Tertiary Education Report: ITP Roadmap 2020 advice: Tū Kahikatea, the Strength of a Network

Date:	2 October 2018	TEC priority:	High
Security level:	In Confidence	Report no:	B/18/00652
		Minister's office No:	

ACTION SOUGHT

	Action sought	Deadline
Hon Chris Hipkins Minister of Education **cc. Hon Tracey Martin** Associate Minister of Education	• **discuss with officials** the advice presented in this briefing and its accompanying reports; • **agree** to take an oral item to Cabinet as soon as possible in October to update them and enable TEC to do further work on options in advance of a Cabinet paper in December; • **agree** that TEC should, in late October 2018 and in co-ordination with your office, publish Appendices B, C and D to this report; • **agree** that TEC should proactively release this briefing, working with your office to agree publication dates; and • **forward** this briefing to Hon Kelvin Davis and Hon Jenny Salesa, Associate Ministers of Education; and to other Ministerial colleagues as you think fit.	22 October 2018
Enclosure: Yes	**Round Robin: No**	

CONTACT FOR TELEPHONE DISCUSSION (IF REQUIRED)

Name	Position	Telephone		1st contact
Tim Fowler	Chief Executive	9(2)(a)	9(2)(a)	✓
9(2)(a)	Chief Advisor to the Chief Executive	9(2)(a)	9(2)(a)	

THE FOLLOWING DEPARTMENTS/AGENCIES HAVE SEEN THIS REPORT

☒ DPMC ☒ MPI ☒ ENZ ☐ ERO ☒ MBIE ☒ MoE ☐ SSC

☒ MPP ☒ MSD ☒ NZQA ☐ NZTE ☒ TEC ☒ TPK ☒ Treasury

Minister's Office to Complete:

☐ Approved	☐ Declined
☐ Noted	☐ Needs change
☐ Seen	☐ Overtaken by Events
☐ See Minister's Notes	☐ Withdrawn

Comments:

Executive Summary

Background and problem definition

1. You commissioned TEC to undertake the ITP Roadmap 2020 project earlier this year to identify potential changes to the structure and operations of the ITP network. The project sits alongside a broader review of Vocational Education and Training (VET) policy and funding settings led by the Ministry of Education.

2. On behalf of the TEC Board we are pleased to present you with this briefing which represents the first key outcome of the Roadmap project. TEC has engaged in in-depth analysis, research and engagement to arrive at the proposals presented here; Appendix A provides detailed discussion of the many issues and ideas arising through this work.

3. Our consultation and research has confirmed the problem definition set out in your March Cabinet paper. Briefly:

   - Most ITPs have seen nearly a decade of falling enrolment and rising costs, resulting in a sector under significant strain.

   - Some ITPs have fared better than others, but most are unable to make needed investments in buildings, technology and people to protect and maintain the quality and relevance of their provision.

   - Few ITPs are well-positioned, in terms of their staffing or delivery arrangements, to deliver effectively to adults in work, who will increasingly be seeking opportunities to upskill or retrain as automation disrupts their jobs.

4. Structural change alone cannot return the ITP network to financial health and sustainability – changes to the funding system are needed too. These are currently being considered by the Ministry of Education in the context of its VET review.

5. However, we see structural change as necessary to create an efficient and high-performing ITP network in which government can confidently invest for the long term.

6. Improvements to ITP governance are also needed. We propose to report to you on this shortly as a separate piece of work, as its drivers are not predominantly to do with ITP structure or operations (the focus of the Roadmap project).

Our vision for the sector

7. We want to create an ITP network for New Zealand in which:

   - **ITP education** is sought and esteemed by a wide range of New Zealanders and international students as a high-quality and accessible means of acquiring skills to succeed in work and life;

   - **each individual ITP** is strongly focused on meeting the current and changing needs of diverse learners, employers and communities in its region, including the evolving need for lifelong learning opportunities for adults in work; and

   - **the ITPs collectively** create a network that is more than the sum of its parts, sharing programmes, services, expertise and resources to improve quality and reduce costs, and making strategic collective investments as required to realise new opportunities or adapt to changing demands.

8. This network needs to be part of a **broader education system** that delivers for all New Zealanders, from ECE through compulsory schooling, tertiary education and lifelong learning. To maximise interest in and benefit from tertiary education and training, students need access to **good guidance** from an early age, but also at all ages, about their options and choices; and institutions and delivery approaches need to be **shaped around their needs**. The ability of the

vocational part of the tertiary education system to meet the needs of **adult learners** will become increasingly important as automation of labour becomes widespread.

Proposal: Tū Kahikatea, the strength of a network

9. We propose the future ITP network of New Zealand comprise four types of entity:

   - **Programme Lead ITPs,** which would deliver a wide range of programmes, and would also develop programmes in their areas of expertise and share these across the ITP network as a whole, for delivery by other ITPs – rather than each ITP developing and delivering its own programmes. We would expect most ITPs to become Programme Lead ITPs.

   - **Regional Access ITPs,** which would arrange the delivery of a package of education and training options for their region, either (for a minority of provision) by delivering themselves, or (for the majority) by brokering and hosting delivery from other providers. We would expect TPP to pilot the Regional Access model, in line with its existing general intentions – with expansion of the model in due course (if successful) to several other ITPs delivering to small or dispersed populations.

   - **A specialist ODFL provider**, which would provide flexible high-quality fully-online delivery and associated support services to students. We propose the Open Polytechnic play this role.

   - **An ITP centralised entity,** a new organisation, to provide a range of services to the network as a whole.

10. The proposals above are concepts whose detail is suggestive rather than definitive. We are confident in the integrity of the conceptual design, but we would expect the detail to be refined and adapted as the proposals are tested and explored within government and with the sector.

11. Different implementation choices will come with different timelines and costs of change. Insofar as is feasible, we think the next phase of design should happen in conversation with the sector, to benefit from its expertise and ideas and to give ITPs as much ownership as possible of the forthcoming change.

Two mergers

12. We suggest proceeding to formal business cases for mergers between Unitec and MIT, and between Weltec and Whitireia. We understand that both sets of institutions are already in discussions about possible merger options. Other mergers options are the topic of early discussion and could be considered once the impact of the initial phase of change becomes clearer.
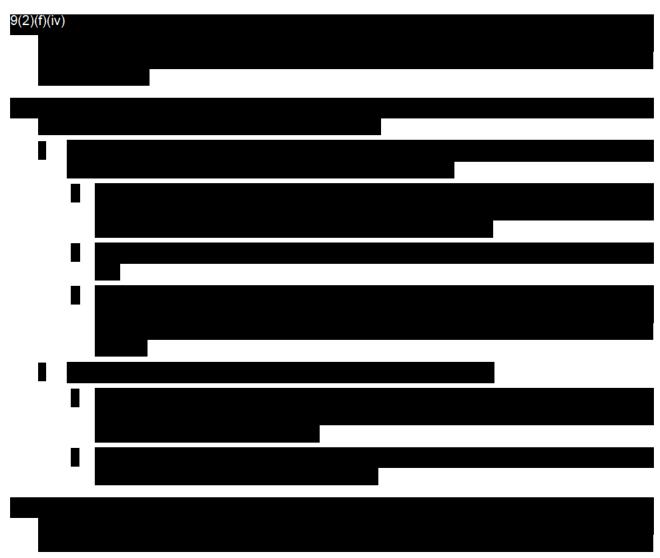
Benefits and risks

13. The key benefits of our proposed changes to the ITP network are as follows:

   - Consolidation of programme development to one ITP in each field of study will:

      - achieve scale, efficiencies and critical mass, with the corresponding benefits of higher quality at lower cost

      - present an opportunity for shared branding domestically and internationally

      - increase the time that ITP managers and teaching staff can spend building external relationships, managing delivery quality and interacting directly with students

      - make it easier for students to transfer between ITPs

      - preserve expertise in the regions and uphold the mana of the ITPs.

- The Regional Access ITP model will ensure that small populations spread over large geographic regions have access to a range of vocational educational choices, at an affordable cost to taxpayers.

- The services provided by the ITP centralised entity will improve the quality and consistency of a range of core ITP activities without requiring each ITP to build or procure its own services individually. This generates quality improvements and/or cost savings compared to the status quo. Consistent international branding and marketing should help the New Zealand ITP network compete more effectively with the TAFE network in Australia.

14. The key risks, all of which we think can be adequately managed through careful design, implementation and monitoring, relate to:

- reception of the changes by the ITP workforce and by other parts of the tertiary education sector;

- centralisation driving homogeneity and a lack of competition and innovation;

- the complexity and costs of mergers;

- the untested nature of the Regional Access ITP model and the ITP centralised entity;

- the fact that structural changes will not address weaknesses in current mechanisms for ensuring ITPs respond to the needs of their regions; and

- avoiding unhelpful competition between Programme Lead ITPs for leadership in particular fields of study, whilst also incentivising incumbent lead providers to perform.

Indicative costs, savings and implementation

9(2)(f)(iv)

9(2)(f)(iv)

Changes to the wider VET landscape

20. The structural changes we propose would deliver most value if accompanied by changes to policy and funding settings in the wider VET system. Specifically we see value in reconfiguring the roles and responsibilities of ITPs and other providers on the one hand, and Industry Training Organisations (ITOs) and other standard-setting bodies on the other, to create a system in which these two types of organisation work together rather than competing head-to-head for funding. We have given considerable thought to how this could work and would welcome the opportunity to explore it with the sector.

21. We also see a need for government to provide a framework and funding guide to help regions coordinate on-the-ground activity and resourcing in the education-to-employment space, which is currently cluttered by large numbers of different actors, initiatives and funding streams.

22. We are working closely with the Ministry of Education as it considers these ideas and prepares advice for you via the VET review.

Next steps and communications

23. We seek a discussion with you about the proposals in this paper and its appendices.

24. To inform Cabinet proposals and budget bids, we propose (subject to your agreement) to begin work immediately on the high-level design of the proposed new sector configuration. If you agree, we suggest you give your Cabinet colleagues an oral update as soon as possible in October to let them know this work will be occurring.

25. We also seek your agreement that we should publish appendices B, C and D to this briefing in late October, liaising with your office on communications.

26. We suggest you forward this briefing to your associate ministers and to other Ministerial colleagues as you think fit. We propose you proactively release the briefing and all its attachments in full, possibly at the same time as you make announcements post-Cabinet (ie, in December) about the proposed way forward for the ITP network.

Recommendations

Hon Chris Hipkins, Minister of Education

cc **Hon Tracey Martin**, Associate Minister of Education

It is recommended that you:

1. **note** that the initial problem definition for the ITP Roadmap 2020 project, which you presented to Cabinet in March 2018, has been found on further investigation to be substantially correct, with some finessing at the margins but no significant changes;

2. **note** that TEC has developed a conceptual design for change whose detail is suggestive rather than definitive, and which we would expect to be refined and adapted as the proposals are tested and explored within government and with the sector;

3. **note** that different implementation choices within our proposed conceptual design will come with different timelines and costs of change;

4. **note** that TEC's preferred approach to change in the ITP sector involves a network comprising four types of entity:

    a. Programme Lead ITPs, which would lead programme development on behalf of all ITPs in areas of specialism and strength;

    b. Regional Access ITPs, which would deliver some programmes themselves but mainly focus on brokering and arranging provision for their regions drawing on multiple providers;

    c. a specialist distance provider, which we suggest be created from the delivery arm of the Open Polytechnic; and

    d. an ITP centralised entity to provide services to the ITP sector;

5. **note** that at this stage we suggest the ITP centralised entity should provide:

    a. a shared Learning Management System;

    b. a shared Student Management System;

    c. a pool of highly skilled learning and assessment designers;

    d. specialist capability in data analytics and reporting, including learner analytics;

    e. a core set of common business processes and workflows across the ITP network;

    f. central expertise in asset management;

    g. professional learning and development frameworks and programmes for ITP staff; and

    h. infrastructure and training to power up the "student voice";

6. **note** that we would like to explore whether the ITP centralised entity should also provide:

    a. international and domestic marketing;

    b. support for managing Treaty relationships; and

    c. other sector leadership functions;

7. **note** that we propose to address issues with weak ITP governance outside the Roadmap process, as we do not think that network structural solutions are the best response here;

8. **note** that we think the above changes would deliver most value if accompanied by various changes to the broader Vocational Education and Training (VET) sector, and we are working closely with the Ministry of Education's VET review team as it considers options;

9. **discuss with officials** the advice presented in this paper for changes to the ITP sector, and what implementation path you might like to take, including Cabinet consultation;

10. **agree** to take an oral item to Cabinet as soon as possible in October to let them know that TEC plans to work with parts of the ITP sector from late October to design and cost, in greater detail, the key change options you plan to take to Cabinet – at a high level in December and then with detailed concrete proposals in early 2019;

11. **agree** that TEC should, in late October 2018 and in co-ordination with your office, publish the TEC report attached as Appendix B (currently in draft) on we heard during our public engagement on ITP Roadmap 2020;

AGREED / NOT AGREED

12. **agree** that the TEC proactively release this briefing and its appendices, working with your office to agree publication dates (probably to coincide with your announcements to the sector post-Cabinet in late 2018) and arrange supporting communications; and

AGREED / NOT AGREED

13. **forward** this briefing to Hon Kelvin Davis and Hon Jenny Salesa, Associate Ministers of Education; and to other Ministerial colleagues as you think fit.

FORWARDED / NOT FORWARDED

Nigel Gould

Chair
Tertiary Education Commission

2 October 2018

Tim Fowler

Chief Executive
Tertiary Education Commission

2 October 2018

Hon Chris Hipkins

Minister of Education

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Purpose

1. On behalf of the TEC Board we are pleased to present you with this briefing as the first key outcome of ITP Roadmap 2020. It contains TEC's advice on structural changes to help create a sustainable and high-performing network of Institutes of Technology and Polytechnic (ITP) for New Zealand.

2. You have committed to taking proposals to Cabinet by the end of 2018 on the future of ITPs. This briefing therefore also seeks your decision on what proposals you want to present to Cabinet, and a discussion about what needs to happen between now and then.

3. This briefing is supported by a comprehensive separate report, attached in Appendix A, providing more detailed coverage of the issues and ideas arising through this work.

Background

4. The ITP sector comprises 16 institutions (location is of head office/s):

    *   Northland Institute of Technology (**Northtec**): Whangarei

    *   **Unitec** Institute of Technology: Mt Albert, Auckland

    *   Manukau Institute of Technology (**MIT**): Manukau

    *   Waikato Institute of Technology (**Wintec**): Hamilton

    *   **Toi Ohomai**: Tauranga and Rotorua

    *   Western Institute of Technology at Taranaki (**WITT**): New Plymouth

    *   Universal College of Learning (**UCOL**): Palmerston North

    *   Eastern Institute of Technology (**EIT**): Gisborne and Napier/Hastings

    *   **Whitireia** Community Polytechnic: Porirua

    *   Wellington Institute of Technology (**Weltec**): Petone

    *   Nelson-Marlborough Institute of Technology (**NMIT**): Nelson

    *   Tai Poutini Polytechnic (**TPP**): Greymouth

    *   **Ara** Institute of Technology: Christchurch

    *   **Otago** Polytechnic: Dunedin

    *   Southland Institute of Technology (**SIT**): Invercargill

    *   The **Open Polytechnic** of New Zealand: Lower Hutt.

5. You commissioned TEC to undertake the ITP Roadmap 2020 project earlier this year to identify potential changes to the structure and operations of the ITP network. The driver was the need to address the financial unsustainability of the ITP sector, and give it capability and agility to meet the changing needs of New Zealand for vocational education and training. The project sits alongside a broader review of Vocational Education and Training (VET) policy and funding settings led by the Ministry of Education.

6. In March you presented a paper to Cabinet noting that, through ITP Roadmap 2020, would TEC would work closely with ITPs over the coming months to explore how the sector can act more as a coherent system with some level of aggregation; and design a programme of change (SWC-18-MIN-0017 refers).

7. Since then TEC has followed a robust and extensive consultation, co-creation, research and analytical process in partnership with the ITP sector and its stakeholders. This included:

    - expert advice from EY Australia on the ingredients of a successful TAFE transformation, followed by a brief study trip to New South Wales and Victoria, with the Ministry of Education, in June to meet with TAFE leaders and government officials;

    - around 80 face-to-face engagements at 16 ITPs around the country from June to August, meeting separately with ITP councils, management teams, staff, students and community stakeholders;

    - workshops with sub-groups of ITP chairs, ITP chief executives and other ITP stakeholder representatives in June and July;

    - in-depth discussions with each ITP in June and July about its finances and operating model, informed by data from the New Zealand Benchmarking Tool;

    - an intensive two-day co-design workshop with around 30 sector participants and stakeholders in early August;

    - online surveys to collect feedback from school students, ITP students, ITP staff, community stakeholders and employers, to which we received more than 1,000 responses in total; and

    - more than 60 hours of other meetings and workshops – face-to-face, by phone and by videoconference – with sector stakeholders and experts in New Zealand and overseas.

8. The many participants in our external engagement process made generous and insightful contributions to the work. We have produced a report, attached as Appendix B (currently in draft), summarising what we heard from the sector and its stakeholders during this process. We seek your agreement that we should publish this report online in late October, liaising with your office on communications as required.

9. We also commissioned independent reports on the risks and benefits of institutional mergers in tertiary education (attached in Appendix C) and on asset utilisation at ITPs in New Zealand (attached in Appendix D).

Our vision for the sector

10. We want to create an ITP network for New Zealand in which:

    - **ITP education** is sought and esteemed by a wide range of New Zealanders and international students as a high-quality and accessible means of acquiring skills to succeed in work and life;

    - **each individual ITP** is strongly focused on meeting the current and changing needs of diverse learners, employers and communities in its region, including the evolving need for lifelong learning opportunities for adults in work; and

    - **the ITPs collectively** create a network that is more than the sum of its parts, sharing programmes, services, expertise and resources to improve quality and reduce costs, and making strategic collective investments as required to realise new opportunities or adapt to changing demands.

11. This network needs to be part of a **broader education system** that delivers for all New Zealanders, from ECE through compulsory schooling, tertiary education and lifelong learning. To maximise interest in and benefit from tertiary education and training, students need access to **good guidance** from an early age, but also at all ages, about their options and choices; and institutions and delivery approaches need to be **shaped around their needs**. The ability of the vocational part of the tertiary education system to meet the needs of **adult learners** will become increasingly important as automation of labour becomes widespread.

12. Below we outline seven characteristics which frame our vision for the sector: five distilled from the objectives identified for the sector in your March Cabinet paper (SWC-18-MIN-0017 refers), tested with and endorsed by our co-design group[1], and an additional two:

- an objective regarding Māori-Crown relationships; and

- a widely discussed objective regarding building esteem for vocational education and training.

13. Our vision is for an ITP sector in which:

- **ITPs deliver to diverse learners.** High-quality ITP education is attractive and accessible to a broad range of learners with diverse needs. School-leavers, employees, career changers, adults entering or returning to work, and international students can all find an education and training option fitted to their particular circumstances and goals. Students' prior learning is recognised on enrolment, and they can transfer easily between ITPs and other providers, or between modes of delivery, as their circumstances change, without penalty to them or to the providers.

- **ITPs are embedded in their local communities.** ITPs and local communities engage in ongoing two-way exchanges of people, ideas, facilities and resources, creating benefit on both sides. This includes ITPs sharing premises and facilities with schools, social service providers, local government, local businesses, and iwi/hapū, instead of maintaining a large network of separate assets for ITPs' exclusive use.

- **ITPs have a strong regional presence.** Learners and employers throughout New Zealand can find programmes and facilities relevant to their regional economy and labour market at their nearest ITP. Each ITP understands the current and future skill needs of its region, and plans and adapts its provision to connect graduates to local as well as national and international work opportunities. ITPs drive regional economic and community development by thinking beyond the "here and now" to the opportunities of the future, working closely with Regional Economic Development Agencies, Chambers of Commerce, social development agencies and iwi. They support local businesses to innovate and raise productivity by producing highly skilled graduates, and through consultancy and professional workforce development in their areas of expertise.

- **ITPs are responsive and agile.** ITPs respond adaptively to changing demand for education and training, network-wide, organisation-wide and in each classroom. They listen to learners (and potential learners not currently accessing the system) and employers, and regularly adjust their provision to meet their needs, both in what is delivered and in how it is delivered. They scale up and down as enrolments grow and shrink, introduce and exit from provision quickly, and experiment to try new things.

- **ITPs invest in themselves.** ITPs are financially healthy and make ongoing investments in the quality and relevance of their assets – physical, intangible and human – and of their educational offerings. In particular, they invest in the ongoing professional learning and development for their staff, and in technology that aids learning.

- **ITPs contribute to Māori-Crown relationships and achieve outcome parity for Māori students.** As Crown agents and important participants in Māori-Crown relations, ITPs proactively manage their obligations in terms of Treaty of Waitangi principles, wider Treaty jurisprudence and Māori-specific legislative compliance. ITPs realise significant opportunities to accelerate regional and national economic growth through working with iwi. ITPs successfully eliminate institutional, socioeconomic and other barriers to Māori students achieving their full potential, and Māori students achieve educational outcome parity with

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[1] This was a group of about 30 representatives from the sector and its stakeholders, including ITP Chairs, ITP chief executives, staff union representatives, students, employers, secondary school leaders and Māori and Pasifika stakeholders, alongside a small number of government officials from TEC, the Ministry of Education and NZQA.

other New Zealanders. ITPs contribute successfully to achieving wider Māori social and cultural aspirations.

- **ITP education is valued and esteemed.** Learners and their influencers (including teachers, parents and employers) understand that ITP education is the right first choice for students who thrive in an applied setting, including some of the best and brightest. ITP educational standards are regarded as rigorous and demanding, with learners supported to achieve through skilled teaching. Vocational pathways from secondary school to ITP study are clear, and are respected and esteemed by school-leavers and their teachers and parents. Employers understand what ITPs offer and value the skills of ITP graduates. New Zealand's ITPs are recognised on the international stage for the quality of their vocational delivery.

14. This is an achievable future state, and many elements of it are already present. Within **12 months** we think the sector as a whole can be firmly set on a change path to achieve the vision, with the journey clearly mapped, and some key upfront investments made to demonstrate and achieve widespread commitment to change and generate the necessary incentives to promote it. Within **three to five years** we think the vision can become reality, with the speed of progress dependent in part on wider system changes which we discuss below.

Our guiding principles

15. In seeking to design a sector with the above characteristics, we have been guided by the following principles – derived from your March Cabinet paper, from our sector engagement and from advice from experts and the literature:

- **First, do no harm.** Some parts of the sector are working very well. In seeking to change what needs to change, we should leave well enough alone to the greatest possible extent.

- **The journey must be clear.** The proposed future state must be reachable from the current state via a series of visible, achievable and affordable steps. We need to map the path as well as describe the destination.

- **The whole should be more than the sum of its parts.** The ITP network should generate benefits by acting as a collective, over and above what each individual ITP could accomplish on its own.

- **One size does not fit all.** ITPs are not and should not be all the same. Their students, employers, communities and markets can differ markedly. We should seek to protect and encourage differentiation where needed to enable ITPs to respond to their surroundings. We should also expect that, in any upcoming change process, ITPs will move at varying paces, reflecting their different starting points.

- **Not all differentiation is valuable.** Some sorts of duplication and variation between ITPs add little or no value and create cost and complexity. We should seek to remove these, and to share things in common between institutions where feasible.

- **Competition is valuable – but not limitlessly so.** Competition between tertiary education providers can drive performance and encourage innovation. ITPs face competition from private training establishments (PTEs), wānanga, universities and industry training organisations (ITOs). In this context, competition between ITPs – beyond an inevitable and healthy rivalry to be the best – may not add much value, and generates costs.

- **Do not embark lightly on mergers.** The literature tells us that people heading into mergers tend to underestimate implementation costs – which are high and incurred upfront – and overestimate the ongoing benefits, which can take years to appear. They also tend to underestimate some potential longer-term downsides. Any case for merger must be realistic about the likely costs and benefits, informed by relevant literature and experience.

- **The benefits of change must be compelling.** ITPs' autonomy is protected by law, constrained only by their need to maintain high ethical standards and to make good use of

resources allocated to them. And government can disestablish or merge ITPs only where this is clearly in the public good. Within this legislative framework, any changes we propose to ITPs must be either supported by ITPs, or actionable by government in pursuit of the public interest.

- **"Nothing about us, without us".** People should be involved in the design of changes that will affect them. Government retains the right to make final decisions about many things, but those decisions should be informed by meaningful engagement with, and feedback from, those most affected.

16. The above vision and principles deliver two key design challenges:

- getting scale and efficiencies and consistent quality and performance at ITPs, while also retaining local responsiveness and regional specialisation; and

- creating change without breaking the whole system.

17. On the latter point, this is an exciting once-in-a-generation opportunity to fundamentally reform the ITP sector – but we must be realistic about the sector's current resources and change-readiness. We cannot afford to endanger ITPs' core delivery even for a short time while changes are implemented. The change process must therefore be managed carefully, with the ability to slow down, speed up and scale up or down in response to emerging circumstances and opportunities in the sector.

The case for change

18. Our consultation and research with the sector over the last six months has confirmed the problem definition set out in your March Cabinet paper. As is to be expected, we have identified nuances and exceptions that a high-level picture does not adequately capture; but what we have seen or heard has overwhelmingly confirmed rather than challenged our preliminary views. Briefly:

- ITP enrolments have been falling in recent years due to a mix of demographic change, government policy change, increased competition, a strong labour market, and volatility in international student markets.

- The removal of ITP base grants and special-purpose funds in the mid-2000s, in combination with no or low funding rate increases in the last decade, have increased the financial pressure on ITPs.

- ITPs' costs have not fallen in line with enrolments, due in large part to the fixed nature of many costs, and in some cases due to poor governance and management. This situation has for many also strongly incentivised a search for volume (international students, out-of-region provision and online delivery) to maintain financial viability.

- The result is a sector which is, taken as a whole, under significant strain. Some ITPs have fared well, in part due to different starting points in terms of their balance sheets and in part due to designing and implementing successful business strategies. Others are in financial crisis, requiring government capital injections or loans to continue operating; and even the financially stronger institutions have limited ability to invest in their buildings, technology and people to protect and maintain the quality and relevance of their provision.

- The quality and responsiveness of provision is variable: while some regional communities are highly satisfied with their local ITP's activities and contribution, others express frustration and discontent with the mismatch between what the ITP offers and what they need. As a general rule, we found that the ITPs with strong regional and community engagement were also in the best financial position.

- Few ITPs are well-positioned, in terms of their staffing or delivery arrangements, to deliver effectively to adults in work, who will increasingly be seeking opportunities to upskill or retrain as automation disrupts their jobs.

19. However, we also found that some institutions were well-governed, well-managed, and living sustainably within their means while still delivering high-quality and relevant education. For example:

- The Southland Institute of Technology (SIT) in Invercargill is delivering education fees-free to learners while also generating a surplus that enables it to make capital investments back into its community.

- Otago Polytechnic is reaping the benefits of its sophisticated capability to deliver to adults in work.

- Through its merger with Tairāwhiti, EIT has harnessed the strengths of both predecessor ITPs to create a new institution that delivers over a very large number of sites and is highly valued by its communities.

20. Government and the ITPs both recognise that structural change alone cannot return the ITP network to financial health and sustainability – changes to the funding system are needed, particularly to enable and incentivise more flexible and responsive delivery to learners in regional and remote communities, or to adults in work. These are being considered by the Ministry of Education in the context of its VET review. A gradual but definitive reduction in out-of-region provision will also be necessary, which TEC can drive through its funding levers. Improvements to governance are also needed, as discussed further at paragraph 32 below.

21. However, we see structural change as a necessary part of a programme of change to create an efficient and high-performing ITP network in which government can confidently invest for the long term.

Our proposal: Tū Kahikatea, the Strength of a Network

22. In conversation with the sector and in reviewing international research we considered a wide range of structural options for ITPs. We landed on a shortlist of five options, one of which is our preferred option set out below. The other four, from each of which we drew elements in designing our preferred option, are summarised at the end of this briefing.

23. Our preferred option for change at ITPs is driven by the key belief that ITPs can deliver best for New Zealand when they function **as a network**, hence our choice of "Tū Kahikatea, the Strength of a Network" as a descriptor of the proposed change programme.[2]

24. The proposals below are concepts whose detail is suggestive rather than definitive. We are confident in the integrity of the conceptual design, but we would expect the detail to be refined and adapted as the proposals are tested and explored within government and with the sector.

25. Different implementation choices will come with different timelines and costs of change. Insofar as is feasible, we think the next phase of design should happen in deep collaboration with the sector, to benefit from its expertise and ideas and to give ITPs as much ownership as possible of the forthcoming change.

Four types of entity

26. We propose the future ITP network of New Zealand comprise four types of entity:

- **Programme Lead ITPs,** which would deliver a wide range of programmes, and would also develop programmes in their areas of expertise and share these across the ITP network as

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[2] "Tū kahikatea" means "Stand tall, kahikatea" (white pine). Kahikatea grow together in groves where their roots interlock below the surface, and thereby gain strength and resilience in the face of storms. We used the whakataukī "uru kahikatea", referring to a grove of kahikatea, and its associated waiata to introduce the ITP Roadmap 2020 project during many of our regional engagements, due to its apt metaphor of strength through connection.

a whole, for delivery by other ITPs – rather than each ITP developing and delivering its own programmes. Programme Lead ITPs would also be responsible for national-level liaison with industry in their areas of leadership, ensuring that programmes were regularly reviewed and updated to keep pace with evolving industry needs.

We would expect most existing ITPs to become Programme Lead ITPs.

- **Regional Access ITPs,** which would arrange the delivery of a package of education and training options for their region, either (for a minority of provision) by delivering themselves, or (for the majority) by brokering and hosting delivery from other providers.

  We would expect Tai Poutini Polytechnic (TPP) to pilot the Regional Access model, in line with its existing intentions to pursue a change of broadly this kind. The model could be expanded in due course (if successful) to several other ITPs delivering to small or dispersed populations.

- **A specialist ODFL provider**, which would provide flexible high-quality fully-online delivery and associated support services to students.

  We propose the Open Polytechnic play this role.

- **An ITP centralised entity** to provide a range of services to the network as a whole (see below).

  This would be a new organisation.

27. At this stage we suggest that services offered by the ITP centralised entity should include:

- a shared Learning Management System / online delivery platform;

- a shared Student Management System;

- a pool of highly skilled learning and assessment designers, available to the whole ITP network;

- specialist capability in data analytics and reporting, including learner analytics;

- a core set of common business processes and workflows across the ITP network;

- central expertise in asset management;

- professional learning and development (PLD) frameworks and programmes for ITP staff; and

- infrastructure and training to power up the "student voice".

28. We think it is worth exploring with the sector whether the services should also include:

- international and domestic marketing;

- supporting for managing Treaty relationships; and

- other sector leadership functions.

29. Several implementation options exist for the ITP centralised entity, including building from new, or building out from an existing platform. Our preference at this stage is to build it out from an existing platform, probably from an existing provider already doing some of the above functions. We envisage that the establishment board of the ITP centralised entity (rather than TEC) would lead the detailed design and implementation of the entity's business model and services.

30. Appendix A contains extended discussion of what the four types of entity might do and how they could be funded.

Two mergers

31. We suggest proceeding to formal business cases for mergers between Unitec and MIT, and between Weltec and Whitireia. These mergers would reduce inter-ITP competition and duplication within Auckland and Wellington, and enable us to rebuild the financial wellbeing and capability of two rather than four institutions. We understand that both sets of institutions are already in discussions about possible merger options.

32. Other mergers options are the topic of early discussion and could be considered once the impact of the initial phase of change becomes clearer.

Separate work on ITP governance

33. All ITPs acknowledge unevenness of governance and management capability as a problem for the sector. Most consider it a problem of scarce resources, and so "scaling up" via consolidation of one form or another is the solution most often suggested. However, this comes with the downside of loss of local or regional knowledge and relationship networks from councils and leadership teams.

34. It is also not clear that scale is the only or even the central issue.[3] Unitec and Whitireia/Weltec are sizeable ITPs in major urban centres and had experienced council chairs and members; but governance at these ITPs was weak. Conversely, SIT is by all appearances very well-governed and well-managed, despite being located in one of New Zealand's smallest cities.

35. This suggests the problem is not simply one of scale or scarce expertise, but rather also of the incentives acting on ITP councils (and, through them, on leadership teams), the accountabilities they face, the support available to them and the culture set by the chair. For example, it is clear from recent events at Unitec that governors at that ITP did not feel as responsible as they should for understanding the financial and educational performance of that institution.

36. We think this issue requires urgent attention, but that it is best managed as a separate piece of work rather than as part of Roadmap structural change. We propose to brief you separately on potential change in this area, likely including the following elements:

    - We would like to increase our capacity at TEC to work with ITP councils, shifting from passive provision of resources to active engagement and advice. This would involve providing councils with detailed statements of our expectations of them, and growing our toolkit of resources for helping them to fulfil their roles.

    - We would like to explore, in conversation with the sector, the idea of a new governance support mechanism in the form of "stakeholder panels" populated by representatives of local employers, schools, iwi, community groups, local government, and (on the same or a separate panel) ITP staff and students. These panels could provide a valuable channel of independent external feedback both to the ITP council and to TEC, creating more meaningful accountability to stakeholders than a small council (no matter how representative its makeup) can achieve. They could also have specific statutory responsibilities (and possibly powers) relating to their ITP's regional responsiveness and contribution, in the same way as Academic Boards currently have responsibilities relating to academic quality.

37. We will look to international good practice as well as other government agencies who do work to upskill boards of entities they oversee, including the Ministry of Health and the Ministry of Culture and Heritage. We would also work with the Ministry of Education as the lead policy agency for TEI governance settings.

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[3] We do however suggest that expertise in asset management be provided by the ITP centralised entity. This is a specific rare skillset that many councils find it hard to access locally – and also pooling expertise to take a network view of assets can deliver other strategic benefits.

38. In addition, as current ITP council terms expire, we will look for opportunities to make cross-council appointments among ITPs (as well as between ITPs and the proposed new ITP centralised entity), to help "thicken" the network. This might be especially important for ITPs that might otherwise feel like they are on the edge of the network, including the Open Polytechnic and the Regional Access ITPs.

Benefits and risks of our proposed changes

39. The key benefits of our proposed changes to the ITP network are as follows:

- The **consolidation of programme development** at one ITP for each field of study, and sharing of those programmes across the whole ITP network, will:

  – achieve scale, efficiencies and critical mass, with the corresponding benefits of higher quality at lower cost;

  – present an opportunity, supported by the ITP centralised entity, to create a strong nationwide "brand" for a range of core vocational programmes, with domestic and international marketing benefits;

  – increase the time that ITP managers and teaching staff can spend building external relationships, managing delivery quality and interacting directly with students;

  – make it easier for students to transfer between ITPs; and

  – preserve expertise in the regions and uphold the mana of the ITPs, as it avoids centralising all capability in a single location.

- The **Regional Access ITP model** will ensure that small populations spread over large geographic regions have access to a range of vocational educational choices, at an affordable cost to taxpayers. This is very challenging in the current funding and delivery model; and while it could be achieved purely via additional funding, this would be very expensive and would bolster inefficiencies in current delivery approaches.

- The **services provided by the ITP centralised entity** will improve the quality and consistency of a range of core ITP activities – many of which require improvement at many ITPs – without requiring each ITP to build or procure its own services individually. This generates quality improvements and/or cost savings compared to the status quo (where these investments tend not to happen at all or to happen in isolation at individual ITPs). Consistent international branding and marketing should help the New Zealand ITP network compete more effectively with the TAFE network in Australia (which benefits from a united brand with good visibility on- and off-shore).

40. The key risks, all of which we think can be adequately managed through careful design and implementation (and which are discussed in more depth in Appendix A), are as follows:

- Some parts of the ITP workforce may not want to spend less time on programme development or design, and more time interacting with students and employers, as most would under the proposed programme development model. Some ITP staff will also be concerned about being made redundant as their ITP seeks to staff itself more efficiently. Workforce change always generates costs to those affected; these can be mitigated by providing a clear rationale for change, making decisions transparently, and moving quickly.

- Centralisation tends to drive homogeneity; shared programme design and an ITP centralised entity could reduce the level of innovation in the system. The diversity of provision outside the ITP sector is one safeguard; another is the inclusion of well-designed mechanisms to make room for experimentation and diversity within the sector.

- Mergers come with upfront costs and risks, generating a lot of complexity and detracting management attention from core business. These can be mitigated through adequate planning and resourcing of change, and good fast implementation. Still, business cases for

each proposed merger should rigorously test the proposals to ensure the benefits of merging are genuinely likely to outweigh the costs.

- The Regional Access ITP model is untested and may not work as we expect. The risk of the model "going wrong and staying wrong" can be mitigated by high-quality developmental evaluation, so that the design can be adjusted to address any emerging issues as they arise. Piloting the model at TPP before expanding to other ITPs will provide valuable lessons.

- The ITP centralised entity may not deliver the value expected, or may generate unexpected problems down the track. This risk too can be mitigated through good design and implementation, ongoing monitoring against agreed KPIs, and perhaps a comprehensive review after (say) five years of operation.

- Current mechanisms for ensuring ITPs respond to the needs of their regions are relatively weak. Our structural proposals will not change this (except perhaps for Regional Access ITPs) – so we will seek to address it through separate work on governance and accountability settings as per paragraph 35.

- Programme Lead ITPs are likely to compete to be the nominated home of particular areas of study. This is not a problem in the short term; but once leads are identified, we do not want to encourage other ITPs to maintain needless expensive capability in the hope of one day "winning the lead away" from its current home. On the flipside, we also do not want Programme Lead ITPs to be complacent about their status as leads in given areas. We envisage that TEC will rely on monitoring to ensure Programme Leads remain high-performing – accompanied by a credible threat of re-assignment of the lead role (and associated resource) to another ITP in the case of underperformance.
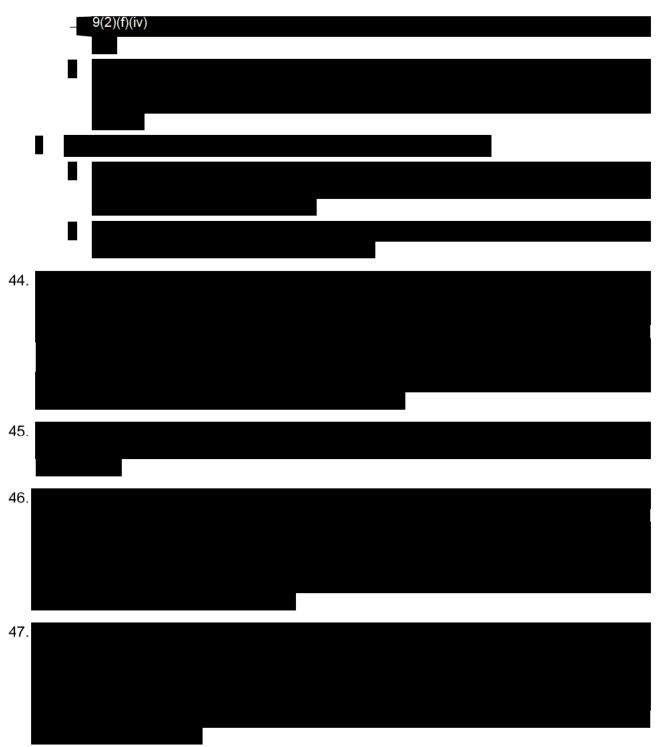
Government's role in leading change

41. We sense growing momentum in the ITP sector toward change, despite resistance in some quarters. However, we consider that visible government commitment to and leadership of change will be necessary foster this momentum and ensure that it delivers results. The Ministry of Education will be leading public consultation in 2019 on the VET review and on a new Tertiary Education Strategy. Both consultation processes provide important opportunities for government to repeatedly articulate its vision for the VET sector, and for ITPs' role within it, in a way that:

- invigorates and empowers those in the sector ready to embrace change; and

- builds the change-readiness of those more comfortable with the status quo.

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48. We would continue this work into early 2019, then seek permission from Cabinet in early 2019 to formally consult on fairly detailed change proposals. This would ideally occur at the same time (and potentially via the same paper) as the Ministry of Education sought Cabinet's permission to formally consult on VET review proposals.

49. We would aim to complete formal consultation on the first phase of Roadmap proposals by mid 2019. Subject to sector and Cabinet feedback and to Budget 2019 decisions, we would then aim to recruit and install an "establishment board" for the proposed new ITP centralised entity in the second half of 2019. This establishment board could progressively take the lead on ongoing

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[4] This funding is included in the *Vocational Education and Training (VET) initiatives* line of Annex 2 to the recent Ministry of Education briefing note *Update on 2019 Budget Package Development* (METIS 1153234 refers).

implementation of change within the sector, supported by any required legislative, policy and operational work at the Ministry of Education and TEC.

50. In terms of impacts on specific institutions:

- Mergers between Unitec and MIT, and between Weltec and Whitireia, are already under discussion and could be implemented on a faster timeframe.[5]

- A shift at TPP to a new Regional Access ITP delivery and resourcing model (and potentially legal structure) could begin in 2019, for full implementation from 1 January 2020.

Changes to the wider VET landscape

51. The structural changes we propose would deliver most value if accompanied by changes to policy and funding settings in the wider VET system.

52. Specifically we see value in reconfiguring the roles and responsibilities of ITPs and other providers on the one hand, and Industry Training Organisations (ITOs) and other standard-setting bodies on the other, to create a system in which these two types of organisation work together rather than competing head-to-head for funding. We have given considerable thought to how this could work and would welcome the opportunity to explore it with the sector.

53. We also see a need for government to provide a framework and funding guide to help regions coordinate on-the-ground activity and resourcing in the education-to-employment space, which is currently cluttered by large numbers of different actors, initiatives and funding streams.

54. These ideas are discussed in more detail in Appendix A. We are working closely with the Ministry of Education as it considers these ideas and prepares advice for you via the VET review.

Summary of current and desired future state

55. The table overleaf summarises the key differences between the current state of the ITP network and our desired future state. It also identifies the changes that we consider would be highly desirable, but would require policy change via the VET Review in addition to the structural changes within scope of the Roadmap project.

Current state	Desired future state
Competitive landscape	
ITPs are first and foremost competitors in a market	ITPs are first and foremost delivery partners in a network
Many ITPs seek volume through provision in markets outside their regions	ITPs only deliver outside their regions where they have particular hard-to-replicate expertise that is not widely available in the sector
Regional access	
ITPs in remoter/more sparsely populated regions focus on the provision they can make work	Regional Access ITPs broker a broad range of provision tailored to the needs of the region, not dictated by what they can themselves provide
Programme design	

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[5] We note advice from EIT that, in hindsight, having to implement its merger with Tairāwhiti under intense time pressure was helpful in directing participants' energy and attention to what mattered most.

Current state	Desired future state
ITPs develop their own programmes, and own the IP in those programmes	Core programmes are developed once for the sector (with individual ITPs able to adapt them as required for value-adding localisation) IP is held in common, with all ITPs able to access it
Programme and materials design is undertaken by academics, sometimes supported by specialist functions within ITPs	Specialist learning designers and materials designers develop programmes and materials, in partnership with academic subject matter experts
Programme development is bulk-funded via EFTS funding rates	Programme development is funded as a separate activity to delivery
Middle office infrastructure	
ITPs maintain their own capability, processes and IT systems in student administration, student support, learner analytics, staff professional development, assessment and moderation, asset management and student voice/representation	The ITP centralised entity provides services in these areas to ITPs, for voluntary or mandatory adoption (depending on the nature of the service and perhaps the ITP's existing capability)
Marketing and branding	
ITPs do domestic and international marketing under their own individual brands, with no clear "NZITP" brand	A good proportion of domestic and international marketing is led by the ITP centralised entity with an "NZITP" brand
Multiple different ITP programmes for each qualification compete for employers' and students' attention	A single ITP programme exists for each qualification, with clear visibility and meaning to students and employers nationwide
Governance (indicative only – to be the subject of a separate piece of work)	
Governing councils are variable in quality, and access TEC's support, guidance and self-assessment tools only when they choose to	Governing councils receive proactive support and guidance from TEC about their roles and responsibilities TEC regularly assesses governance quality to ensure performance
Council members are often expected both to represent ITP stakeholder groups at the council table, and to make decisions in the ITP's best interests – roles which sometimes conflict	[Tentatively] Regional Stakeholder Panels provide a meaningful governance voice for stakeholders, ameliorating the conflict between individual council members' allegiance to their constituents and their obligations to the ITP
Broader changes that would require policy change to VET system settings (in scope of Ministry of Education's VET review)	
ITPs are incentivised to maximise the size of a programme	Programme size is determined by standards-setting bodies (e.g. ITOs, registration bodies) in consultation with providers
ITP funding is fully volume-driven with a "one price fits all" model	Funding model supports regional access by recognising dis-economies of scale Funding model recognises equity and learner support requirements
ITPs and ITOs compete for students	ITPs and ITOs work together to deliver solutions for students and employers ITOs and ITPs have clearly delineated roles and functions within the VET system
All ITP faculties that deliver degrees (including degree programmes designed by other ITPs) maintain staff who are active in research	ITP degrees are taught by appropriately qualified staff. ITPs resource research where it will add most value to end-users, not solely to meet statutory requirements

Other options we considered

56. We seriously considered four other options for the conceptual design of the ITP network, each of which was shortlisted at our co-design workshop in August. The following table summarises the options, their main benefits and risks, and what we took from each in developing the Tū Kahikatea proposal.

Option	Main benefits and risks	What we took from it
One ITP (or a few ITPs) One ITP for all of New Zealand (or a small number of very large ITPs, say three): an idea intuitively attractive for its simplicity	**Benefits:** Maximises economies of scale; maximises market prominence and brand power; makes good use of central planning power and scarce expertise; easy for students to transfer throughout system. **Risks:** Very high and extended costs of change; loss of regional responsiveness; loss of sense of regional ownership or priority/importance; lazy monopoly behaviour; risk of systemic failure.	Creation of a shared entity to provide expertise and shared services at scale; centralisation of programme development to one site (but not the same site for every programme) to get most benefits of consolidation without most risks.
Federation and franchise models The existence of both individual ITPs and of an ITP centralised entity, with the main difference between federation vs franchise arrangements being the ownership structure and decision rights of the ITP centralised entity	**Benefits:** As with the "one ITP" model, though potentially with less benefit in terms of ITPs' market position, and – at least on a federation model – more retention of regional responsiveness. **Risks:** Federal arrangements where all participants have veto rights cannot make decisions that create winners and losers, limiting their strategic effectiveness. Franchise models avoid this risk, but raises the risk of loss of regional responsiveness.	We have used substantial components of federation and franchise models in our proposed approach. However, rather than a centralised location for programme development and dissemination, we prefer a distributed model that retains the regional expertise and mana of ITPs throughout the network.
"One VET system" model Uniting ITPs and ITOs under a shared governance structure in a single VET system	**Benefits:** Improved system coherence, in particular the removal of competition between ITPs and ITOs. **Risks:** Creation of a large unwieldy monopoly; risk of catastrophic high-stakes system failure if entity does not delivery quality.	As noted at paragraph 46, we are in discussions with the Ministry of Education about changes to the wider VET system that capture the essence of this idea. We would however prefer a design that retains what we feel is useful tension between ITOs and ITPs.
"Big Picture" model Using both online learning and place-based learning, including internships, to offer NCEA learners a very wide variety of high-quality learning experiences tailored to their unique situation, goals and drivers. Piloted by Te Kura for the past four years; now being expanded based on very promising results to date.	**Benefits:** Getting good results for students for whom the mainstream system fails; gives students work experience, soft skills, and a plan for the future, as well as an NCEA qualification; economic if run at scale and with flexible use of assets and resourcing; good use of real-time learner analytics data thanks to online delivery platform. **Risks:** Requires scale to work; untested at higher levels of the qualifications framework where qualifications are less flexible than NCEA; would require a paradigm shift in how most ITP staff think of their educational role, which would take time to occur.	The Big Picture model is a delivery approach rather than a network configuration. We see a lot of value in piloting the model at selected willing ITPs, either in their foundation level delivery or at higher levels. If the pilots proved successful, the model could then be gradually expanded. We suggest this is an idea to revisit in mid to late 2019.

Next steps and communications

57. We seek a discussion with you about the proposals in this paper and its appendices. Subject to your agreement, we will support you to take an oral item to Cabinet as soon as possible in October indicating that:

   - you have received advice from TEC on the conceptual design of the future ITP network;

   - you support the proposed conceptual design; and

   - TEC will work with the sector from late October to cost firm high-level proposals, which you will bring to Cabinet in December, alongside advice on proposed next steps for the VET review.

58. We also seek your agreement that we should publish Appendix B to this briefing in late October, liaising with your office on communications. This is our report (currently in draft) summarising what we heard from the sector and its stakeholders during our public engagement. Its publication is an important means of acknowledging the contribution many have made to the work to date.

59. We suggest you forward this briefing to your associate ministers and to other Ministerial colleagues as you think fit. We propose you proactively release the briefing and all its attachments in full in due course, possibly at the same time as you make announcements post-Cabinet (ie, in December) about the proposed way forward for the ITP network.

Appendices:

   - Appendix A: TEC report: "Tū Kahikatea, the Strength of a Network: full report"

   - Appendix B: Draft TEC report: "What we heard during public engagement"

   - Appendix C: Report from Mischewski Consulting: "Mergers of tertiary education organisations – approaches and implications"

   - Appendix D: Report from Mischewski Consulting: "Effective utilisation of capital assets by ITPs - a primer"