



## Aide-Memoire: ITP Roadmap 2020: Financial decision rights options

---

<b>To:</b>	Hon Chris Hipkins, Minister of Education
<b>From:</b>	Gillian Dudgeon, DCE Delivery
<b>Date:</b>	2 November 2018
<b>Reference:</b>	AM/18/00787

### Purpose

---

We met with you on Wednesday 31 October 2018 to talk about ITP Roadmap 2020 and the Vocational Education and Training (VET) review. Amongst other things, we discussed options for the location of financial decision rights in the ITP sector, especially for capital investment and divestment; and what they mean for ITP ownership structures.

We have prepared the attached table to provide you with more information about the options and their implications. We look forward to discussing it further with you at our agency meeting on Monday 5 November, so it can be reflected in ongoing joint work between TEC and the Ministry of Education in developing a Cabinet paper for you.

We recommend you forward this aide-memoire to those Ministerial colleagues with whom you will be having discussions in the coming weeks about ITP Roadmap 2020 and the VET review.

We recommend that you release this aide-memoire and its attachments in full later in 2018, after Cabinet has made decisions about next steps for public consultation and implementation.

A handwritten signature in blue ink, appearing to read 'G Dudgeon'.

**Gillian Dudgeon**

Deputy Chief Executive, Delivery  
Tertiary Education Commission

2 November 2018

**Hon Chris Hipkins**

Minister of Education

\_\_\_ / \_\_\_ / \_\_\_

**Appendix to AM/18/00787: Functions and decision rights: Based on the outcomes sought, should decision-making powers for various functions be centralised, or devolved to regions?**

We suggest that our discussion with you on Monday 5 November 2018 focus on the **top two lines** of this table, as decisions here have implications for the nature of ITP ownership structures, which would in turn shape decisions further down the table.

Organisational outcomes sought	Implies...	Functions/decision rights that need to be centrally held to make this work	Functions/decision rights that would stay devolved to regions	Comments/questions etc.
<b>Capital allocation</b> – prioritise capital investment on a sector-wide basis	Central function must be able to move cash around the network – allocate investment resource to highest priorities for the sector as a whole	<ul style="list-style-type: none"> <li>Need to understand what the priorities are: sector-wide capital investment prioritisation and planning</li> <li>Approval of capital budgets</li> <li>Approval of all major investments (so that non-priority projects don't happen)</li> <li>Approval of budget envelopes for routine/replacement capex (to allow local functioning)</li> </ul>	<ul style="list-style-type: none"> <li>Spend on routine/replacement capex</li> </ul>	<ul style="list-style-type: none"> <li>No incentives on local operations to generate cash surpluses if they are going to be removed</li> <li>Disincentives for local operations to manage assets efficiently</li> <li>Disincentives for local communities to make unrecoverable investments in local ITP assets</li> <li>Does this need to be backed up with separate capital funding, directed through the centre?</li> </ul>
<b>Capital allocation</b> – rationalise current ITP asset bases, dispose of surplus assets	Central function must be able to instruct and/or undertake sale of assets around the network	<ul style="list-style-type: none"> <li>Need to understand asset bases – fitness for purpose and utilisation</li> </ul>	<ul style="list-style-type: none"> <li>Small disposals</li> </ul>	<ul style="list-style-type: none"> <li>If central entity can reach into current ITP balance sheets to reallocate cash, will be no local incentive to dispose if don't benefit from proceeds.</li> </ul>
<b>Programme development</b> – ensure the sector does once, not 16 times	Direct and control programme development activity so that it only happens once	<ul style="list-style-type: none"> <li>Allocate resources to be spent on programme development</li> <li>Require local operations to use centrally held resources etc.</li> <li>Ensure local operations have access to all resources</li> </ul>	<ul style="list-style-type: none"> <li>Ability to adjust delivery at the margins to suit local conditions / take advantage of local opportunities (including with respect the mix of on- and off-job delivery within a programme)</li> </ul>	<ul style="list-style-type: none"> <li>Better if it's value proposition first, mandated use second</li> <li>How to ensure local responsiveness – can local operations quickly develop something for presenting local demand? Or do they need permission, budget allocation etc. from the centre?</li> </ul>
<b>Student Admin and Analytics</b> - consistent student administration and analytics across the sector	One SMS/LMS (or integration platform) for the sector	<ul style="list-style-type: none"> <li>Manage replacement/upgrade cycle for existing systems in current ITPs</li> <li>Control funding of investment in new/replacement systems (per capital allocation above)</li> <li>Direct existing ITPs to support design, implementation and use of single platform</li> </ul>		<ul style="list-style-type: none"> <li>Major risks around big bang systems implementation (NSW said to have lost AU\$100m on failed SMS implementation)</li> <li>Different systems in use currently, at different replacement/upgrade points</li> </ul>
<b>International delivery and partnerships</b> – operating for benefit of whole ITP sector	EITHER <ul style="list-style-type: none"> <li>International partnerships operated centrally;</li> </ul> OR <ul style="list-style-type: none"> <li>Local operations run with specific partnerships as integral part of teaching/staffing model (per WinTec)</li> </ul>	EITHER <ul style="list-style-type: none"> <li>Ownership of the partnership, relevant capital and revenue streams</li> </ul>	OR <ul style="list-style-type: none"> <li>Delegated authority to own, run, invest in international partnerships</li> </ul>	<ul style="list-style-type: none"> <li>Need very strong alignment with organisational/business unit strategy</li> </ul>
<b>International student recruitment</b> – maximise international opportunities	EITHER <ul style="list-style-type: none"> <li>Centre owns internationals recruitment</li> </ul> OR <ul style="list-style-type: none"> <li>Centre signs off on strategies and budgets, leaves execution to local operations</li> </ul>	EITHER <ul style="list-style-type: none"> <li>Owns relationships with agents etc.</li> <li>Creates, directs strategies</li> <li>Directs/influences where international students are located</li> </ul>	OR <ul style="list-style-type: none"> <li>Execute approved international strategies</li> </ul>	<ul style="list-style-type: none"> <li>Likely strong incentives to focus on generating scale in a few localities/operations, not in directing across whole network (population impacts in regions)</li> <li>Individual operations retain control over student body mix?</li> <li>Limited incentives for local operations to go after internationals for additional \$, but could still be source of scale</li> </ul>

Organisational outcomes sought	Implies...	Functions/decision rights that need to be centrally held to make this work	Functions/decision rights that would stay devolved to regions	Comments/questions etc.
<b>Marketing and branding</b> – maximise impact of marketing/branding spend across NZ	?mix of national level and local level marketing?	<ul style="list-style-type: none"> <li>Overall coordination and prioritisation between local and national functions</li> <li>Access to funding for marketing activity</li> </ul>	<ul style="list-style-type: none"> <li>Budgets, control over locally-focussed activity</li> </ul>	<ul style="list-style-type: none"> <li>One brand, sub-brands or multiple brands?</li> <li>Incentives for/desire to attract students to other parts of the country?</li> </ul>
<b>Operating expenditure</b> – strong budget and financial performance management across the whole sector	Local budgets signed off, monitored by centre	<ul style="list-style-type: none"> <li>Sign-off of local budgets</li> <li>Powers to delegate</li> <li>Consistent expenditure policies and procedures</li> </ul>	<ul style="list-style-type: none"> <li>Spend within local delegations and budgets</li> </ul>	<ul style="list-style-type: none"> <li>But...the more that revenue generation (i.e recruiting students) is owned nationally, the more that local financial management is “expenditure management” rather than “P&amp;L management” – only one component of viability.</li> </ul>
<b>Back office</b> – consistent high quality corporate services provided once for the whole sector	One source of systems, procedures, processes and accompanying staffing	<ul style="list-style-type: none"> <li>Centre takes control of development and management of corporate services</li> <li>Ability to fund from revenues</li> </ul>		<ul style="list-style-type: none"> <li>All at HQ or functions distributed around country at local sites?</li> </ul>