time employment, wholly in the workplace, wholly at a provider, or a blend of provider and workplace modes,
 - d. address regional differences in employers' skills needs, and
 - e. adapt delivery and assessment methods to specific learner needs e.g. literacy needs or needs of people with disabilities.
99. While these provisions apply to all providers, it is assumed (that in time) the NZIST under the leadership of its Academic Board would have strong financial, quality and mission-driven incentives to consolidate its programmes nation-wide, while managing variation for distinctive roles, subsectors, learners and communities.

Supporting the interests of Māori learners and providers

100. Through the strengthened role of ISBs in programme approval, they will have an increased scope of influence over provision for Māori. Interests of Māori learners and providers might include:
- a. delivery of programmes in te reo Māori by education providers,
 - b. incorporation of relevant Mātauranga Māori learning outcomes valued by providers,
 - c. Kaupapa Māori context and delivery consistent with provider and learner cultural values and expectations, and
 - d. assessment in te reo Māori or in a kaupapa Māori context.
101. NZQA already operates the Te Hono o Te Kahurangi quality assurance framework that was developed in conjunction with Māori education providers. Te Hono o Te Kahurangi recognises Māori choosing to achieve educational success through Mātauranga Māori as relevant to their worldview, context and practices.
102. Education organisations can 'opt in' to Te Hono o Te Kahurangi when they engage with NZQA quality assurance processes e.g. applications for qualification or programme approval. Te Hono o Kahurangi is currently empowered through NZQA rules. Further work is proposed to consider how the Te Hono o Te Kahurangi framework could be aligned to an ISB's programme approval role.

Summary of proposed roles

Table three: summary of proposed roles of ISBs, providers, and NZQA

	Industry (through ISBs) role	Provider role	NZQA role
Skills standards	Set standards/core curriculum, sequencing, etc. for programmes. Develop and set assessment standards for industry, including setting capstone assessment standards where industry requires it. Moderate provider assessments of skills standards.	Consulted in the development of skills standards. Conduct assessments of standards, including capstone assessments.	Approve standards or listing on a Directory of Assessment and Skills Standards. Oversight of the development and moderation of assessments, including capstone assessments.
Qualifications	Develop qualifications in their industry.	Consulted in the development of qualifications.	Approve qualifications for listing on the NZQF.
Programmes	Work with providers in developing programmes from initial planning stage. Mandatory endorsement of provider programmes in meeting industry requirements.	Work with ISBs to develop programmes incorporating mandatory ISB skills standards. Deliver programmes.	Overarching approval of programmes and accreditation of providers to deliver programmes. Maintain national consistency of programmes across all levels of NZQF through its approval and strengthened monitoring of programme delivery.

Recommendations

103. It is recommended that you:

agree to legislative change to establish high-level functions for ISBs that would strengthen the influence of industry and employers over vocational education, namely to:

- ✓ a. develop and set skills standards for their industry that are wider than assessment standards, with ISBs replacing ITOs as standard-setting bodies,
- ✓ b. develop qualifications for their industry, and
- ✓ a. assess in a mandatory industry endorsement process, programmes proposed by providers, prior to final approval by NZQA.

AGREE/DISAGREE

agree to extend NZQA's functions to include oversight of national external moderation by ISBs (this would not require legislative change)

DISCUSS AGREE/DISAGREE

note that several of the proposed changes under Proposal one would not require legislative change, but could be enacted through changes to the NZQA Rules that would be consulted with stakeholders in a co-design process over the coming year. NZQA could, for example, set clear expectations within its rules regime:

- a. for listing vocational education qualifications on the NZQF at levels one to seven (non—degree) to allow ISBs to set mandatory industry requirements for programmes leading to those qualifications,
- b. to enable changes to industry standards to set a common core curriculum for that industry, for example sequencing of learning, learning resources, regulatory requirements and capstone assessments,
- c. for the design and use of capstone assessments, to ensure the use of capstone assessments was fair and reasonable. NZQA could monitor the usage and effectiveness of capstone assessments within its regular quality monitoring processes,
- d. for the operation and scope of ISB moderation of provider assessment, as part of their standard-setting function,
- e. to enable ISBs to set mandatory industry requirements for provider programmes while allowing providers the flexibility to take a kaupapa Māori approach, or to adapt programmes for different learner and regional employment needs,
- f. to maintain national consistency of programmes across all levels of NZQF through its approval and strengthened monitoring of programme delivery, and
- g. to consider how NZQA's Te Hono o Te Kahurangi quality framework for Māori providers could be aligned to ISB's regulatory role.

NOTED

note that it may be appropriate for NZQA to reach an agreement for the programme approval function in some situations (e.g. to allow the NZIST to approve its own programmes, provided they have ISB endorsement), and that this would not require legislative change.

NOTED

Item 10: What is the role of an ISB in providing advice to TEC on industry skills needs?

- 104. You agreed to consult on an approach where ISBs advise TEC on investment in vocational education and the TEC must take account of relevant advice from ISBs (and RLGs) when assessing providers' investment plans [Tertiary Education Report B-18-00942 refers]. We expect ISB advice would be approved by ISB governance bodies (including industry members) and would be informed by employer advisory panels, surveys, and other research, and contact with employers, learners and providers through activities such as assessment moderation, capstone assessments, and programme co-development.
- 105. To develop legislation for RoVE, decisions are needed on any requirements placed on TEC regarding its relationship with ISBs, including:
 - a. the weight that TEC should place on ISBs' advice to TEC on industry skills needs,
 - b. how and when TEC elicits advice, and in relation to which activities, and
 - c. how TEC will demonstrate the manner in which advice has been used in decisions.

Consultation feedback

- 106. Some submitters, including a number of ITOs and notably BCITO and Toyota, want ISBs to have 'genuine power' over investment in vocational education, rather than the TEC simply taking ISB advice into account. They saw this as the only way to ensure that vocational education is sufficiently responsive, with industry directing how training is delivered as well as the learning outcomes. Toyota recommended NZTA's collaborative planning and investment system for the National Land Transport Fund as a model.

107. As noted in relation to skills leadership, some industry associations and employers fear that a large ISB would ignore the needs of smaller industries (such as "arboriculture") when advising the TEC on investment, and that the NZIST will only offer the most cost-effective courses.
108. Some providers, provider representatives and current or former staff of providers were concerned that ISBs could be biased in their advice, or said they should not have this role. Independent Tertiary Education New Zealand (ITENZ) argued that since ISBs would not advise on all training, giving their advice a formal role would require the TEC to take an inconsistent approach to investment decisions.
109. Some submitters noted the need to 'mesh' ISB and RLG advice, and the need for the TEC to reconcile conflicting ISB priorities. The ITP Group agreed that ISBs should develop an industry sector view of required provision, nationally and regionally.

Guiding principles

110. We consider that the following principles should guide the treatment of ISBs' advice to TEC on industry skills needs:
 - ✓ a. **Responsiveness** – ISBs' advice to TEC should have a tangible effect on TEC's investment decisions,
 - ✓ b. **Transparency** – ISBs' advice and the TEC's analysis and use of this advice in their investment decisions should be visible to industry and others, to reassure stakeholders that they have been heard, and to support ISBs' and the TEC's accountability,
 - ✓ c. **Efficiency** – ISBs' advice should meet some standard requirements to ensure that it is: i. timely, ii. adequate for each industry, iii. of a usable and reasonably consistent form, iv. of an acceptable quality (for example, a reliable summary of industry views and evidence), and
 - ? d. **Flexibility** – ISBs' (and RLGs') advice should not be "determinative" of TEC's investment decisions, because: i. of the significant public funds involved, ii. TEC must prioritise a fixed budget across many competing providers, industries and regions, iii. TEC must consider Tertiary Education Strategy priorities and comply with Ministerial determinations and appropriation decisions, and iv. TEC should be able to take account of the quality of ISB advice (which may be variable) when determining how to respond.

Scope of ISB advice to TEC and providers

111. ISBs' advice to TEC will need to focus primarily on the skills mix and numbers required to support industry – e.g. how many graduates in what credentials covered by the ISB. This could be as specific as indicating how many places the ISB would like offered in specific qualifications and micro-credentials designed to lead to occupations covered by the ISB.
112. The Minister could expand the scope of ISBs' advice to cover other matters, such as: which programmes (defining how learning is to be delivered) or types of provider (e.g. providers with a high level of industry engagement) should be funded. An ISB might also provide systematic data on provider performance from the ISB's role in moderating assessments and undertaking capstone assessments, or from surveys of employers and graduates. We would be cautious about requiring the TEC to consider ISB opinions on specific providers if they are not based on systematic evidence. Opinions can be biased by old connections, anecdotes, and interests.
113. An enabling approach to defining the scope of ISB advice would allow the system to develop through consultation and experience. In this way, areas of greater risk (e.g. potential ISB bias) can be identified and appropriately managed, and opportunities for ISBs to have greater influence over investment can be taken (for example, as a result of proving their capabilities in identifying industry needs and the most effective solutions over a period of time).
114. The TEC is currently required to publish criteria for assessing TEOs' investment plans, and could be required to consider the advice of ISBs (and regions) on these criteria. Similarly, providers are required to consult stakeholders on their investment plans, and ISBs could be explicitly included in this requirement.

Recommendations

115. It is recommended that you:

agree that the following 'principles' guide the treatment of ISBs' advice to TEC on industry skills needs:

- Discuss later*
- a. **Responsiveness** – the advice should have a tangible effect on investment decisions,
 - b. **Transparency** – the advice and the TEC's analysis and use of the advice in investment decisions should be visible to industry and others,
 - c. **Efficiency** – the advice should meet some standard requirements to ensure that it is timely, adequate, consistent, and of an acceptable quality, and
 - d. **Flexibility** – the advice should not be 'determinative' of TEC's investment decisions.

AGREE/DISAGREE

agree that the TEC be required to evaluate, take into account, and respond to formal advice from an ISB regarding investment in vocational education for industries covered by the ISB, and

AGREE/DISAGREE

agree that the TEC be enabled to set requirements (developed through consultation with industry) for the timing, form, and scope of ISBs' formal advice on industry skills needs.

AGREE/DISAGREE

Item 11: What are the implications for NCEA delivery by schools and tertiary education organisations?

116. The proposed changes above create an opportunity to link RoVE with work arising from the NCEA Review to consider how industry-derived standards could be aligned to NCEA requirements.

RoVE presents an opportunity to strengthen the credibility and coherence of vocational learning within NCEA

117. A key strength of NCEA is its ability to recognise curriculum-related learning as well as industry-relevant knowledge, skills and capabilities. However, some stakeholders have raised concerns about the credibility and coherence of vocationally-oriented learning within NCEA, and the pathway from NCEA into higher-level vocational education. RoVE provides an opportunity to address some of these concerns and also to raise the standing of vocational options amongst the school community.

118. RoVE includes the potential for fundamental changes to how industry-derived standards are regulated and assessed, including a possible shift away from unit standards. This would have significant flow on implications for the delivery of vocationally-oriented learning by schools and other providers offering NCEA.

Paragraph 118: This will be subject to NZQA rule changes

119. Once decisions on RoVE are approved by Cabinet in June, officials will undertake further work in partnership with the new ISBs (once formed), schools and other providers offering NCEA, to review how learning towards industry-derived standards could be aligned to NCEA requirements, including the National Curricula.

120. An early focus on standard-setting, curriculum support, and the accreditation of initial vocational education and training at Level 2 and 3 for delivery in schools and other providers would help to address issues raised in both the NCEA Review and RoVE.

121. Where possible, we will seek to ensure the RoVE work complements the direction of travel and timeframes for the NCEA Review.
122. There is a wider question around how ISBs and other actors in the vocational education system, such as Regional Leadership Groups (RLGs), will work with schools. We consider that this should be considered once initial decisions are made on RLGs, and alongside the Tomorrow's Schools Review.

Recommendations

123. It is recommended that you:

note that changes to the form of 'skills standards' (e.g. if unit standards are replaced with larger components within qualifications) would impact in the medium term on NCEA delivered by schools and tertiary education organisations.

Discuss

NOTED

Section four: Process for the formation and recognition of ISBs

124. The current system, made up of 11 ITOs, has evolved through a mix of industry self-selection with a degree of government influence through levers of funding and regulation. Currently, an ITO can apply for Ministerial recognition if they meet specified criteria. While there are several large ITOs, there are also a number of sub-scale ITOs, and some industries have fragmented representation across several ITOs.
125. There are several key choices you will need to make about the formation of ISBs, such as the extent to which government provides leadership to reduce fragmentation and create coherent areas of coverage within each ISB (and the trade-off between this and industry ownership). ISBs will be smaller organisations than ITOs (because some ITO functions would transfer to providers), which will make scale a more important consideration.
126. The consultation process has revealed a range of stakeholder views, with some of the larger ITOs inviting greater government direction and input on the number of ISBs that would be established. Conversely, a number of smaller ITOs have voiced strong opposition to losing their unique identity and close productive relationship with the employers they serve.

Item 12: How should ISBs be structured?

127. How the ISBs are structured will be an important determinant of how the reforms ultimately address many of the systemic issues within the current ITO system (e.g. fragmentation and gaps in coverage). We have considered a number of options along a continuum of one to many, with the midpoint being the status quo of 11 ITOs transitioning into ISBs:
 - a. **a single ISB** with sub-committees for different industries (or groups of industries),
 - b. **several ISBs with a wide area of coverage** established with some direction from government (through levers such as funding, recognition by the Minister based on coverage and support criteria, and evidence of capability),
 - c. **11 ISBs** replicating existing ITO structures, or
 - d. **many ISBs** which are formed through self-organisation of industries.
128. There are a number of benefits and risks with each of the above options and we have assessed these in terms of how:
 - a. well each model addresses the policy issues and supports the outcomes of RoVE, and
 - b. stakeholders (industry, employers, learners, iwi) are likely to engage with each model.

Summary of options assessment

129. Officials have worked through these options, and our analysis can be summarised as follows:
 - a. **A single over-arching ISB** with sub-committees allows for greater scale, builds on existing system capability and capacity, lowers transaction costs for employers and learners, reduces complexity, and widens coverage. However, it would likely struggle to get industry buy-in, because it would struggle to reflect the diverse needs of the range of industries it represents.
 - b. A model of **several ISBs (e.g. between four and seven) with a wide area of coverage** established through direction from government, via the considered application of levers such as funding and statutory recognition (based on coverage and support criteria, and evidence of capability) would mitigate many of the downside risks of a single ISB while delivering similar benefits.

- c. **Replicating the existing ITO structures** into ISBs will leave some ISBs with insufficient capacity and capability, and does not address the existing fundamental issues. Under this model, some industries may struggle to have a voice.
- d. A **completely devolved** and self-organised model is likely to result in many ISBs, which would magnify the issues of replicating the existing ITO structure (e.g. fragmentation, lack of scale and capacity). Stronger government direction may therefore be required to achieve a manageable number of ISBs with the necessary capacity and capabilities.

130. Officials recommend Option b above (several ISBs established with direction from government), and that a co-design process should be undertaken with industry to confirm coverage options.

Influencing how industries are covered by ISBs and the development of shared service

131. If you shape ISB coverage more directly, a decision will be required about the structure of ISB coverage. For example, ISB could be structured by:

- ☒ a. **'job family' structures**; for example, artisans, carers, coordinators, designers, technologists, informers, and generators², or
- ☒ b. **sector groupings**; for example, the primary sector including related jobs from farm to fork spanning all primary industries and associated value-add activities up the supply chain³. This is the approach that other jurisdictions tend to use.

132. Current ITO coverage includes gaps and distributed coverage of some industries; for example, in information technology or many of the creative arts.

133. Under the new system, there may be a case for government to allocate responsibility to ISBs to address coverage issues. Some care would be required to ensure genuine industry engagement in these new areas of coverage (and corresponding capability within the ISBs).

134. At the Strategy Session on 24 April, we discussed that there could be opportunity for the proposed ISBs to share some services (e.g. qualifications and standards-development expertise, or promotional design). It was noted that this would require universal support by the ISBs in order to be feasible.

Recommendations

135. It is recommended that you:

agree to limit the number of ISBs (e.g. to between four and seven) in order to reduce fragmentation while minimising risks associated with a single ISB,

AGREE/DISAGREE

agree to stronger direction from government over the establishment phase of ISBs through a government-led co-design process, and.

AGREE/DISAGREE

agree to suggest to industry that ISBs could potentially share services, where appropriate.

AGREE/DISAGREE

² <https://www.fya.org.au/wp-content/uploads/2016/11/The-New-Work-Mindset.pdf>, Business NZ submission

³ Primary ITO submission

Item 13: How should the ISBs be formed?

136. A shift to a greater degree of government direction in the formation of ISBs would mean the current process of ITOs achieving recognition by meeting criteria as specified in legislation⁴ may no longer be appropriate.
137. Under the current model, industry 'actively' brings together groups of employers to form an ITO and then seeks recognition under the Industry Training and Apprenticeship Act. Recognition requires that the ITO meets a set of criteria, including demonstrating capability and employer support. These criteria reflect that the current process is self-selecting. Under the approach of greater government involvement and shaping of ISBs, government would take an active role and industry would participate through a co-design process.
138. ISBs will differ from ITOs in that they will have strong leadership responsibilities, underpinned by formal advisory, regulatory, approval, monitoring and curriculum-design functions, and in providing advice to TEC on the allocation of funding. These expanded functions suggest that a closer relationship to government would be inevitable and required.
139. Should a decision be made to have greater government direction in the formation of ISBs, then the process of seeking government endorsement through the meeting of criteria may become redundant, or the criteria may need to be altered. This is because where the government has directed how ISBs are to group, it does not then have an alternative should one or all of the ISBs it has directed to form do not meet the criteria.
140. While feedback through the ROVE consultation suggests stakeholders may support government playing a directive role in establishing the ISBs, it is also evident that industry believes this should be a collaborative process undertaken in partnership with all key stakeholders. Importantly, a number of smaller ITOs have voiced strong opposition to losing their unique identity and close productive relationship with the employers they serve.

Timeline for legislative change

141. ISBs can be established under your legislative vehicle for RoVE reform – the Vocational Education Legislation Bill. The legislation will need to be sufficiently enabling to support an applications and recognition process, including provisional recognition.
142. Therefore, if legislation is designed to be enabling, decisions can be made later (following co-design with key stakeholders) on the number of ISBs, the degree of government direction, the nature of sector groupings, the kinds of acceptable legal entities (e.g. a not for profit requirement), the make-up of their governance (including Māori and employee representation) as well as ensuring organisational fitness for purpose and evidence of support.
143. In addition, an appropriate interventions framework, including grounds for loss of recognition, conditions on recognition (and consequences for not meeting the conditions) will also need to be developed. The current levers of removal of funding and recognition are likely to be inadequate in the new system with different incentives and drivers at play. Any legislative restrictions required to mitigate potential conflicts of interest would need to be developed alongside this interventions framework.
144. Industry participation and support are critical to the success of ISBs. In order to constructively engage with the sector, you will need to signal your intention that the changes to the roles of industry and providers will proceed as proposed, but that you want to work with the sector to identify solutions that minimise impacts to learners, employers and industry.
145. Officials consider the following process could be used to confirm how ISBs would be formed:
 - a. seek Cabinet's approval to recognise ISBs through enabling legislation and for officials to work with the sector to co-design ISBs,

⁴ s.7 of the Industry Training and Apprenticeships Act 1992

- b. agree the high-level principles for officials to work with the industry to drive a co-design process, for example, these might be: clarity and accessibility; flexibility and responsiveness; collaborative not competitive; future proofed and supports life-long learning,
- c. discuss and agree with officials your preferred options for the design of the ISBs, including a recognition framework, which officials then formally consult on, and
- d. following advice from officials, decide on the recognition criteria and the conditions on recognition and publish.

146. This requires further work to build up a transition timetable and ensure that agency resources would be available to manage to a tight timetable. This is particularly important to ensure that the co-design process progresses. We will provide further advice prior to submitting draft Cabinet papers that will clarify a range of transition processes and resource requirements.

147. It is possible that legislative provisions that shape the governance and form of ISBs, resulting from the co-design process with industry, may not be complete prior to the introduction of legislation. This could necessitate a Supplementary Order Paper to amend the Bill while it is with the Select Committee.

Recommendations

148. It is recommended that you:

agree that the high level principles be used as a framework for officials to partner with industry to develop a structure for ISBs that supports their expanded functions,

AGREE/DISAGREE

agree to signal to the sector that you will recommend to Cabinet that the reforms proceed as proposed but that you want to work with the sector to identify solutions that minimise any loss to learners, employers and industry,

AGREE/DISAGREE

note that officials will provide advice at a later date on an interventions framework,

NOTED

agree to an enabling provision in legislation in the Education Act 1989 that provides for the recognition of ISBs but that also allows officials to work through a co-design process with the sector, employers, learners and iwi, and allows you to set the criteria for recognition after consultation,

But this could subsequently be added to the leg in a later Bill.

AGREE/DISAGREE

note that we will provide further advice on the transition from ITOs to ISBs (along with details on the wider RoVE transition) prior to submitting draft Cabinet papers,

NOTED

note that a Supplementary Order Paper to amend the Bill while it is with the Select Committee may be required to incorporate legislative provisions regarding the governance and form of ISBs developed through the co-design process, and

— or another Bill.

NOTED

agree to repealing Part 2 of the Industry Training and Apprenticeships Act 1992 so that no further ITOs are recognised, but that provides for ITOs to continue through the period of transition.

The whole Act will ultimately be repealed as part of the reforms + incorporated into the new E+T Bill.

AGREE/DISAGREE

Section five: Operating funding for ISBs

Item 14: What funding is required to support ISBs?

ISBs will need funding to deliver the intended benefits of RoVE

149. ISBs will need sufficient revenue to effectively undertake their skills leadership functions. The funding system should encourage ISBs to:
- prioritise and effectively perform their core functions, while avoiding conflicts of interest (e.g. activities that might bias their assessment of providers),
 - address the needs of all industries and occupations they are responsible for, and
 - address national interests.
150. There is a case for public funding for a substantial part of ISBs' costs, due to the industry- and economy-wide nature of their functions; i.e. employers and learners will not capture the full benefit of skills leadership and standard-setting – there will be spill-overs to the wider economy.
151. There is also a clear case, in principle, for industry to contribute to the cost of ISBs. However, the opportunities for ISBs to enforce employer contributions would be limited to a few fee-for service activities. Furthermore, many employers would argue that they contribute 'in-kind' (e.g. training employees and advising ISBs) and through existing taxes and levies.
152. 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. Such measures could enforce a bigger industry contribution to ISBs, but we would not expect them to remove the need for significant government funding (particularly given that much of the levy revenue would likely be used for training, rather than skills leadership).
153. The funding mechanism for ISBs will need to support a clear delineation of roles between ISBs and provider. For example, ISBs should not receive public funding for services related to arranging training – such as brokerage – which are the responsibility of providers.

Consultation feedback

154. Most feedback about ISB funding came from ITOs, and expressed the need for adequate funding. BCITO highlighted costs associated with industry consultation and advisory functions, engagement with providers, and access to relevant data and information. Foodstuffs and BCITO emphasised the need for government to consult adequately on the level and means of ISB funding. An individual emphasised the public benefit from effective vocational education.
155. Connexis and HITO questioned the need for two industry payments (i.e. fees to providers, and contributions to an ISB), and Bidfood considered that employers contribute enough by training staff. HITO saw a need to fund skills leadership, industry promotion for areas of skills shortage, and the 'expanded' standard setting role (less so if ISBs retain the arranging training role).
156. HITO and some other submitters said small employers have little ability to pay more, and Social Service Providers Aotearoa said this of the community sector (which relies on government funding). Some participants in consultation events proposed using employer levies with rebates or tax credits for training. BCITO stated that this could work for construction but would not work for all industries.
157. Manukau Institute of Technology suggested some industry funding would ensure responsiveness to industry, but Western Institute of Technology at Taranaki saw TEC funding as encouraging a national perspective. DairyNZ saw strong industry governance and performance indicators, rather than industry funding, as the only way to make ISBs accountable to industry.

How much funding should be budgeted for the ISB sector?

158. We consider that a managed handover of responsibilities from ITOs to ISBs will be needed to ensure a smooth transition. ISBs are likely to need some establishment funding, and a significant contribution to their activities once they are fully operational.
159. Estimates from 2014 and 2015 of the proportion of ITO expenditure attributable to standard setting and other skills leadership activities (around 25-30 percent), combined with total 2017 ITO expenditure, suggest that s 9(2)(f)(iv) [REDACTED] This is purely indicative and does not account for ISBs' wider coverage, new activities, or potential economies of scale. It is also unclear when ISBs will be fully capable of undertaking their intended functions. This would either require a reduction in funding currently available for industry training or new investment.
160. An industry contribution to ISBs could reflect industry benefits and help ensure ISBs are accountable to employers. The current industry contribution to ITO revenue is around 22 percent. In 2017, almost two-thirds of industry contributions were training fees and these were 96.3, 88.6 and 86 percent of industry contributions to Competenz, Careerforce and SkillsOrg, respectively. In contrast, PrimaryITO and BCITO had significant grants and donations from levy-funded industry bodies.
161. Part of the establishment of ISBs would involve testing potential sources of industry contribution (e.g. grants from other industry bodies, fee-for-service arrangements, etc.).

How should funding for each ISB be calculated?

162. At this stage we envisage ISBs being funded in two components:
- a. **base funding** that takes account of cost drivers such as industry size and complexity, learner numbers, employer contributions, and the commitments the ISB makes in its skills leadership plans, and
 - b. **special purpose grants** to encourage collaborative and innovative projects and programmes that address Tertiary Education Strategy priorities (this would expand slightly on the 'industry training related projects' currently funded from the Industry Training Fund).
163. In both cases there would be some negotiation with ISBs on funding levels and deliverables, and ISBs would need to be accountable for their performance. Further work will be needed to establish an approach that delivers the intended outcomes of the funding, is practical, and avoids perverse incentives (such as biasing ISB advice on industry needs).

Recommendations

164. It is recommended that you:

agree that ISBs should be funded at a level and in a manner that encourages them to:

- a. prioritise and effectively perform their intended core functions, while avoiding conflicts of interest (e.g. activities that might bias their assessment of providers),
- b. take account of the needs of all of the industries and occupations they are responsible for, and
- c. consider how the needs of these industries and occupations can be met in a way that is consistent with the national interest.

AGREE/DISAGREE

note that, as a broad indication, we anticipate that ISBs may need funding in the region of s 9(2)(f)(iv) [REDACTED]

NOTED

Item 15: What should happen with the levy provisions in the Industry Training and Apprenticeship Act 1992?

165. To progress RoVE, legislative changes will be required, include amending the Education Act 1989 to include retained provisions of the Industry Training and Apprenticeships Act 1992 (the Act).
166. This change raises a question about what should happen with the Act's levy provisions which (very broadly) allow ITOs to impose a levy to pay for some activities (but not training) if the majority of their employers support it. To date, this provision has never been used, although some ITOs benefit from levies charged under different legislation.
167. We note that Future of Work Ministers have asked for advice on incentives on employers to train, including levies as well as direct financial incentives from Government.
168. We recommend retaining the levy provisions, with a consequential amendment so that they refer to ISBs rather than ITOs, as this would leave the long-term future of the levies open for the time being.

Recommendations

169. It is recommended that you:

agree that the levy provisions in the Industry Training and Apprenticeships Act 1992 be retained with a consequential amendment to refer to ISBs rather than ITOs, and

AGREE/DISAGREE

agree that your final RoVE proposals include a review of incentives and levies to support training and skills leadership.

AGREE/DISAGREE