Tertiary Education Commission
Te Amorangi Mātauranga Matua

# *Tū Kahikatea, the Strength of a Network*

## Full report

*This report forms Appendix A to B/18/00652, "ITP Roadmap 2020 advice: Tū Kahikatea, the Strength of a Network". It should be read in conjunction with that briefing and its other appendices. It provides detailed discussion of the issues and ideas presented in the briefing.*

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# Overview

## Purpose

Change is needed in New Zealand's network of 16 Institutes of Technology and Polytechnics (ITPs) network. This is because:

- many of the institutions face flat or falling revenue (due mainly to declining enrolments) combined with steadily rising operating costs, creating a financially unsustainable situation; and
- the network as a whole needs improved strategic capability and adaptiveness to realise the opportunities presented by the changing world of work and the increased need for adults in work to upskill and retrain.

In March you presented a paper to Cabinet noting that, through ITP Roadmap 2020, 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). You committed to taking change proposals to Cabinet by the end of 2018.

B/18/00652 presents the first key outcome of ITP 2020 Roadmap. This accompanying report forms Appendix At to that briefing and provides detailed discussion of the issues and ideas included in it.

The ITP Roadmap 2020 project sits alongside a broader review of Vocational Education and Training (VET) policy and funding settings led by the Ministry of Education.

## Our vision

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.

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.

## Our process

TEC has followed a robust and extensive consultation, co-creation, research and analytical process in partnership with the ITP sector and its stakeholders to arrive at advice for the future of the ITP network. We have prepared a standalone report, Appendix B to B/18/006752 (currently in draft), presenting what we heard from the sector during our engagement meetings.

## What we found

Our consultation and research confirmed the problem definition set out in your March Cabinet paper (SWC-18-MIN-0017 refers). 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 weak governance or 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.

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.

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, and improvements to governance, are also needed and will be driven by TEC.

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.

## Our proposal: Tū Kahikatea, the Strength of a Network

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 outlined below. The other four, from each of which we drew elements in designing our preferred option, are described at the end of this overview.

We have chosen the name "**Tū Kahikatea, the Strength of a Network**" for our proposed ITP network change. The design is conceptual, with the detail being suggestive rather than definitive. We would expect the detail to be refined and adapted as the proposals are tested and explored within government and with the sector. 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.

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 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,** a new organisation, to provide a range of services to the network as a whole (see below).

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 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".

We would like to further explore whether the services should also include:

- international and domestic marketing;
- support for managing Treaty relationships; and
- other sector leadership functions.

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.

In addition we propose that TEC expand and enhance its activity to ensure quality governance at and accountability of ITPs. While weak governance and lack of meaningful accountability to stakeholders is one of the drivers of problems in the ITP network, our investigation found it was not first and foremost a structural or operational issue, and would not be most amenable to Roadmap

solutions. We propose to give it urgent attention as a separate piece of work to the Roadmap process.

## Benefits and risks

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.
- 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).

The key risks, all of which we think can be adequately managed through careful design and implementation, 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. 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 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 careful planning and adequate resourcing of change. 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 it "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. Piloting the model at TPP before expanding to other ITPs will provide valuable lessons.

- Similarly, the ITP centralised entity may not deliver the value expected, or may generate unexpected problems down the track. This risk can be mitigated through good design and implementation in partnership with the sector, ongoing monitoring, and 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.
- 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 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

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.

9(2)(f)(iv) [redacted]

- 9(2)(f)(iv) [redacted]
  - [redacted]
  - [redacted]

[redacted]

## Changes to the wider VET landscape

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.

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.

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

## Current vs desired future state

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* | |
| 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)<br>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<br>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 |

| Current state | Desired future state |
|---|---|
| ITP funding is fully volume-driven with a "one price fits all" model | Funding model supports regional access by recognising dis-economies of scale<br>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<br>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

We seriously considered four other options for the structure 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)**<br>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:**<br>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.<br>**Risks:**<br>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**<br>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:**<br>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.<br>**Risks:**<br>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**<br>Uniting ITPs and ITOs under a shared governance structure in a single VET system | **Benefits:**<br>Improved system coherence, in particular the removal of competition between ITPs and ITOs.<br>**Risks:**<br>Creation of a large unwieldy monopoly; risk of catastrophic high-stakes system failure if entity does not delivery quality. | As noted at paragraph 282, 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. |

| Option | Main benefits and risks | What we took from it |
|---|---|---|
| **"Big Picture" model**<br>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:**<br>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.<br>**Risks:**<br>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.<br>We suggest this is an idea to revisit in mid to late 2019. |

## Next steps

See briefing B/18/00652 for a discussion of next steps.

## Background

1. 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.

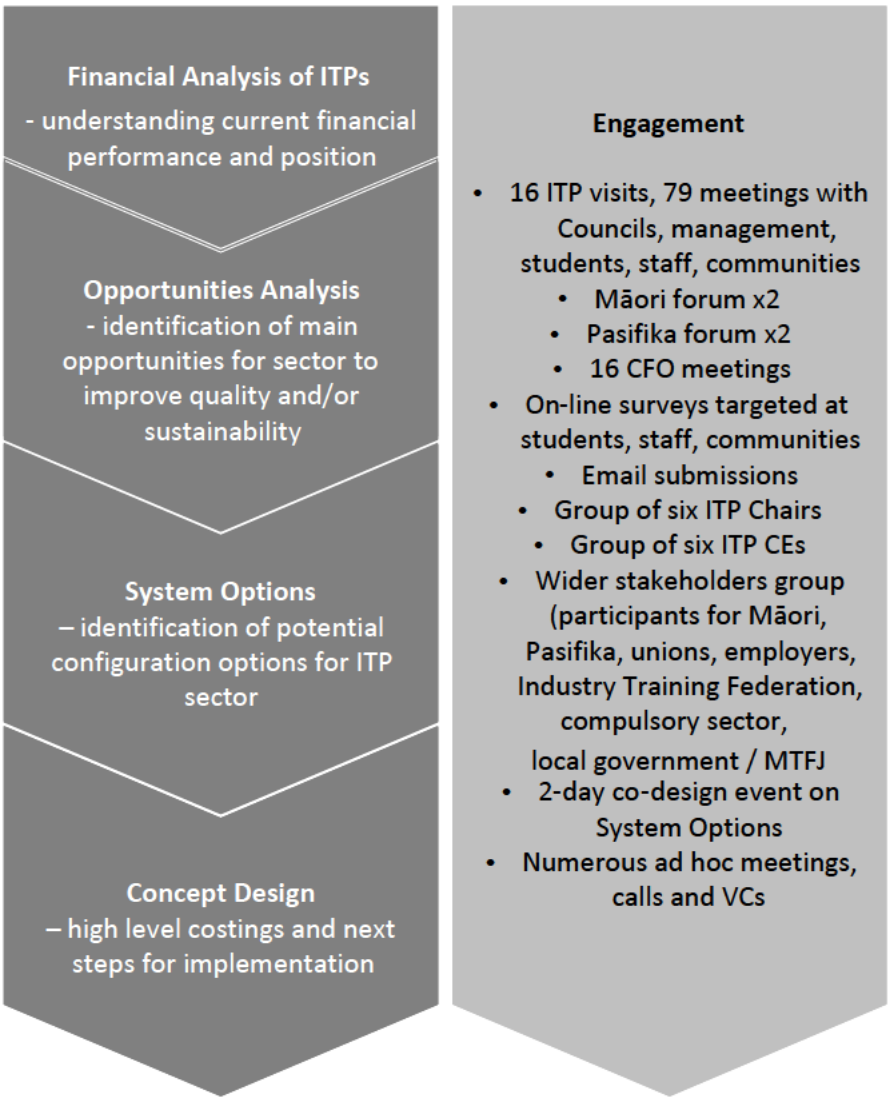
2. TEC commenced the ITP Roadmap 2020 project earlier this year to identify potential changes to the structure and operations of the ITP network. The driver was the need to address the financial unsustainability of the ITP sector, and give it capability and agility to meet the changing needs of New Zealand 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.

3. 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).

## Our process

4. The work leading to this advice comprised a number of analytical workstreams, supported by extensive engagement with the sector and its stakeholders. The following diagram illustrates this, though in practice the steps at left overlapped.

*Figure A. Overview of the ITP Roadmap 2020 process*




5. We were significantly influenced by the generous and insightful feedback we received from the many participants in our external engagement process. Specific engagements 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.

6. We designed our analytical, research and engagement processes to ensure we developed a comprehensive picture covering the following elements:

   - The financial health of the sector (current and projected) and the extent to which financial challenges could be attributed to systemic-issues, or rather were specific to individual institutions and their particular circumstances. We analysed data held in the NZ Benchmarking Tool and TEC enrolment data in detail, and created a range of financial projections and scenarios for the sector.
   - A robust identification of the opportunities for improved performance (whether relevance, quality, financial or some combination) in the sector, where duplication or activity could be reduced and resource directed to more valuable work.
   - Through a co-design process with wider stakeholders, chairs and chief executives, identification of a long list of system configuration options, and narrowing down of this to a short list.
   - Evaluation of the short list to develop a preferred concept to take forward, together with high level costs and next steps for implementation.

7. As well as the above, the process and particularly the extensive engagement with the sector and its stakeholders (which included a great deal of very high-quality input) also generated:

   - an understanding of the unique or special characteristics of individual institutions, the roles played with and connectedness to employers and wider communities, and the value placed upon them by students;
   - a view of the general state of staff morale around the sector;
   - clarity about the critical characteristics shown by successful ITPs, particularly as regards management, governance and value to communities;
   - an understanding of the varying priorities and needs of particular groups within ITP communities;
   - visibility of innovations developed over the last few years across the sector;
   - a solid understanding of how the sector responds to its financial and regulatory environment, and the incentives these create for institutions, and the opportunities (and accompanying risks) to change these to improve sector performance; and
   - lessons learned from past mergers in the sector.

8. We have produced a report, to B/18/00652 (currently in draft), summarising what we heard from the sector and its stakeholders during this process.

9. We also commissioned independent reports on the risks and benefits of institutional mergers in tertiary education (Appendix C to B/18/00652) and on asset utilisation at ITPs in New Zealand (Appendix D to B/18/00652).

10. In addition, the Ministry of Education's VET review team and the ITP Roadmap 2020 team have been working closely together throughout 2018, and have shared notes and findings from analysis and engagement across their respective projects.

## Role and purpose of ITPs

11. During Roadmap consultation, many stakeholders talked about the need for government to more clearly define the role and purpose of ITPs. Others suggested that ITPs needed to

exercise their institutional autonomy to more clearly define their own role, within their statutory characterisation.

## What the legislation says

12. The Education Act 1989 states that ITPs are characterised by "a wide diversity of continuing education, including vocational training, that contributes to the maintenance, advancement, and dissemination of knowledge and expertise and promotes community learning, and by research, particularly applied and technological research, that aids development".

13. This combines a description of **what** ITPs do, and **why** they do it, ie their purpose:

- the **what**: offer a wider variety of adult and vocational education, and do applied research
- the **why**: to generate and share knowledge and expertise, and help develop their communities.

14. We think this characterisation remains relevant and helpful. It does not, however, provide a delivery blueprint for an ITP. Each ITP still needs to work out how it can best fulfil its purpose through the activities it undertakes and the capability it maintains. This will depend on what the particular needs of its community are, and on who else is meeting those needs. For example:

- MIT and Whitieria need significant capability in working with Pasifika learners and communities, whereas this is less important for SIT;
- NMIT might need to offer programmes in marine engineering, but Wintec does not;
- TPP, as the only provider of formal tertiary education on the West Coast, needs to offer everything its region needs, in contrast to an urban provider with multiple other tertiary providers populating its delivery landscape.

15. This "role definition" is a core strategic task of ITP councils; and, as ITPs are autonomous institutions, we think it properly sits with them rather than with central government. Some councils do it actively and well, carving out a clear role for the ITP in its local and regional context, and tailoring delivery accordingly (including making choices about what *not* to offer). Their institutions tend to be in better financial health and to have greater levels of community engagement and support.

16. Other councils are more passive, responding to stakeholder needs ad hoc or seeking to be "everything to everyone". Their institutions are often in financial strife, with significant levels of loss-making delivery and less satisfied or less engaged local communities.

17. Correlation is not causation. While more active, focused and strategically capable councils may create more successful ITPs, it may also be the case that ITPs under a great deal of financial pressure need to chase every EFTS they can, driving a lack of strategic focus.[1] Either way, though, the capability of the council is critical to determining the quality and relevance of service the ITP provides to its community.

## Should ITPs deliver degrees?

18. All ITPs currently deliver at degree level, some in considerable volumes. Overall, 16% of degree-level EFTS in the tertiary system in 2017 were delivered by ITPs, and these EFTS

[1] Higher education researcher and commentator Bill Massy notes that non-profit institutions like public education providers rely on generating a margin to enable discretionary spending on activities that define, reflect and bolster the mission of the institution. If the margin is unavailable, the institution loses its ability to pursue its mission and in this sense loses some of its autonomy. See for example Massy, W. (1996), *Resource Allocation in Higher Education.* Michigan, USA: University of Michigan Press.

accounted for 35% of ITPs' total domestic and international EFTS (and 55% of their provision to international students).

19. During our regional engagement, we heard the view expressed that ITPs should go "back to their roots" in vocational education and training, moving away from degree-level delivery, at least in generic areas like business.

20. We also heard the contrary view, that ITPs offer a valuable alternative learning pathway for learners who want to pursue higher education, but would learn best in an applied setting or in small-group classes rather than at a university.

21. Our view is that ITPs' delivery of applied degrees should be preserved and protected. It is clear that many ITP degrees are highly valued by students and employers. Their availability is particularly important outside the main centres; we heard repeatedly that if students have to leave their home region to study at degree level, many will not return. Having said that, we think that quality is uneven, and the advice we present in the accompanying briefing B/18/00652 is designed in part to address that.

## Vision and principles

22. The ITP sector needs to meet the needs of three core groups of end-users: **learners, employers, and local communities**. 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.

23. 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.

### Our vision for the sector

24. Below we outline seven characteristics which frame our vision for the sector: five distilled from the objectives identified for the sector in the March Cabinet paper (SWC-18-MIN-0017 refers), tested with and endorsed by our co-design group[2], and an additional two:

- an objective regarding Māori-Crown relationships; and

[2] 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.

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

25. 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 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.

26. 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

- **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.

27. 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.

28. 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.

29. The case for change in the ITP sector is outlined below. It identifies a number of specific barriers that need any successful change programme for ITPs would need to disassemble. Each barrier can be addressed in a multitude of ways, and some actions to address one issue with generate new issues elsewhere – so we have sought to consider change options holistically rather than atomically.

## The case for change

30. Our briefing to you in November 2017 ("Background for a first discussion about ITP viability", B/17/00875 refers) and your March Cabinet paper (SWC-18-MIN-0017 refers) set out an initial problem definition for the ITP sector. Our subsequent analytical and consultation processes have confirmed this problem definition. 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.

31. Below, then, is a brief recap of our understanding of the key drivers behind ITPs' financial difficulties. We hold significant qualitative and quantitative information about each of these key drivers and can provide more detailed analysis on particular points as required.

### Drivers of financial problems at ITPs

32. At the national level, ITP enrolments and profits have been falling for some years. This is due to a combination of the following (with different factors most significant at different ITPs):

- demographic change, with fewer school-leavers overall than a decade ago;
- government policy change, including caps on short-award provision and moves to encourage ITPs to focus on degree-level provision to school-leavers, the shift from partial base grants to fully volume-based funding, the introduction of the Performance-Based Research Fund (PBRF), the introduction of Performance-Linked Funding, the introduction of competitive funding at foundation level, and a change in the funding recovery threshold from 97% to 99% of funded delivery;
- some lingering concerns about quality and brand perceptions, in part due to some high-profile instances of high-volume, low-quality delivery by ITPs (and other providers) in the early 2000s;
- improved secondary school attainment rates, resulting in a decline in demand for foundation-level post-compulsory education;
- a strong labour market, with more school-leavers choosing paid work over full-time study at a polytechnic;
- increased competition from other providers, including PTEs, universities, wānanga and ITOs;

- poor alignment to the region's social, economic and cultural needs; and
- a volatile international student market.

33. The fall in both domestic and international student enrolments has accelerated in the last 12 months.

34. Within this picture, some ITPs have had steady or growing enrolments, due to regional demographics or the ITP's ability to identify and target new markets and/or attract students to their region. However, most ITPs now rely on a mix of out-of-region provision and international delivery to achieve economies of scale. TEC has estimated the minimum viable size of an ITP at about 3,000 EFTS; Figure 1 overleaf shows that only seven of 15 physical providers achieve this volume (the bright red ring) through domestic in-region enrolments (the inner grey circle) alone.

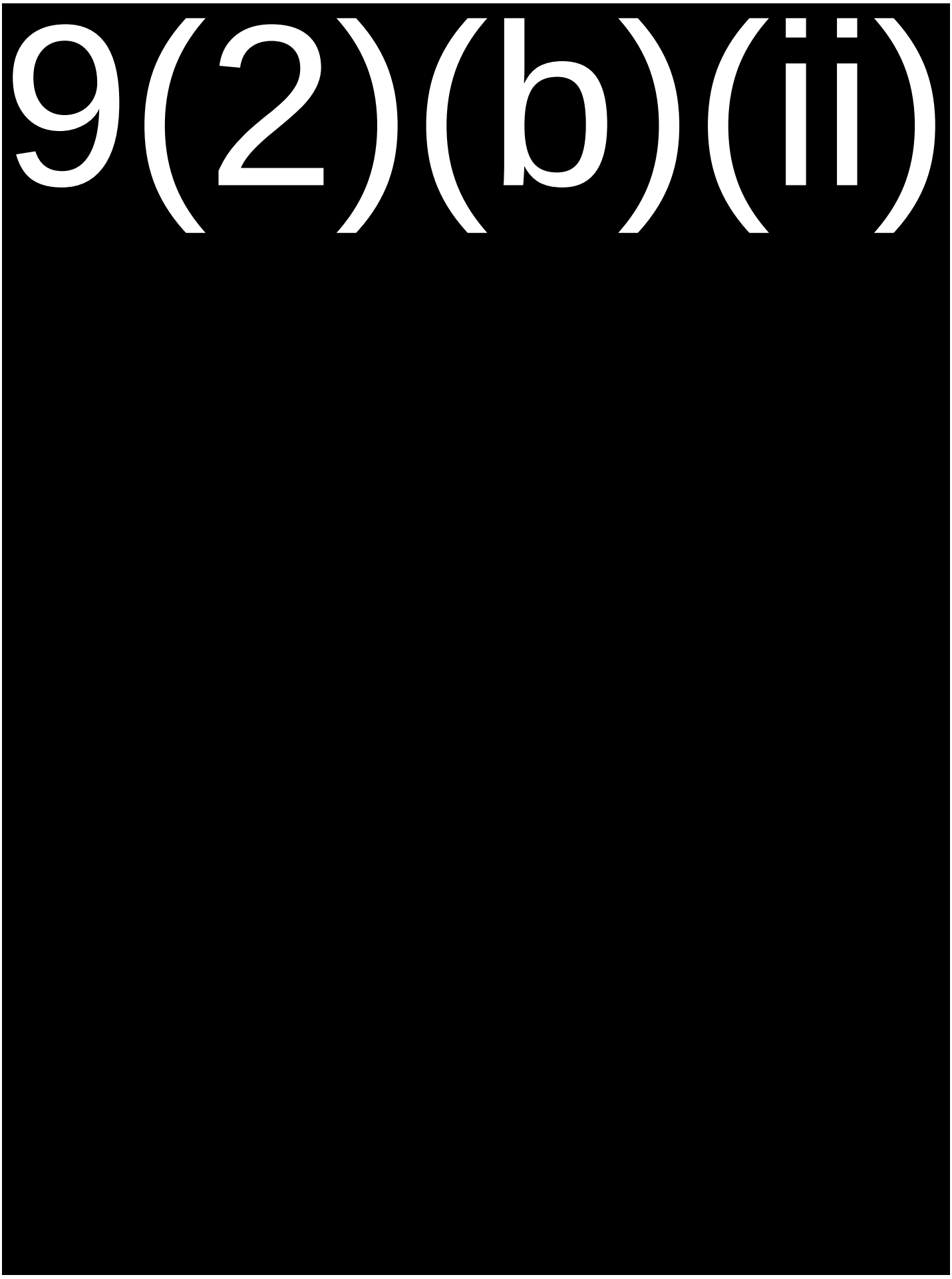
35. Most ITP funding is linked to student enrolments; and government tuition subsidy increases have been modest in recent years. In an attempt to offset static or falling enrolments, most ITPs have oriented toward delivering courses with higher tuition fees and SAC funding rates. Total ITP income (from all sources) per EFTS has increased from $12,800 in 2010 to $15,200 in 2017.

36. However, as discussed further from paragraph 42, ITPs also generally have fixed or "sticky" cost bases that are hard to adjust, particularly in response to reductions in volume. This creates some key financial incentives in the system:

- **An incentive to search for volume.** In the face of fixed or difficult to move cost bases and a flat EFTS price, ITPs seek to enrol as many students as possible, up to the point where a given programme is unable to accommodate additional students. Even where enrolments are insufficient to meet fully allocated costs, the ITP is still better off with more rather than fewer enrolments if it is unable to shrink its cost base. In simple terms, provided direct teaching costs are covered, it is generally better – in the short term – to have sub-scale provision than no provision.[3]
- **An incentive to maximise the revenue-generating capacity of each student.** The longer a student is enrolled for and the higher their study load, the greater the revenue they bring to the provider.
- **Weak incentives, where demand is soft, to invest to lift quality above an acceptable standard.** The tertiary funding system penalises substandard educational performance through Performance-Linked Funding[4], but cannot meaningfully recognise or incentivise good performance except by awarding additional volume – which is only valuable to providers facing excess learner demand. This limits the incentive and ability, in a soft demand environment, of the best providers to invest in innovations to further improve their performance or efficiency.

37. These incentives may not dominate in the face of other incentives or motivations, but they have been a permanent feature of the system over the last two decades – not just for ITPs but for multiple providers. While they often result in students having good choice in terms of field of study, they also result in students receiving larger packages of learning than they need, less efficiently and at a lower quality than should be achievable. This was a key finding of the Productivity Commission's *New Models of Tertiary Education* report in 2017. Several items on your tertiary education policy work programme are aimed at addressing the undesirable aspects of these incentives.

[3] Even if direct teaching costs are not covered for a short period of time, ITPs may consider it lower-risk to retain staff in the expectation of regrowth in demand, rather than incur the cost of redundancy and face the risk of needing to replace the lost resource in the following year.
[4] You have recently confirmed that Performance-Linked Funding will be discontinued.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*Funding incentives at universities affect ITPs*

38. The EFTS-based funding system incentivises all providers to maximise enrolments. For universities, the incentive is particularly strong as it relates to first-year enrolments. First-year courses at universities tend to have large scale and low overheads, but attract the same EFTS funding rate as smaller-scale, higher-cost delivery at higher levels. Universities rely on the ability to cross-subsidise from lower levels of delivery to higher levels and to research.

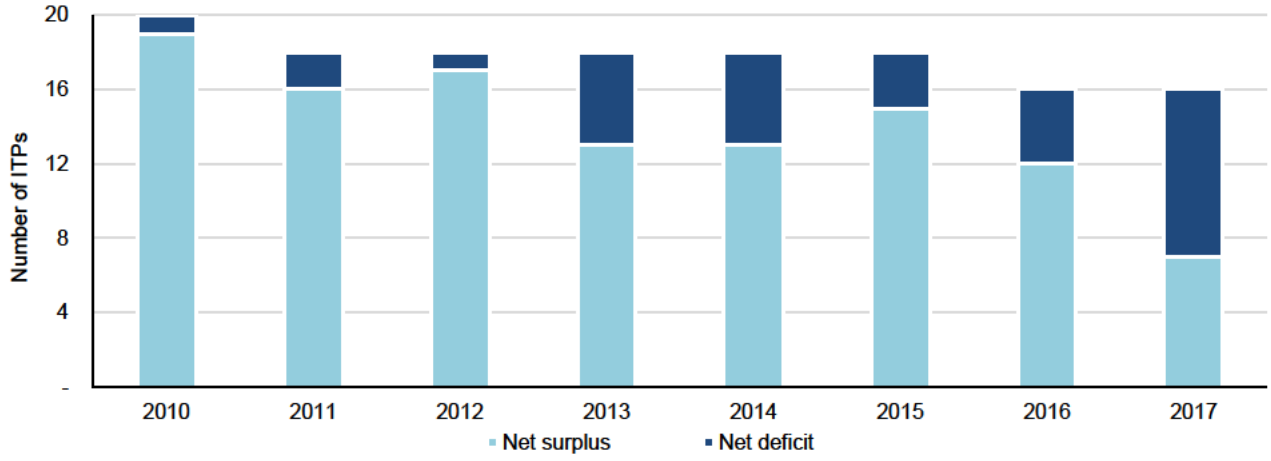
39. Universities have therefore competed hard – and by and large successfully – with other tertiary providers to maintain or grow their first-year enrolments in the face of falling demographics.

40. The same aspect of EFTS pricing means universities face disincentives to credit learning undertaken at other providers toward their own degrees. It would be helpful for students if they could, for example, do a level 6 diploma at an ITP that, for those who wanted to continue with study, gave them entry into the second year of a university degree programme; but this would be costly for the university compared to requiring the student to start at first year.

## Key barriers to cost control at ITPs

41. Many ITPs have not controlled their costs in line with their revenues to operate at a surplus (Figure 2). The improvement from 2014 to 2015 visible in the figure below was due to a sharp (and temporary) increase in international delivery at Northtec and MIT, which lifted them from deficit in 2014 to surplus in 2015. Both were in deficit again by 2017.

*Figure 2. ITPs' historical financial performance*




Source: TEC

42. Barriers to cost control vary between ITPs. Some of the key barriers are outlined below.

*Back, middle, and front office activities at ITPs*

43. In the discussion below and in the remainder of this briefing we refer to ITPs' back-, middle- and front-office (or frontline) activities. By this we mean:

- **Back-office:** corporate services such as HR, payroll and facilities management;
- **Middle-office:** educational production services such as qualification development, programme development, the design of learning and assessment materials, and educational quality management; and
- **Front-office or frontline:** management of enrolment processes, delivery to students, pastoral care, employer and community engagement.

44. Most ITPs resource middle-office and frontline services through the same set of staff, ie, academics/lecturers/tutors (three imprecise terms which tend to refer to the same set of individuals, albeit with different nuances). This is discussed further at paragraph 50.

*ITPs seek to offer a broad range of delivery – whether they can afford to or not*

45. ITP are characterised in the Education Act 1989 as offering "a wide diversity of continuing education" to their local catchment. This both reflects and bolsters long-standing community expectations of ITPs, and their own identity and culture as comprehensive community-driven providers. All ITPs deliver education from foundation through to degree level, and 11 deliver at postgraduate level too, mostly in small numbers.[5]

46. This broad delivery mandate is in tension with the funding system and the incentives it generates (noted at paragraph **Error! Reference source not found.**). Under current funding settings, most ITPs could become highly profitable by:

- focusing exclusively on a portion of their current provision (generally, courses with high demand, good student fees and high subsidy rates);
- dropping the rest of their delivery; and
- re-sizing corporate functions and property assets to match.

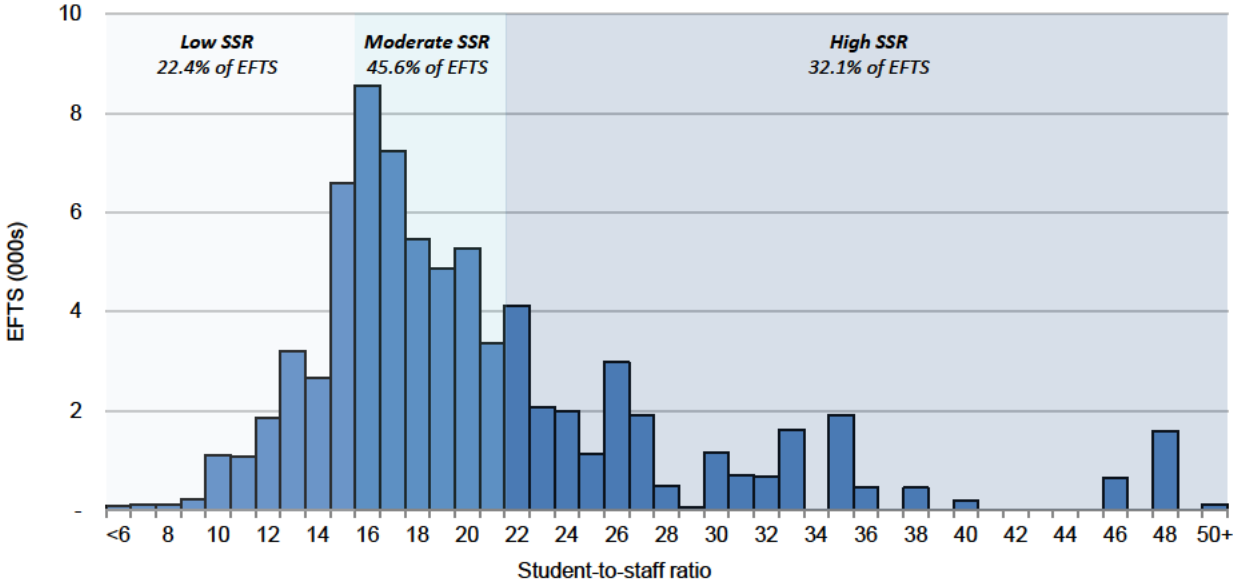
47. However, this would come at the cost of not providing a large portion of their provision, much of which – eg, trades, foundation delivery – is core to ITPs' role in the education system. ITPs are therefore always juggling this effective cross-subsidisation so as to remain in modest surplus while maintaining provision that is valued by students and communities.

48. The breadth of delivery also makes ITPs vulnerable to fluctuations in demand, particularly as cost bases (teaching staff, corporate functions, major assets) are inflexible in the short term. And if faced with declining demand in a given area, most ITPs will seek to maintain provision for as long as possible. This approach allows them to maintain that delivery capability and subject matter expertise (which, once lost, is much harder to re-establish), and avoid the cost of redundancies.

49. This approach also leaves ITPs vulnerable to getting stuck in cycles of continuing shrinkage in the face of ongoing declining enrolments. Another way to look at this is that reductions in costs will tend to lag reductions in revenue by months, if not years.

[5] Of the 11 ITPs delivering at level 8-10 in 2017, ten delivered fewer than 350 total EFTS (international and domestic) at these levels (with three delivering less than 50 EFTS). Unitec was the outlier with 1,061 postgraduate EFTS (13% of its total EFTS). Postgraduate delivery at ITPs is concentrated mainly in spread mainly across management and commerce, health and education.

*Figure 3. Volume of EFTS delivered by departmental student-to-staff ratio, 2016*




Source: NZ Benchmarking Tool

*ITP workforce structures (not individual employees) are costly, inefficient and hard to change*

50. The academic staffing model for ITPs is characterised by full-time permanent staff who design and deliver their own courses, conduct assessment, provide pastoral care to students, maintain relationships with local employers and conduct research. In the nomenclature of paragraph 43, they undertake both middle-office and frontline activities.

51. This resourcing model has some benefits. It ensures that programme design and materials are richly informed by teaching, and adapted to local circumstances and learners; and it means that ITPs can maintain entire programmes through single individuals, which for small ITPs is helpful in protecting the breadth of their offering.

52. However, the model also has significant downsides when it comes to cost control:

- Subject matter and role specialisation

  Subject matter specialisation means that ITPs often have limited ability to redeploy under-utilised faculty or equipment in other areas of their business. Further, the breadth of activity expected of typical faculty (see below) offers limited opportunity for scale and role specialisation.

  On the one hand, it is likely quite rare that any individual will be naturally excellent in every component of the tutor role. On the other, it means that specific rare or notable expertise (e.g. learning design) is more likely to be confined to a particular subject matter area, rather than used across the whole institution (or, indeed, the sector as a whole).

  It also makes it difficult to adopt new technologies or learning methods at scale across an ITP.

- Resourcing model

  The resourcing model is reflected in collective employment agreements for academic staff, which tend to set terms of employment that cap the number of Timetabled Teaching Hours (TTH) at around 800-850 per year. The TTH allowance covers teaching contact time, as

well as (at least at some ITPs) the following broad range of activities, wherever other staff members in the same area are not doing them too:

- developing curricula
- developing or update programmes, including courses and materials
- attending meetings
- mentoring peers
- engaging with industry or with the community
- completing administrative tasks
- doing research.

The cap on TTH recognises that the teaching role comprises a large range of non-contact time. However, its one-size-fits all nature is constraining. Generally, ITPs can readily negotiate reductions to TTH for staff, eg in order to allow time for tutors in particular programmes to stay up to date with current practice in a fast-moving field. But the reverse is generally not possible – ITPs are generally unable to increase the TTH of tutors of whom they require fewer non-contact functions (e.g. tutors teaching a foundation programme using third-party curriculum teaching and assessment materials that require minimal or no adaptation in delivery.)

Further, terms of employment and programme design at ITPs both reflect an assumption that the majority of delivery occurs during traditional business hours (or even during traditional school hours) with a long summer break. This is more an issue of custom and practice than it is of the structure of collective agreements. Nevertheless, it can make it costly for ITPs to offer flexible delivery in the evenings and at weekends to working adults as part of their core business, or to resource year-round delivery to students. This constrains revenue growth and also makes it hard for ITPs to meet the needs of some would-be learners.

- Pay Settlements and Relativities

  Collective employment agreements, like teacher collectives, have automatic annual increments. Additionally, staff and unions have managed to negotiate above-inflation settlements for much of the last decade. Combined, these two factors put significant pressure on staff costs. That said, in a booming economy, ITPs are still finding it difficult to attract people out of industry to be tutors. The largely fixed resourcing noted above mean they cannot hire fewer staff and use them more efficiently to enable higher salaries.

- Research active staff

  ITPs' statutory characterisation states that they do research, particularly applied and technological research. Section 253B of the Education Act 1989 further requires that all degree-level programmes at ITPs must be taught mainly by people active in research.

  In our view, all ITPs need staff who are good teachers and skilled applied and technical researchers, who can work with students, employers and others in their community to generate and transfer knowledge, and innovate to solve practical problems. ITPs do not all need research academics – but at the moment, nearly all of them appear to have them. This is partly to meet legislative requirements, and partly, we believe, as part of an aspiration to be more academic generally.

  This contributes significantly to the cost of staffing, especially if ITPs seek to maintain a research profile that allows them to participate in the PBRF, as 14 of 16 currently do. ITPs fare poorly in the PBRF: ITPs delivered 14% of degree-level EFTS in the tertiary system in

2017 but received only 2.3% of the PBRF funding pool. This means they must find other ways to fund the cost of their staff's research activities.

The consolidation of programme design to Programme Lead ITPs might assist with this challenge, but legislation change and the nature of undergraduate degree teaching might also need to be considered. We note the Productivity Commission's observation that the current legislation

> effectively positions all degree-level teaching in New Zealand at one end of the spectrum from "research-led" (most or all teaching is delivered by academic researchers) to "research- informed" (most or all teaching is delivered by teachers who are informed by and familiar with, but not engaged in, research in the relevant discipline).[6]

This system design choice has an impact on the resourcing models available to ITPs.

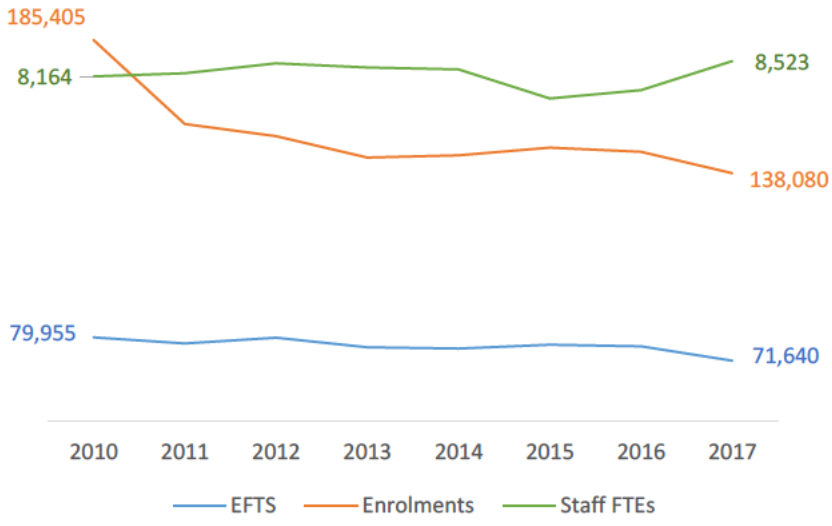
- Management

Many ITPs are spending more on managerial staff, reportedly to attract talent in a tight marketplace. Data from the New Zealand Benchmarking Tool shows that, although the total spend on executive management has fallen (principally due to mergers and restructures reducing the number and size of executive teams), the average executive management salary across the ITP network increased from $172,000 in 2010 to $250,000 in 2017 (nominal dollars), well ahead of inflation.[7] The average ITP chief executive salary over the same time period increased from $285,000 to $317,000, in line with inflation.

- Ability to scale

Figure 4 shows that ITPs are not reducing their workforce size in line with falling numbers of students and enrolments, possibly for the reasons discussed at paragraph **Error! Reference source not found.**. Student enrolments and EFTS have both fallen in the last seven years, by 12% and 34% respectively, while FTEs have grown by 4%.

*Figure 4. EFTS, student enrolments and staff FTEs at ITPs, 2010-2017*




Source: Education Counts and NZ Benchmarking Tool

[6] Productivity Commission (2017). *New Models of Tertiary Education: Final Report*, p. 179. Retrieved 25 September 2018 from www.productivity.govt.nz/inquiry-content/2683?stage=4.
[7] Executive management costs include 100% of the chief executive's salary, and portions of the salary of other senior staff in proportion to how much time they spend on executive management tasks.

53. All of the above workforce structural factors create a significant challenge for ITPs. Staff salaries represent the bulk of ITPs' total costs: 64% of total costs in 2017. Without significant additional funding for ITPs, the situation is clearly unsustainable.

54. Chairs and chief executives widely recognise the need for change in staffing arrangements at ITPs – as do many staff and students we spoke to. But the barriers to change are significant, including high-cost redundancy provisions in collective agreements, and in some cases an outright prohibition on replacing permanent staff with casual staff.

55. Some ITPs have found ways to change their workforce structure to control costs. The Open Polytechnic is the clearest example, as explained at paragraph 134. Anecdotally, some business units within other polytechnics would be unprofitable if they employed permanent staff on standard terms and conditions, rather than tutors and learning designers (some of whom may be located offshore) on casual or fixed-term contracts in response to specific and temporary business needs.

*ITPs face high compliance costs*

56. ITPs' breadth of delivery means they access many different government funds for teaching and learning – between 12 and 13 on average – each of which has its own funding rules, KPIs and reporting requirements. This generates a big administrative burden, especially for small ITPs. The "compliance burden" was a key theme at nearly every one of our regional meetings with ITP management teams and staff.

*Assets that are often large, old and poorly utilised*

57. ITPs collectively own some $2 billion of property, plant and equipment, principally land and buildings. ITPs have declared plans to spend nearly $0.9 billion on capital projects, of which over $0.8 billion is on replacement, refurbishment or improvements to buildings. Some ITPs have been actively rationalising property portfolios at their main sites, but overall, utilisation of buildings (measured only in relation to routine working days and hours) is very low (and not dissimilar to the school system). Appendix D provides more information about ITPs' asset base.

58. The incentives in the tertiary system generally focus individual institutions on providing for their own needs. Examples exist of shared facilities, but also of low utilisation sites next to each other. We also observe a tendency for ITPs to prioritise investment in bricks and mortar rather than in technological assets that could enhance students' access to learning.

*Variable management and governance capability*

59. The quality of ITP governance and management has been highly variable across the sector. Commissioners are in place at two of the sixteen ITPs, and proposed for a further two; and a Crown manager is in place at another one. A sixth is receiving guidance from an Independent Financial Advisor.

60. However, some Councils and executive teams (including some in relatively small regions) have successfully navigated the challenges faced by ITPs for many years. In doing so, they tend to have demonstrated a high degree of connectivity with local communities, maintained quality and relevance, and successfully innovated over time.

61. The size of an ITP or its catchment do not appear to be strong determinants of the quality of its governance. The quality of governance makes a big difference to the fortunes of an ITP, but it is not first and foremost a problem of the scale or structure of the ITP network. We return to this at paragraph 273.

## Non-financial problems

*Quality and relevance*

62. The picture of quality across the ITP network appears to be mixed. This variation exists as much or more within institutions, than it does as between institutions (i.e. all institutions have a mix of quality in their provision).

63. Although existing quality measures might point towards a reasonable standard across the network, the weight of anecdote from our discussions with institutions and stakeholders suggests a much more complicated and variable picture. Objective self-assessment within the sector and a clear view of "what good looks like" appears to be weak, with most providers considering their provision to be better than the general standard at ITPs.

64. Some employers pointed to graduate employment outcomes as evidence of quality and relevance, particularly in the trades and in nursing. However, these are workforces in shortage in most regions; so graduate employment rates confirm that graduates are employable, not that they are of excellent quality.

65. In terms of relevance, some concerns were expressed at the content and currency of delivery, especially in high-tech fields where ITPs were often described as lagging industry practice. But the bigger concern expressed about relevance was to do with the qualification structure and delivery mode – in particular, the strong focus at most ITPs on delivering large programmes to learners studying on-campus during normal business hours. As automation starts to disrupt jobs on an unprecedented scale, adults will need opportunities to retrain that are short, sharp, focused and flexible. They will need access to "anywhere, anytime" online delivery, microcredentials and Recognition of Prior Learning (RPL) services. Most ITPs are not well-prepared to meet the needs of this large group of prospective learners.

*Student voice*

66. Student feedback and participation in decision-making, if properly structured and supported, is a critical driver of quality improvement at tertiary providers.[8]

67. During our regional engagements, we saw a wide variety of practice in terms of ITPs' structures for supporting students to influence and participate in decision-making about their institutions, at classroom level through to management decisions. Most have student associations and/or a system of class reps, and do regular student surveys. Some (for example Unitec, MIT, EIT and NMIT) seem to have well-organised and well-supported student representative organisations, often with at least one paid position. The Open Polytechnic uses its iQualify online delivery platform to seek real-time feedback from students. Wintec does co-design work with students to involve them in decisions that affect them.

68. Some ITPs, however, do little to empower or support students to feed their perspectives and experiences into ITP decision-making. Student reps and student surveys are important, but real student voice comes when students of all kinds can participate in problem-solving and feed their different priorities and perspectives into decision-making, not at the margins but as a normal part of ITP operations. This is still rare in the ITP sector and represents an untapped source of quality improvement. This is important for international as well as domestic students, and for those studying by distance as well as on campus.

[8] See for example references listed in Usher, A. (2018), *Time to talk teaching assessments*. Retrieved 11 September 2018 from http://higheredstrategy.com/time-to-talk-teaching-assessments. See also the research project development in partnership between NZUSA and Ako Aotearoa in 2005, www.students.org.nz/student_voice_research.

*Staff voice*

69. Staff feedback across much of the sector indicated very low levels of trust in management (this was not universal, at a few institutions the opposite view was expressed). Many staff felt uninformed about the situation facing their institution, and/or that they had ideas and expertise to offer that management was not accessing.

70. Many of the key elements of the preferred sector approach set out in this paper were suggested by staff – almost universally, in the case of shared programme design. We see opportunity to mobilise and empower both general and academic staff across the sector to help improve ITP performance.

*Employer and industry engagement*

71. During our engagement with communities, we received feedback ranging from highly complimentary to damning ("What's working? Nothing!"). And with other themes in this section, this picture was probably more variable within institutions than it was across institutions. A common theme however was that:

- successful ITPs tended to demonstrate closer and more effective employer and industry engagement; and
- this is not systematic across the sector – it works where individuals have made it work, rather than because it is an embedded way of operating.

72. We also heard that, for individual academics, incentives to engage with employers were weak when it meant spending less time on activities where their performance was directly visible to their managers, including administrative work and PBRF-eligible research. Employer engagement seemed to be a "nice-to-have" rather than a "must have" in terms of an ITP academic's career success.

*Engagement with schools and secondary-tertiary pathways*

73. A similar picture emerged in relation to the effectiveness of collaboration between schools and ITPs. Clear examples exist of this being highly effective (and Trades Academies in particular received high praise), but it was again because individuals had made things work, sometimes in the face of incentives to not collaborate (principally funding-related).

74. If the secondary-tertiary pathways and transitions are to work to best effect for learners and communities, these approaches need to be systematised, embedded in expectations and incentives.

*A system that works for learners living in poverty*

75. At the risk of over-simplifying a complex picture, a key feature required for the ITP sector to deliver better for learners living in poverty is flexibility in the location and nature of delivery.

76. People face barriers to learning when they live remotely, move between homes often, and don't have reliable access to the internet, devices and support to become digitally literate. We heard that young people are huge adopters of technology, but can't or may not want to use their mobile data for study. Older learners are often less confident users of technology. So while online learning can be enabling, especially for younger learners, it often works best as part of blended delivery.

77. Learners living in poverty need to be able to combine study with other commitments, which often means learning locally. We heard repeatedly that regional delivery doesn't just mean "main centres in each region", but small towns and further afield. To enable maximum access, face-to-face delivery needs to occur at marae, high schools, community centres and

temporary sites, supported by online access as required. Pop-up sites can help with both remote access and supporting transient cohorts of people.

78. Because Māori and Pasifika learners are disproportionately likely to be living in poverty, a system that works better for learners living in poverty is critical to improve parity for these priority learner groups.

## Upshot of all this – the challenge and the opportunity

79. A small number of ITPs are faring well, due to historically strong balance sheets, sound strategic management, or both. For example:

- The Southland Institute of Technology (SIT) in Invercargill is sustainably delivering education fees-free to learners while also generating a surplus that enables it to make capital investments back into the community, with which it has a very healthy symbiotic relationship. Its specific business strategy of attracting students from outside its own region is not replicable throughout the network; but its disciplined financial management probably is.
- Otago Polytechnic has invested significantly for many years in core innovative capability in both learning design and delivery, and is reaping the benefits. Its delivery arms providing tailored RPL and learning service for adults in work (Capable NZ) and digital microcredentials (EduBits) appear to be meeting previously unmet market need, especially for adults in work; and are highly valued by those making use of them.
- 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.

80. But many ITPs find themselves in a vicious cycle of increasing financial pressure. Enrolments decline; costs are (sometimes) brought down in the subsequent year, by which time enrolments have declined further, necessitating further cost reductions. Many ITPs have been unable to afford to make ongoing investments in the quality and relevance of their provision and facilities. Some have made investments anyway but have not always realised a return; others have deferred asset maintenance or replacement, solving a short-term problem but creating a long-term one.

81. ITPs' ability to arrest their decline in this environment will depend in large part on the vagaries of demand and exogenous factors. In a private sector market, this would just be a normal part of creative destruction. But ITPs are public institutions providing core services, in many cases in areas where there are limited other choices. They are also managing in an environment where they have limited ability to control price, where volume is subject to controls, and where under-performance has been punished but high performance not consistently rewarded.

82. Those ITPs that have avoided a negative dynamic have tended to do so through multiple approaches: maintaining quality and relevance; working on close connections with schools and communities; targeting or accessing different markets; and all within a strict framework of governance and management discipline. But even those that are in a reasonable position right now acknowledge that they are facing serious challenges in continuing to cope with the situation.

*Structural change needs to sit alongside other changes*

83. Structural change on its own will not re-position the ITP sector to solve its financial or other problems, or to adapt to an increasingly fast-changing educational landscape. Returning the sector to sustainability will require funding system changes and policy changes to reflect the realities that ITPs face, to enable flexibility and responsiveness.

84. In this regard, and thinking too of our Careers System Strategy (B/18/00590 refers), we see this as a golden opportunity to support the sector to reposition itself for the future of work and to support genuine lifelong learning. As you noted to Cabinet in March (SWC-18-MIN-0017 refers), this Government has:

> an ambitious economic development programme, particularly in the regions and the primary sector, but also across government. This includes replenishing New Zealand's housing stock and reviving New Zealand's forests. There are also workforce needs across the social sector. Delivering on these goals requires a world-class skills system across all New Zealand's regions. We also have an ambitious work programme in the Education portfolio aimed at shifting the system as a whole to meet 21st century needs.

85. We believe ITPs can be a core part of the government response to these needs and opportunities. We think this will require a package of changes with the following components:

- re-positioning the perceptions of VET as a viable and valuable education pathway;
- simplifying the pathways and portfolio of offerings to enable students (including adults in work) to navigate the ITP system: modular, stackable, available in any mode, anytime, anywhere, at the same price and to a high standard of minimum quality;
- adapting the funding system to remove some of the complexity and compliance costs, and recognise the realities of geography and demographics faced by ITPs;
- clarifying the roles of standard setting bodies (including ITOs) and providers (including ITPs) so as to remove current perverse incentives and destructive competition and allow each part of the system to play more effectively to its ability to add value; and
- structural change to support the above, by removing non-valuable differentiation and deploying capability more effectively across the sector.

86. The proposals in this paper, alongside items already on the Education policy work programme, can create this package of change.

87. In the context of current reviews of NCEA and Tomorrow's Schools, we see opportunity for ITPs to be part of creating an educational network that truly operates as a system to support lifelong learning from ECE to post-retirement. This means integrating secondary and tertiary provision to a much greater extent – not just for ITPs but also for universities, wānanga, PTEs and industry training organisations.[9]

88. ITPs and schools could potentially work together to create opportunities for a much larger proportion of school-aged young people to experience meaningful vocational learning as part of NCEA, without schools needing to maintain additional staffing and facilities. An expansion of Vocational Pathways beyond levels 1-3 could be helpful in this regard.

89. Clearer secondary-tertiary vocational pathways may also be helpful in improving New Zealand's retention of international students in the transition from secondary to tertiary education. Around 14% of international secondary school students in New Zealand stay on for tertiary study, compared with about 50% in Australia.

*Government's role in leading change*

90. 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

[9] The success of Complete College America's "Guided Pathways to Success" (GPS) suggest this is a model worth exploring for those entering degree-level study for the first time. GPS is about helping more students complete degree programs faster, via better early guidance and pathway planning. See www.completegeorgia.org/content/guided-pathways-success.

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.

## Proposed changes to ITPs: Tū Kahikatea, the strength of a network

91. In conversation with the sector and in reviewing international models 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 described at the end of this report.

92. Our preferred option for change to 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.[10]

93. We think what we propose is the best way forward for ITPs both in the current policy and funding context, and in a potentially reconfigured VET sector as outlined in the previous section.

94. Our proposed changes are ambitious, but we believe they get the balance right between:

- creating a platform for a very significant level of future-focused change over the medium term, with some quick wins to gain momentum and confirm the best way forward, and the ability to scale particular aspects of change up or down or to move faster or slow in response to evolving circumstances; and
- being affordable and achievable for a sector that, with a few exceptions, needs to get into "rebuild" mode after a difficult decade, and has a significant number of change-fatigued staff, as well as many who are enthusiastic about further change.

95. In designing our proposed network changes, and based on our conversations with the Ministry and with Ministers, we have assumed that policy and funding change in the VET sector is achievable and indeed inevitable.

### Conceptual designs, not detailed proposals

96. 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.

97. 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.

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

98. As with all complex change projects of this kind, implementation would need to be accompanied by developmental evaluation, to ensure emerging issues are identified and addressed quickly and sensibly.

## Four kinds of entity

99. We propose the future ITP network comprise four kinds of entity: [11]

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

100. Below we outline the roles we think each type of entity could play in the system – prefaced by a short comment on proposed merger activity.

## Proposed merger activity

101. Evidence from the literature and from New Zealand's own experiences confirms that mergers of tertiary education institutions are expensive and difficult undertakings. This is not to say that they are never worthwhile – but they must be undertaken for the right primary purpose (ie strategic value, rather than cost savings or achieving scale), and based on realistic estimations of the costs and risks involved.

102. In this context, 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.

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

104. As explained below, one option for Regional Access ITPs is to merge them into Programme Lead ITPs – but it is not the only option, and in the short term may generate unnecessary risk given the many moving parts in the sector.

## Programme Lead ITPs

105. On our proposed model, **Programme Lead ITPs** would undertake delivery across a broad range of regionally-relevant offerings, as most ITPs do now. Each Programme Lead ITP

[11] These labels are descriptors for the purposes of this briefing, rather than hard and fast suggestions about nomenclature. We would suggest working with the sector and its stakeholders to determine what label would best characterise each type of entity.

would also lead programme development for the whole ITP sector in one or more areas of particular strength and regional relevance.

106. In developing programmes, the ITP would draw on:

- expertise from industry, via any relevant industry bodies and ITOs;
- academic expertise from its own staff and any relevant expertise at other ITPs; and
- expertise in learning design (including advanced technology-assisted learning) from the ITP centralised entity, which would maintain a highly skilled pool of learning designers for this purpose.

107. The Programme Lead ITP would then make the programme available to all other ITPs via a shared Learning Management System (LMS) furnished by the ITP centralised entity. Each ITP in the network could then adapt the programme at the margins as needed to meet the needs of its particular students and local employers, in consultation with local stakeholders – but the programme would be essentially the same, and branded as a single nationwide ITP qualification.

108. We envisage that for most fields of study, a single Programme Lead ITP will be nominated. We would want to work this through with the sector in the next phase of design, though, to understand if there were circumstances in which more distributed leadership might be desirable. We would also want to consult with the sector on how best to decide which ITP would lead what programmes; ideally the process would involve significant employer and industry input.

109. The proposed arrangement will require changes to programme approval and quality assurance regulation and practice at NZQA and by Academic Boards. We would need to work through these in the next phase of design.

*Postgraduate programme delivery at Programme Lead sites only?*

110. ITPs deliver relatively small quantities of postgraduate education (ie, levels 8, 9 and 10, excluding graduate certificates and diplomas at level 7): a total 2,837 EFTS across all ITPs in 2017, which is just under 4% of total ITP delivery at all levels (and just over 7% of total tertiary sector delivery at levels 8-10). Delivery is concentrated in business, architecture, education, health and information technology.

111. Three-quarters of ITPs' postgraduate delivery (2,227 EFTS in 2017) is in postgraduate certificates/diplomas. The bulk of the remainder (597 EFTS) is in applied masters programmes, with 11 EFTS in doctorate programmes. Just over half of ITPs' level 8 delivery in 2017 was to international students; at level 9 it was about a third.

112. We would like to consider further, in conversation with the sector, a proposal that only Programme Lead ITPs should be able to deliver postgraduate programmes, and only in their areas of leadership. This would concentrate research activity at those ITPs and create quality-enhancing critical mass. Their postgraduate delivery could be provided at multiple sites / via blended models if needed to enable adequate access by students nationwide, but on this model all postgraduate students in a given field of study would be enrolled in, funded at and taught by staff at the same ITP (or, for disciplines with high enrolments, perhaps two or three ITPs).

113. It would however remove an important revenue source for ITPs in terms of international student fees, and may impair their ability to deliver on the goals of the International Education Strategy to grow delivery outside Auckland. We would need to consider whether, for some ITPs, loss of this market offering for international students (especially at level 8) was sufficiently serious to counteract the benefits of consolidation.

*Funding*

114. While a number of funding approaches would be feasible, we envisage that Programme Lead ITPs would be funded by a mix of a base grant and EFTS funding, with a regional loading if required, with the usual supplement of student fees[12], international EFTS delivery and other revenue streams at the provider's discretion. Base grants and regional loadings are currently under consideration as part of the Ministry's VET review.

115. Some providers may enter into delivery partnership arrangements with schools and other providers in their region, which could be on a commercial or philanthropic basis as they saw fit.

116. We tentatively envisage that TEC would directly purchase programme development services from Programme Lead ITPs, but we would need to work with the sector to better understand the pros and cons of this approach compared to other funding methods. Programmes once developed would be made freely available to all other ITPs. This would enable ITPs to reprioritise academic and tutor time away from programme and resource development, toward improving services at the front line, or else to reduce their middle-office staffing requirements.

117. If government wanted to encourage ITPs to make cost reductions rather than reprioritise the resource thus freed up, it could signal an intention to reduce EFTS funding rates in future years (or at least to refrain from adjusting them for inflation) on the grounds that ITPs no longer had to bear the costs of programme development. This would give ITPs time to reduce their costs in anticipation of the reduction in EFTS funding.

*A future role for Centres of Vocational Excellence?*

118. The government has mooted the idea of establishing "Centres of Vocational Excellence" (CoVEs) in New Zealand's vocational system. Programme Lead ITPs in areas of national and regional significance could form natural host sites for CoVEs.

## Regional Access ITPs

119. Regional Access ITPs are a proposed solution to delivery in large geographic areas and/or small populations, where it is uneconomic for an ITP to offer a broad range of educational choices independently of other providers, but where students need face-to-face contact and support rather than solely online delivery.

120. We propose the model be trialled by TPP on the West Coast, where planning is already underway to implement essentially this model under a different name. If successful, the model could be expanded in due course to several other ITPs delivering to small and/or geographically dispersed populations.

121. Regional Access ITPs would not develop any programmes of their own.[13] Their job would be to 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

[12] We have not carefully considered fee regimes. But our starting assumption is that fees for any given programme should be uniform across ITPs, and that any variation in delivery costs should be addressed via variation in direct government funding, rather than variation in student fees. This could be considered either as part of ongoing ITP-focused work, or as part of broader work on the Ministry of Education's work programme on fee regulation in a "three years free" environment.

[13] This is our default position in principle but is negotiable in practice. If a Regional Access ITP has the capability to design and deliver a programme particular to its local region, for which no national equivalent is available, it may make more sense to allow it to continue to lead that programme than to transfer that role to a Programme Lead ITP. We would expect to manage such decisions on a case-by-case basis.

hosting delivery from other providers, including other ITPs, PTEs and wānanga. The Regional Access ITP would provide the physical and virtual facilities to support delivery, provide pastoral care to learners, and broker delivery arrangements for employers. It would be highly connected to communities and employers throughout its region.

122. A Regional Access ITP would use flexible resourcing and delivery models (eg. fly-in-fly-out tutors, pop-up delivery venues, blended learning) to ensure that students in regional locations had access to a good range of tertiary study choices – significantly more than it could itself provide economically. Some programmes might be offered every year, and others every two or three years, according to the level of need. In some cases the Regional Access ITP might support students to undertake the first year or two of a degree-level programme in the region, then travel to the degree's originating provider to complete the qualification.

123. In this way, learners outside the main centres should have access to a substantially wider range of locally-supported education and training options than is currently the case.

*Institutional arrangements and governance*

124. We do not have a hard and fast view on the best institutional setup for Regional Access ITPs. They could be fully standalone organisations enrolling students directly themselves (but probably sharing some services with Programme Lead ITPs in neighbouring regions); or they could be connected to Programme Lead ITPs in a variety of ways (hub-and-spoke, subsidiary organisations, subcontracting arrangements etc), with governance being either separate or shared.

125. It may be that different approaches make sense in different regions, especially as regards governance. For example (speculatively), on the West Coast, the Regional Economic Development agency and regional council may seek an ownership stake in the ITP and to have this reflected in its governance arrangements; in other regions, iwi and hapū may seek the same.

126. These are questions that should be worked through during a high-level design phase (see discussion of implementation from paragraph 0), in consultation with the relevant ITPs and their communities. In the case of TPP the discussions are already well underway, and their proposals are a good fit with ours.

*Funding*

127. Like Programme Lead ITPs, and as per current VET review discussions, we envisage that Regional Access ITPs would receive a combination of a base grant and EFTS funding, potentially with a regional loading on EFTS. They would use some of this funding to arrange or procure delivery into their region by other providers via subcontracting or partnership arrangements.

128. Like Programme Lead ITPs, Regional Access ITPs would be also able to attract additional funding via student fees, delivery to international students or other revenue streams – though their opportunities for so doing may be more limited due to their smaller size.

129. A Regional Access ITP's costs would depend on:

- the mix of "in-house" vs "buy-in" delivery: the Regional Access ITP would not need to maintain a wide variety of full-time permanent academic staff, but it may maintain faculties in areas of local importance;
- how many of its own facilities and venues it maintained, and how much it shared with or leased from other parties (which could include commercial property, schools, marae or churches);

- how much of its own back-office and middle-office infrastructure it maintained independently, and how much it drew from neighbouring a Programme Lead ITP or the ITP centralised entity; and
- how many academic and managerial staff it maintained, and at what cost. We would expect Regional Access ITPs to have fewer senior managers and more frontline staff than Programme Lead ITPs.

130. Again, these are things that should be determined via the high-level design phase.

## Specialist distance provider: the Open Polytechnic

*ODFL is a specialist activity*

131. Open Distance Flexible Learning (ODFL) refers to learning delivered outside conventional face-to-face classroom or blended activity, archetypally with the learner choosing when they interact with learning materials, which are usually offered wholly online. Programmes can be modular/ "hop on, hop off" or traditional in structure; the point of difference is the delivery mode and the pedagogy of supported self-directed learning, rather than the content of learning.

132. Evidence suggests that the best providers of ODFL worldwide are those who do it as a specialisation, rather than those who do it as an add-on to their existing face-to-face delivery business. This is because the capabilities and functionalities a provider needs to support wholly-online delivery are different to those required for face-to-face or blended learning.[14]

133. New Zealand currently has four main ITP-owned online delivery platforms:

- the Open Polytechnic of New Zealand, a specialist vocational aspiring-ODFL[15] provider which delivers via its proprietary iQualify platform;
- SIT2LRN, SIT's online arm, which is managed as a standalone business within the ITP with a different business and staffing model to SIT's on-campus delivery, and delivers predominantly fully-distance delivery via Blackboard;
- LearningWorks, a fully-owned subsidiary of Wintec which designs and delivers programmes as a PTE as well as providing learning design services to Wintec; and
- TANZ eCampus, a specialist online delivery vehicle collectively owned by the TANZ group of six ITPs, which delivers via Moodle. TANZ eCampus is a legally separately entity to its ITP owners, with the participating ITPs sharing enrolments on a round-robin basis.

134. The Open Polytechnic is by far the largest of these. Its business structure is also different to that of other ITPs. Rather than the usual academic workforce model described in paragraph 50 (whereby academics design, deliver, assess and support learning through a single faculty and sometimes a single individual), the Open Polytechnic operates on a "disaggregated value chain" model with separate but integrated teams responsible for:

- Learning Design (designers, content experts, curriculum developers);
- Education Technology (IT, LMS, analytics); and
- Learning Support (tutors, learning supporters/mentors, assessment, academic services, and student communications); supported by
- back office corporate services (Finance, HR, Facilities, Legal).

[14] The Open Polytechnic provided TEC with a list of references from the literature in support of these points.
[15] The Open Polytechnic provides online distance learning – the "flexible" aspect is clear aspiration but a work in progress.

*Proposed role of the Open Polytechnic*

135. We propose that the Learning Support team within the Open Polytechnic – ie its delivery staff – be designated as the specialist ITP provider of fully-distance ODFL delivery within the ITP network, supported by its back office. This is largely a continuation of the Open Polytechnic's existing role, pushing it further along its desired pathway toward ODFL specialisation.

136. On this model, other ITPs could still offer blended delivery options (ie an online delivery component supporting face-to-face learning), and potentially fully-online delivery too, if it was considered important to retain competition in a developing market; but only the Open Polytechnic would be funded as a specialist ODFL provider. The Open Polytechnic would partner with on-the-ground providers (not just other ITPs but also wānanga, schools, marae, NGOs – any organisation with suitable capability and infrastructure) to provide students with local pastoral care, computer and library services, and employer engagement/placements and so on as required. It would also maintain a student contact centre and technical helpdesk with 24/7 access.

137. Open Polytechnic's iQualify platform is one of several candidates for a Learning Management System (LMS) that could be progressively rolled out across the ITP network so that, in time, it is common across all providers for all learning, whether online, blended or face-to-face. Any such roll-out would be managed and driven by the new ITP centralised entity, rather than by the "new" delivery-focused Open Polytechnic. If iQualify was the chosen platform, then the Open Polytechnic's Learning Design and Educational Technology teams would, we envisage, be offered employment at the ITP centralised entity (and/or the ITP centralised entity could potentially be built out from the middle office of the Open Polytechnic).

*Funding*

138. Due to its very large scale and low overheads (especially in a world in which it receives its programmes and LMS for free), the "new" Open Polytechnic we envisage would be over-funded at current EFTS rates – even taking into account any payments it might need to make to ITPs and others providing various forms of support for its distance learning students.

139. To address this risk of over-funding, government may wish to (for example):

- adjust its unit pricing for large-scale delivery, either directly via special pricing for this particular institution, or indirectly by reducing Open Polytechnic's EFTS allocation and allowing it to substantially over-deliver; and/or
- set formal service obligations on Open Polytechnic to offer low-volume courses via cross-subsidisation from higher-volume ones (as we understand is its current practice); and/or
- set requirements for Open Polytechnic to spend a fixed proportion of its revenue on fee scholarships to enhance student access.

140. We would need to examine these options more closely in the broader context of funding decisions about the programme development and the ITP centralised entity, outlined directly below.

*Can ODFL delivery and programme design be separated?*

141. It has been suggested to us that specialist ODFL provision may require its own programme development, as well as its own delivery vehicle. We have also heard that ODFL programmes can and are used very successfully in classrooms.

142. Given this, it may be that the most efficient approach to programme development for the network is to design as many programmes as possible for an ODFL environment, while knowing that some will actually be taught in a blended or face-to-face environment.

143. This would have the signal advantage of ensuring that a large number of ITP programmes could be delivered in a flexible, modular hop-on-hop-off way, and could therefore be tailored to the needs of working adults. This could help move the sector as a whole toward a more flexible approach to delivery. It would, however, require all Programme Lead ITPs to have capability in designing for ODFL delivery environments.

144. We would need to explore this further with pedagogical experts and learning designers during the next phase of work.

## A new ITP centralised entity

145. ITP governors, managers and staff expressed strong support, during regional engagement, for the provision of shared services for ITPs. We propose a new ITP centralised entity to provide some such services, with the precise nature and arrangement of those services to be determined in conversation with the sector. We envisage though that the shared entity would focus in the first instance on providing middle-office services for ITPs, with the potential to expand to providing back-office corporate services over time. It could also carry out a range of sector leadership functions.

*A service provider for the sector*

146. Thought of as a service provider to, rather than a manager of, ITPs, we envisage that the ITP centralised entity would not itself have coercive power over the ITPs. However, we think government may need to retain the power to require ITPs to use the ITP centralised entity's services in certain instances. This may be achievable via existing mechanisms (eg, TEC funding conditions) or may require new regulation.

147. We think the power of coercion may be needed to avoid a situation in which an ITP chooses to retain low-value duplication and variation in its own activities because this is easier (in the short term) than shifting to shared services.

148. It may also be needed to ensure that the ITP centralised entity is not limited to providing services in ways that benefit every single ITP, as some types of centralisation of services will inevitably come with costs to some providers (which could include staff redundancies). These costs can be justified by a central decision-maker where there is a clear net benefit to the ITP network as a whole and to New Zealand; but if the affected ITPs effectively had veto rights, they may choose to exercise them.

*Governance and ownership*

149. We have not decided what legal, ownership or governance structure the new shared entity should have, or what its precise relationship should be to ITPs and to the Crown. We would like to explore these questions via the high-level design phase, in consultation with the sector, the State Services Commission and other relevant experts. Our default assumption is that ITPs should be involved in the governance and possibly ownership of the entity.

*Implementation*

150. Several implementation options exist for the ITP centralised entity, including building from new, or building out from an existing platform.

151. Our preference is to build it out from an existing platform, probably from one or more existing providers doing some of the above common functions. Candidates here include the middle office of the Open Polytechnic; TANZ eCampus, a joint venture owned by the TANZ group of ITPs; LearningWorks, a subsidiary of Wintec; and SIT's SIT2LRN arm. Our working hypothesis is that the Open Polytechnic would likely be the best starting point (especially if,

as mooted at paragraph 141, all programmes need to involve ODFL learning design), but this would need to be tested in the next stage of design.

152. We envisage that, after initial work within government to set parameters for design, 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. It would need to work closely with TEC and the Ministry of Education on any proposals that required legislative, regulatory, funding or policy change.

## Services we suggest the ITP centralised entity should provide

153. At this stage, we suggest the ITP centralised entity should provide the following services to ITPs, each of which is discussed further below:

- a shared Learning Management System;
- a shared Student Management System;
- a pool of highly skilled learning and assessment designers;
- 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".

*A shared Learning Management System*

154. We suggest that the ITP centralised entity should provide and manage a shared LMS across the network. Candidates for this include iQualify, Blackboard, Moodle and potentially others.

155. Our assumption is that it will be safest and most cost-effective to roll out a common LMS to ITPs progressively, in accordance with existing LMS replacement cycles, rather than in "one big gang". We could test this assumption with ITPs and technology procurement experts during the high-level design phase.

156. We envisage the ITP centralised entity would provide staff training on the LMS as well as ongoing technical support.

*A shared Student Management System*

157. We have considered the question of whether all ITPs should transition onto a shared Student Management System (SMS), either over time or upfront; or whether this would create insufficient value to outweigh the cost and the increased risk (albeit still very low) of catastrophic systemic failure.

158. Our view is that the ITP centralised entity should certainty explore this, given the benefits it could generate for students' ease of movement through the system. It should also explore the possibility of moving in time to centrally managed student guidance and enrolment/admissions processes.

159. Any widespread change to SMS systems might best be co-ordinated with the scheduled replacement of the Single Data Return (government's main system for collecting student data) in 2020.

*A pool of highly skilled learning and assessment designers*

160. We suggest the ITP centralised entity needs to maintain a pool of highly skilled learning and assessment designers which it would make available to Programme Lead ITPs to support programme design. The pool could be physically located in one place, providing fly-in-fly-out services to ITPs; or it could be virtual, with staff physically located at ITPs around the country but employed by the ITP centralised entity; or a mix of both.

*Specialist capability in data analytics and reporting, including learner analytics*

161. Data analytics, including learner analytics, was repeatedly identified during sector engagement as an area in which all ITPs need or want to grow their capability, but ideally would make the necessary investments in expertise and software collectively once or a few times, rather than 16 times over.

162. These investments may be in software packages hosted and administered by the entity itself, software-as-a-service approaches, or contracted service provision by an external provider.

163. We would need to consult with ITPs directly in more detail on what kinds of specific monitoring and reporting activities need to be located at each ITP, and which can sensibly be centralised. Programme-wide (across multiple ITPs) and organisation-wide analyses of learner data to identify patterns in engagement and achievement, and to assess the efficacy of different interventions, can certainly be done centrally and will benefit from scale in the data. In contrast, day-to-day tracking of student engagement and flagging of intervention points, and the selection and administration of interventions, may be best managed at the individual ITP level, at least for the time being while technology and processes are still rapidly evolving and there is value in trialling multiple different approaches.

164. We could seek advice from technology procurement experts and also from the Social Investment Agency (as an expert in using large datasets to target and manage interventions) on these questions.

165. We would also need to think about whether it made sense, at this stage of market maturity, to institute a single provider/software package for this activity across all ITPs (or even beyond, to all public providers). It may be wiser to support more than one approach at this stage, to avoid having all our eggs in one basket while global products and services are still evolving quickly – provided the different providers/packages were to some extent interoperable. This is again something on which we would need to seek advice from technology procurement experts.

*A core set of common business processes and workflows across the ITP network*

166. We suspect it makes sense to standardise the vast majority of business processes and workflows at ITPs, provided frontline staff retain the ability to operate flexibly to meet the presenting needs of those they deal with day to day. A standardised approach to common activities, designed well and – crucially – with input and advice from the staff who actually run the workflows, will make life easier for staff, improve services for students, and free up resources to enable more focus on high-value personal interactions at the front line.

167. Development of common workflows and business processes could start with middle-office and front-office processes (eg programme approval, student enrolment), and could potentially extend into the back office (eg HR policies) in time. It could start as a voluntary small-scale process, perhaps with a pilot at the two sets of two ITPs we propose for mergers (Unitec and MIT; and Weltec and Whitireia), as these institutions, if they merge, will need to undergo process change anyway. If the approach proved to be valuable, it could be expanded and, if necessary, made mandatory.

168. A Tennessee-based pilot of shared business process development across its network of 13 community colleges had an upfront cost of $1.5m, and was forecast to generate an annual saving of $2.8m, meaning it would pay for itself nearly twice over in the first year of full implementation.[16] The 13 community colleges enrol about the same number of students each year as New Zealand's 16 ITPs.

*Central expertise in asset management*

169. Paragraph 57 explains that ITPs' asset utilisation and management is of mixed quality, and seems to over-emphasise investment in bricks and mortar over investments in technology to enhance student access. We think ITPs would benefit from centralised expertise in asset management. This could range from a service ITPs could choose to call on to supplement their own capability, to a central "network investment planner" function providing advice to government on proposed ITP investments and disposals (which are currently managed by permission of the Secretary for Education, as per section 192 of the Education Act 1989); to a service provider acting on behalf of ITPs in key areas.

170. The advice, planning or service function could cover any or all of:

- buildings and facilities for educational delivery or other ITP use;
- technological infrastructure; and
- student accommodation.

171. We would like to explore this in more detail with ITPs and relevant experts to assess what mix of services, with what voluntary or binding arrangements, would be most suitable at this point in the sector's history.

*Professional learning and development (PLD) frameworks and programmes for ITP staff*

172. Ako Aotearoa, the National Centre of Tertiary Teaching Excellence, already provides PLD to tertiary providers, including ITPs. ITPs vary in the use they make of Ako Aotearoa's PLD services; those who do use them are in general complimentary of their quality and relevance.

173. We see value in the ITP ITP centralised entity partnering with Ako Aotearoa and, where necessary, with other training providers (potentially including ITPs themselves) to design, maintain and deliver a structured programme of core PLD programmes for ITP academic and general staff, including entry-level management training.

174. The ITP centralised entity could also work with ITPs to design succession plans and career pathways for academics and managers across the ITP system, rather than just within each ITP.

*Infrastructure and training to power up the "student voice"*

175. Paragraph 66 noted the power of a strong student voice in lifting quality at tertiary providers.

176. Some jurisdictions and institutions overseas provide central services to support the student voice, for example by providing common frameworks, policies and processes for students

[16] Strata Information Group (2016). *Establishing standardized business processes across Tennessee Board of Regent's community college system.* Retrieved 11 September 2018 from www.sigcorp.com/wp-content/uploads/2016/03/TBR-BPM-Efficiency-Case-Study_Strata-Information-Group.pdf.

and institutions to follow, and by training tertiary students to act as expert assessors and collectors of student feedback. Examples include:

- the Student Partnership in Quality Scotland (sparqs) programme in Scotland. This is a publicly-funded agency which aims to support student engagement in the quality of the learning experience, across both the university and the college sectors in Scotland[17]; and
- the SATAL (Students Assessing Teaching and Learning) programme at the University of California Merced. This programme "trains students in classroom observation, interviewing and reporting techniques. Small teams of students then assess individual classes – some focussing on instructor behavior, others focussing on gathering and synthesizing student feedback. In other words, it professionalizes student feedback."[18]

177. We see value in providing centralised support for a strong student voice in New Zealand's ITP sector. This could include providing frameworks, policies, processes and training as outlined above, for both domestic and international students, as well as providing specialist governance training to student members of ITP councils (to be reinstated by the Education Amendment Bill).

## Other potential activities for the ITP centralised entity

178. In addition to the above, we would like to further explore the pros and cons of a central ITP entity to provide:

a. international and domestic marketing;

b. support for managing Treaty relationships; and

c. other sector leadership functions.

179. Our preliminary thoughts on each are below.

*International and domestic marketing*

180. We heard repeatedly from international education market experts that New Zealand's 16 ITPs could have more impact in international markets if they shared a common "New Zealand ITP" brand and co-ordinated their marketing activities. We propose that we should work closely with Education New Zealand and relevant staff at ITPs to identify what kinds of collective international marketing activity could best be undertaken by an ITP centralised entity in the ITP space.

181. We could also look at the scope for extending beyond collective international student marketing to other forms of collective international activity, including VET consultancy services and potentially transnational/offshore delivery.

182. In addition there is wide support in the sector for co-ordinated nationwide domestic branding and marketing activity in support of ITPs, and of VET generally, as a valuable and viable alternative to university education. An ITP centralised entity would be well-placed to lead such activity on behalf of the ITPs, in partnership with government.

*Support for managing Treaty relationships*

183. Treaty of Waitangi principles, specific Māori-focused legislative compliance and wider Treaty jurisprudence are important contextual factors in any relationship between the state, Māori and iwi.

[17] Sparqs website: www.sparqs.ac.uk
[18] Usher (2018), *ibid*.

184. In both pre and post Treaty settlement contexts, ITPs are widely seen as necessary partners in helping iwi and Māori communities to achieve their social, cultural and economic aspirations. This is particularly so in regional contexts where the ITP will be very visible and ideally will enjoy a close relationship with local iwi. Conversely, where these relationships are not well managed, an ITP can be seen as antagonistic to iwi aspirations. Post Treaty settlement contexts present significant opportunities to accelerate regional economic growth. The ITP sector is critical to skill and labour market supply.

185. Treaty policies, principles and wider jurisprudence will inevitably inform how Māori and iwi representatives interact with an ITP. These relationships will be characterised by a sharpened sense of the importance of Treaty-based partnership principles, support for the things that are unique to iwi and Māori (eg, tikanga, te reo, identity), iwi and Māori input into ITP strategy and leadership, and commitments to overcoming institutional, socioeconomic and other barriers to Māori achieving their full potential, including educational outcome parity with other New Zealanders.

186. This area of public management can be complex and requires specialist leadership, knowledge and capability. A single ITP may need to manage deep and multiple (and sometimes conflicting) iwi and Māori relationships. Public policy tensions around the role of the state in supporting mātauranga Māori are important and still to be resolved. Strong demand pressures are emerging for supporting te reo Māori and iwi economic development right across the country, particularly in the primary sector.

187. As very visible state agents, ITPs need to proactively manage these risks and opportunities. The proposed ITP ITP centralised entity may be able to contribute support and expertise from the centre, particularly in terms of managing interactions with other parts of the Crown.

*Other sector leadership functions*

188. Some of the services described above – including international and domestic marketing and asset management – would act not just as services to individual ITPs, but also as leadership functions for the sector as a whole.

189. An ITP centralised entity could potentially also undertake additional sector leadership functions including:

- system quality oversight and approvals (essentially re-delegating the old ITPQ functions from NZQA to the ITP centralised entity, at the discretion of NZQA);
- performance improvement interventions in individual ITPs, so as to pre-empt the requirement for a TEC intervention; and
- supporting ITPs to manage Treaty/constitutional relationships through the development of shared institutional policies and frameworks.

190. It would also be well-placed to manage national relationships that cannot be managed effectively by ITPs (individually or collectively). These might include relationships with national organisations including iwi, with national employers and standard-setters, and with international counterparts (for example, TAFE peak bodies in Australia).

## Funding of the ITP centralised entity

191. Government faces a range of options in choosing how to fund for the ITP centralised entity. A fundamental question, linked to the entity's ownership and institutional structure as well as funding, is whether the entity should be:

- directed funded by TEC to provide services to ITPs (via a base grant and/or funding streams tagged to specific services);

- collectively funded by the ITPs (again, via a base grant and/or via purchasing arrangements) – and if so, do ITPs have a choice of service provider, or must they purchase from the shared entity?; or
- a mix of both.

192. We think the answer probably has to be a mix of both, with the details to be explored in consultation with the sector and market design experts in the coming months. By way of preliminary thoughts:

- Where government is stipulating that ITPs must use a particular service from a particular provider, it is transactionally simpler for government to fund the provision directly in one chunk, rather than in multiple small streams of funding funnelled vian ITPs. On this monopoly-provider scenario, TEC would need to carefully monitor the performance of the ITP centralised entity in meeting the needs of ITPs.
- Alternatively, government could accept the transactional complexity of providing tagged funding to ITPs that they must then spend on services from the ITP centralised entity. This has two advantages. First, psychologically speaking, ITPs have some skin in the game and are more likely to demand value for "their money", even if they can't choose to spend it elsewhere. Second, some ITPs may not spend their full service entitlement, revealing (in a way that direct TEC funding of the ITP centralised entity would not reveal) that either too much capacity is being funded or the services are not fit for purpose.
- Where government wants ITPs to have the choice between using the services of the ITP centralised entity or of another service provider (or no external provider at all), it needs to put the purchasing power in the hands of the ITPs. This has the benefit of enacting a market discipline on the ITP centralised entity to make it accountable to the ITPs it serves.

*Other funding sources*

193. Government would need to consider whether it wanted the ITP centralised entity to undertake commercial services for non-ITP providers and other parties, potentially including those in other jurisdictions. Commercial activities the ITP centralised entity could undertake might include educational consultancy services, learning design services, data analytical services and access to any proprietary software it might own.

## Impact on out-of-region provision

194. On our proposed network configuration, we envisage that most ITPs would only deliver in their own geographic area (unless delivering via a Regional Access ITP). With the same programmes offered nationwide, most students will be best-served by enrolling with their local ITP.

195. The exceptions would be niche areas of provision where scale was relatively small even at the national level, and it made sense to concentrate delivery at one ITP with existing expertise and relationships. The New Zealand Institute of Highway Technology (NZIHT) at WITT might be one example.

*ITP-owned PTEs*

196. Some ITPs currently own PTEs that deliver outside the ITP's home region in generic fields of study, for example ICT or business. These PTEs compete directly with other ITPs (and other providers) for TEC funding.

197. We have considered the idea of requiring ITPs that own PTEs operating out-of-region to liquidate or sell them, in order to shore up the market position of the other ITPs with which they compete. However, we consider that this would reduce student choice without significant overriding benefits. Either the PTE would vanish from the marketplace, removing an option

that students clearly valued; or else it would shift into private hands, in which case any profits it generated would be lost to the ITP system as a whole.

198. On balance therefore we propose not to institute any system-wide changes to existing ITP-owned PTEs, though we will discourage the establishment of any new ones. TEC will continue to make case-by-case decisions via its investment planning process about what provision to purchase from ITP-owned PTEs, and what from ITPs directly, in any given region.

*Delivery to international students in Auckland by non-Auckland-based ITPs*

199. Eight ITPs[19] based outside Auckland have premises on or near Queen Street in Auckland. These ITPs compete with other countries' providers, and with other New Zealand providers, for international students. Approximately 3,500 international students in Auckland are studying at non-Auckland-based ITP. These students are worth around $150m to New Zealand and support around 1,300 jobs.

200. The Government's new International Education Strategy aims to create an environment where international education can thrive and provide economic, social and cultural benefits to New Zealand. The Strategy also aims to work with regional economic agencies to expand international opportunities and help meet future regional labour needs.

201. We think the ITP network can best contribute to the Strategy by non-Auckland-based ITPs focusing on growth outside Auckland. We agree with the view of Education New Zealand that leveraging a package of regional incentives for international students to study outside Auckland would assist this; recent changes to post-study work rights are a small (albeit time-limited) step in this direction.

202. On our proposed future network model, we would support Unitec/MIT to grow their international EFTS in Auckland, but we would discourage other ITPs from delivering to international students in Auckland unless they were offering something substantially different to Unitec/MIT. We would however encourage them to grow delivery to international students in their home regions, especially at higher levels, and to make maximum use of any regional incentives or resources available to support this.

## Leaving room for disruptive innovation

203. Disruptive innovations – those that fundamentally change or replace current approaches rather than incrementally improve them – are more likely to come from the edges of a system than from its centre. In the context of ITP programme delivery, this means that radically new ways of teaching and learning are more likely to originate at the coalface than in the higher reaches of Programme Lead ITPs.

204. For this reason, and notwithstanding our general push toward centralised programme development at Programme Lead ITPs, we think it is important to preserve the ability:

- for any ITP (of any kind) to make proposals direct to NZQA and TEC for significantly new and innovative approaches to delivery, including new programmes in areas of emerging industry need; and
- for NZQA and TEC to be able to approve such new programmes for trial delivery and evaluation at the originating ITP or another IT – with the agreement of the Programme Lead ITP being desired but not required.

[19] EIT, NMIT, Northtec, Otago, Whitireia and WelTec have delivery sites on Queen St (with these latter two sharing premises – and with NMIT currently in the process of exiting). SIT and UCOL have sites within a short walk of Queen St.

## Putting it all together

205. The following table summarises the key contrasts between the current state for ITPs and our desired future state.

*Table 1. Current vs desired future state*

| 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* | |
| 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)<br>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<br>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 |

| Current state | Desired future state |
|---|---|
| *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<br>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<br>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 |

## Benefits and risks of our preferred network model

### Key benefits

*Consolidation of programme development and postgraduate delivery at Programme Lead ITPs*

206. At the heart of our consolidation proposal is the aim of separating variation that adds value – for example, because it enhances responsiveness to local communities, or because it allows the system to innovate – from variation that just adds complexity, cost and confusion.

207. People in the regions told us that they want autonomous ITPs operating in their region because they believe this helps ensure that:

- the overall mix of delivery will be relevant to their local economy and labour market; and
- specific programmes can be adapted to reflect local opportunities, in terms of both content (adapting generic content to local needs) and format (eg, designing delivery around local internship opportunities).

208. This means each ITP needs to be able to choose what it delivers at the whole-of-ITP level, and to some extent how it delivers any given programme – but it doesn't mean it needs to create basic content for itself, as is often currently the case.

209. High levels of differentiation at the programme level create costs for ITPs, students, and inter-regional employers. They also make the vocational qualification system appear cluttered and hard to navigate: the Targeted Review of Qualifications (TRoQ) created unity at the level of qualifications (up to level 6), but the sector's response was to recreate variation at the programme level.

210. Consolidation of programme development at one ITP for each field of study will achieve scale, efficiencies and critical mass, with the corresponding benefits of higher quality at lower cost.

211. Sharing of programmes across all ITPs presents an opportunity to create a strong nationwide "brand" for a range of core vocational programmes (and qualifications above level 6 unaffected by the TRoQ). This could help to raise the visibility, recognition and status of these

programmes in both domestic and international marketing. This may also have benefits for the brand of vocational education more generally.

212. It would also provide greater clarity for employers about what ITP graduates had learned. In theory the TRoQ achieves this through harmonisation at the qualification level, but in practice we heard that employers know that "not all programmes are created equal" and often want knowledge of the specific programme content. As this is currently hard to find, they tend to hire repeatedly from the same source, which constrains both their talent pool and graduates' work opportunities.

213. The sharing of programmes across the network will increase the time that ITP managers and teaching staff can spend building external relationships, managing delivery quality and interacting directly with students. These are things most staff told us they wanted more time for – particularly more time to interact with students and employers – but which their current workload makes difficult.[20] Even if they had to reserve some time to spend adapting national ITP programmes to their regional context, this would still represent a significant saving compared to designing the programme from scratch. Alternatively, rather than expanding time their staff spend on other activities, ITPs could choose to reduce staffing numbers.

214. It will also make it easier for students to transfer between ITPs. Students enrolling in, say, a New Zealand Certificate in Carpentry would undertake the same programme at Ara as they would at EIT, but with delivery in the classroom adapted to their learning needs and local work opportunities by each ITP as required. Both students would be tested against the same standards at graduation, giving certainty to potential employers about the skillsets they possessed.

215. And because it avoids centralising all capability in a single location, it preserves expertise in the regions – especially where it is inherently place-based – and upholds the mana of the ITPs.

216. In time, we anticipate that Programme Lead ITP sites will offer real competition to universities – especially if some are designated as CoVEs. They will provide excellent and prestigious (because selective at intake) pathways to postgraduate education in an applied setting, where students research and learn hands-on using advanced technology at the cutting edge of business practice.

217. Programme Lead ITP sites may also be able to make a significant contribution to applied research excellence, knowledge transfer and business development in the regions, forming partnerships with relevant Crown Research Institutes and universities where relevant and potentially attracting funding from MBIE or Callaghan Innovation.

*Delivery to small populations in large areas*

218. The Regional Delivery Model is designed to ensure that small populations spread over large geographic regions have access to a range of regionally-relevant vocational educational choices, at an affordable cost to taxpayers.

219. This is very challenging in the current funding and delivery model due to the EFTS pricing approach and the "sticky" nature of overhead costs at ITPs (see paragraph **Error! Reference source not found.**). While a funding rate increase or the introduction of a base grant could make any size of institution viable, it would be very expensive to adequately fund smaller polytechnics on their current business model, and would bolster inefficiencies in their high-overhead delivery approaches.

[20] Depending on its nature, increased student interaction time may require an increase in Timetable Teaching Hours (TTH) in staff's employment contracts.

220. The shift to a Regional Delivery Model would help by improving the variety of what the ITP could "offer" (ie make available to learners), while at the same time reducing overhead costs. We anticipate that learner choice would likely increase over time, as Regional Access ITPs found innovative ways of sourcing delivery options to meet local needs.

221. If the Regional Access model proved very successful in meeting learner needs, we can see potential for it to become widespread in the ITP sector.

*Central services*

222. The benefits of the ITP centralised entity are fourfold – three very practical and one largely symbolic.

223. The first practical benefit is that the services provided by the ITP centralised entity will improve the quality 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. Every ITP needs PLD for its staff; every ITP needs to access its students' voices; every ITP needs learner analytical capability. Not every ITP has the time, expertise or financial wherewithal to access these things at a high level of quality.

224. The second practical benefit is that, just as with academic programme design, it is cheaper to do things once than multiple times.

225. The third practical benefit is that many shared services generate value due to their collective nature, over and above the value generated by a series of equally high-quality individual services. For example:

- centralised capability in learner analytics enables system-wide data analysis, which is valuable over and above the benefits it delivers to individual ITPs;
- a national-level support system for supporting the student voice empowers students in a way that multiple individual systems do not;
- consistent international branding and marketing at the network level 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);
- and so on.

226. The services we think the ITP centralised entity should provide are in nearly all cases services that generate a collective benefit larger than the sum of the individual benefits accruing to each ITP. In many cases they are better sited at an "ITP sector body" than closer to government; for example, in providing analytical services using students' unit-record data, the privacy issues are simpler if the service provider is to all intents and purposes part of the ITP sector.

227. The symbolic benefit is that having a strong, visible nationwide ITP body providing services to the ITP network, especially including marketing services, will help bolster the perception both at ITPs and in the general public of the ITP network *as a network*, rather than as a collection of individual institutions. This is the ethos behind the phrase Tū Kahikatea, the Strength of a Network.

## Key risks and issues

228. The main risks inherent in our proposed network approach are described below. We believe all can be adequately managed through careful design, implementation and monitoring.

*ITPs' resilience in the face of significant change*

229. Many ITPs are under considerable stress – financial and, for many staff, psychological and emotional. While many in the sector are enthusiastic about change and welcome the opportunities it presents to make things better, many are also conscious of limits on how much additional stress the system, and its staff, can absorb without impacting the student experience or the quality of delivery.

230. In designing the changes laid out in this paper, we have consciously aimed to propose a level of change that we think the ITP sector can absorb. Ongoing design of change in partnership with ITPs, and development evaluation throughout the implementation process, will ensure we adjust the speed and scale of change adaptively to keep close to the limit of what's possible without causing harm.

*Reception by the ITP workforce*

231. The proposed structural changes will deliver most benefits if the ITP academic workforce shifts to become more focused on frontline activities, and more flexible about how and when it delivers education to learners.

232. However, while our proposed changes will enable and encourage this (particularly if accompanied by changes to legislation regarding research-led degree delivery), they will not require it, at least not at Programme Lead ITPs. These ITPs may choose to persist with current resourcing models, at least in the near term, limiting the value created by the proposed structural changes.

233. This is more likely to occur if staff are highly resistant to the proposed changes. It is hard to assess the likelihood of this. During our stakeholder consultation, academic staff repeatedly told us that they would welcome more sharing of programmes and other resources across the ITP network, even though this would mean they had less control over the content of their delivery (and over others' delivery of any programmes they themselves designed). They indicated that they considered this a price worth paying for the compensating benefits, which they predicted would include:

- more time to spend with students and with external stakeholders;
- less administration;
- more potential for collegial (as opposed to competitive) relationships with colleagues at other ITPs; and
- more or better support services.

234. However, the proposed change will not be welcomed by those academic staff at ITPs who, when it comes down to it, do not want to spend less time designing programmes or doing research and more time interacting with students, employers and communities; or who are unwilling to relinquish (what they consider to be) their intellectual property. Where such staff are leaders in their field, they may find happy homes at Programme Lead ITPs; but others may choose to leave the ITP system. This will come with financial and potentially reputational costs.

235. Some ITPs may also seek to realise savings from efficiency gains by making some staff redundant, a process which generally (and appropriately) involves a certain level of public debate and contest. University academics may choose to join such debates in support of ITP staff, via union activity or on an individual basis, especially if they are concerned that similar changes could spread to the university sector.

236. Ultimately, decisions about whether and how to change staffing arrangements in the proposed new structure will be for ITPs to make as autonomous entities. Government's

interest is in ensuring, for the sake of staff, students and other stakeholders, that any changes have a clear rationale and are managed fairly and transparently. Government can also help mitigate the risks and costs of change by:

- giving clear and repeated descriptions of the benefits mentioned above;
- emphasising that staff who want to spend a lot of time doing academic research should be at Programme Lead ITPs or at universities, not in delivery faculties at ITPs;
- if feasible, creating opportunities for high-performing staff from any ITP to be seconded (physically or virtually) to Programme Lead ITPs for fixed periods to undertake valuable research projects in their areas of expertise and interest; and
- emphasising that, while redundancies are costly for individuals, inefficient and unviable institutions are ultimately costly for all staff, students and stakeholders of the institution.

*Reception by other parts of the tertiary education system*

237. Tertiary education organisations in direct competition with ITPs for students – including universities, wānanga, PTEs and ITOs – may seek to undermine proposals that are likely to significantly strengthen the ITP network. Universities and wānanga may also:

- be concerned that government will pursue similar changes at their institutions as it has at ITPs; and/or
- consider that government ought to be willing to fund shared services for them as well as for ITPs, or that the government's decision to fund shared services for ITPs amounts to rewarding ITPs for financial mismanagement.

238. Wānanga may also reflect that, in light of the Treaty partnership between the Crown and iwi, government has a special responsibility to ensure that it is even-handed in any special benefits it bestows on tertiary education institutions.

239. One option for government would be to extend an invitation (without compulsion) for universities and wānanga to participate in shared services alongside ITPs, where this was feasible. 9(2)(g)(i) [redacted]

240. 9(2)(g)(i) [redacted]

*Loss of competition and innovation*

241. Shared programme delivery across the ITP sector may achieve consistency in programmes at the cost of incentivising ongoing quality improvement and innovation, due to the monopoly position of the Programme Lead ITP.

242. This risk is moderately low because universities, PTEs, wānanga and ITOs will continue to provide competition and variation in programme design; and because ITPs will still compete amongst themselves for reputational goods, and for international students, on the basis of their service offering as a whole.

243. The risk can be further mitigated by ensuring that any ITP can make experiment with new and innovative programmes, as described at paragraph 203 above; and by carefully designing accountability arrangements for Programme Lead ITPs, as described at paragraph 262 below.

244. On a similar note, the ITP centralised entity too may achieve consistency of business practice (including use of technology platforms) across ITPs at the expense of valuable innovation. One safeguard against this risk is that other parts of the New Zealand tertiary system – not to mention offshore institutions – will be constantly innovating, so the ITP centralised entity will have good access to new ideas from outside. Another potential safeguard would be to enable an ITP to make a business case to TEC to "opt out" of an ITP centralised entity service for a fixed period of time to trial a different approach.

245. A separate but related risk is that multidisciplinary programme development is inhibited by the disciplinary focus of Programme Lead ITPs. We would need to work with the sector to understand where and how this risk might arise, and how best to manage it.

*Mergers can make things worse before they make them better*

246. Mergers at Unitec and MIT, and at Weltec and Whitireia, would inevitably deflect management attention at those institutions away from quality improvement and work with external stakeholders, and toward internal change management and integration tasks. This could result in a net deterioration in the quality and responsiveness of the institutions' delivery in the short term, before the benefits of merger started to appear. This is a common journey in mergers (see Appendix C); the question is, can these institutions afford to undergo it?

247. The risks of merger can be mitigated through adequate planning resourcing, with a special focus on protecting the ITPs' responsiveness to students and employers throughout the change. 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. If not, the mergers should not proceed.

248. A further consideration is how the timing of mergers will interact with the timing of establishment of the ITP centralised entity and assignment of Programme Lead ITP roles. We will need to work this through with Ministers and with the entities concerned case-by-case. We are mindful of 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; speedy implementation in 2019 may be advantageous to Unitec/MIT and Weltec/Whitireia.

*The Regional Access ITP model is untested*

249. The concept of a Regional Access ITP is untested, and will inevitably throw up unintended and perhaps unforeseeable consequences and challenges. This can be mitigated through good development evaluation, to enable fast identification and response to emerging issues; and through piloting the model at TPP ahead of its implementation elsewhere.

250. The proposal that Regional Access ITPs broker some delivery from other regions, rather than maintaining comprehensive permanent staffs of their own, creates a risk that some regions will become "de-skilled" relative to others. This would have negative implications both for the ITP's ability to support its local economy, and for its ability to attract international students to the region.

251. This risk can be mitigated by ensuring that Regional Access ITPs are adequately funded to maintain permanent resourcing in areas where having staff living and working locally matters to the region's long-term skill development or to the quality of the student experience. These areas would need to be agreed with each ITP's regional stakeholders, including students, on a case-by-case basis.

*The ITP centralised entity model may not work as expected*

252. Shared services in a New Zealand tertiary education context have been limited to specific types of service, such as Ako Aotearoa or the New Zealand Benchmarking Tool. Their application in other sectors, such as Health Benefits Ltd as a service provider to DHBs, indicates that good outcomes are by no means assured.[21]

253. The ITP centralised entity we propose would essentially be a monopoly provider of multiple services to ITPs and would require careful design and monitoring to guard against the risk that it failed to deliver quality or value. This can be mitigated through:

- involving the sector in the design process to achieve clarity and commitment about roles and responsibilities (including what is voluntary and what mandatory, and why), and to ensure the right accountability mechanisms and incentives are in place;
- developmental evaluation during the implementation design phase to identify and address emerging issues as they arise;
- ongoing monitoring against agreed expectations (including performance against agreed KPIs, with benchmark measurements taken at the outset); and
- perhaps a comprehensive review of its functions and contribution to the sector after (say) five years of operation.

*The Open Polytechnic's current educational performance is comparatively weak*

254. The Open Polytechnic's proposed role as a specialist ODFL provider in New Zealand will be tenable only if the institution can address its current educational performance issues. These include low qualification completion rates generally, low course completions for some programmes, and a significant "parity gap" in achievement for Māori and Pasifika compared to other learners.

255. Learners engaged in ODFL delivery face different barriers and challenges to those engaging in face-to-face or blended learning, and sometimes have different goals; so the educational performance of the Open Polytechnic needs to be considered in this context. However, as this mode of delivery increases in popularity, we will need to be assured of quality delivery.

256. We are in ongoing conversation with Open Polytechnic to understand the drivers behind low completions and the parity gap. At this stage we are optimistic that it can significantly improve its performance as its new delivery model beds in and as it improves its student intake procedures; but if improvement is slow then we may need to reconsider its role.

*Weaknesses in regional accountability*

257. Accountability of ITPs to their regional community stakeholders in the current system is relatively weak. TEC requires ITPs to explain, in their investment plans, what actions they have undertaken to identify and assess stakeholder needs, and how they are responding to those needs; but we have no efficient way of independently verifying the quality of ITPs' practice in these regards.

258. The structural changes we propose to the ITP network will not solve this problem (except perhaps to some extent for Regional Access ITPs) as it is not first and foremost a structural problem. The changes we propose may help by giving ITPs more time to spend engaging

[21] Health Benefits Limited (HBL) was established in 2010 to find $764m in savings through providing shared administrative services to DHBs. It was plagued by operational and governance difficulties and incentive design problems, and was disestablished in 2015 having achieved direct savings of less than $100m.

externally – but if the ITP lacks capability or will in this regard, then having more time will not be sufficient.

259. We will seek to address this issue through our proposed separate work on governance and accountability for ITPs (paragraph 273 refers).

*Competition for Programme Lead status*

260. ITP chief executives have spent the last decade in a highly competitive environment, and could be expected to compete fiercely to be chosen to become Programme Leads for any areas in which they maintain sizeable faculties. This would not be problematic in the short term. Once Programme Leads were identified, though, we would not want other ITPs to have over-strong incentives to invest in positioning themselves to "win the Programme Lead role away" from its host (rather than focusing investment on their own areas of excellence).

261. On the flipside, we would not want Programme Lead roles to be permanently and irrevocably located at a given ITP, regardless of its commitment to ongoing investment in quality and relevance.

262. The selection and implementation process for Programme Leads would need to be carefully designed to get the competitive balance right. The same challenges would arise in any future selection of CoVE sites. We envisage that TEC will rely on good monitoring to ensure Programme Leads remain high-performing, accompanied by the credible threat of re-assignment of the lead role (and associated resource) to another ITP in the case of underperformance.

9(2)(f)(iv) [redacted]

263. [redacted]

264. [redacted]

265. [redacted]

266. [redacted]

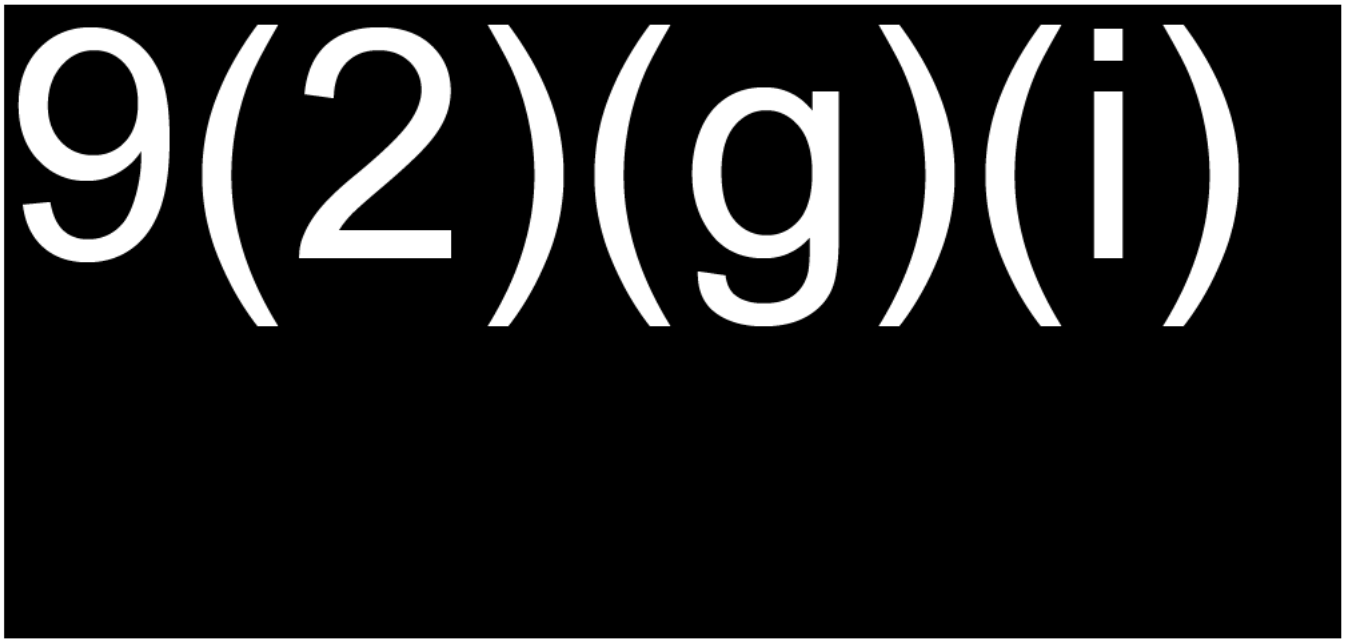
267. 9(2)(f)(iv) [redacted]

268. [redacted]

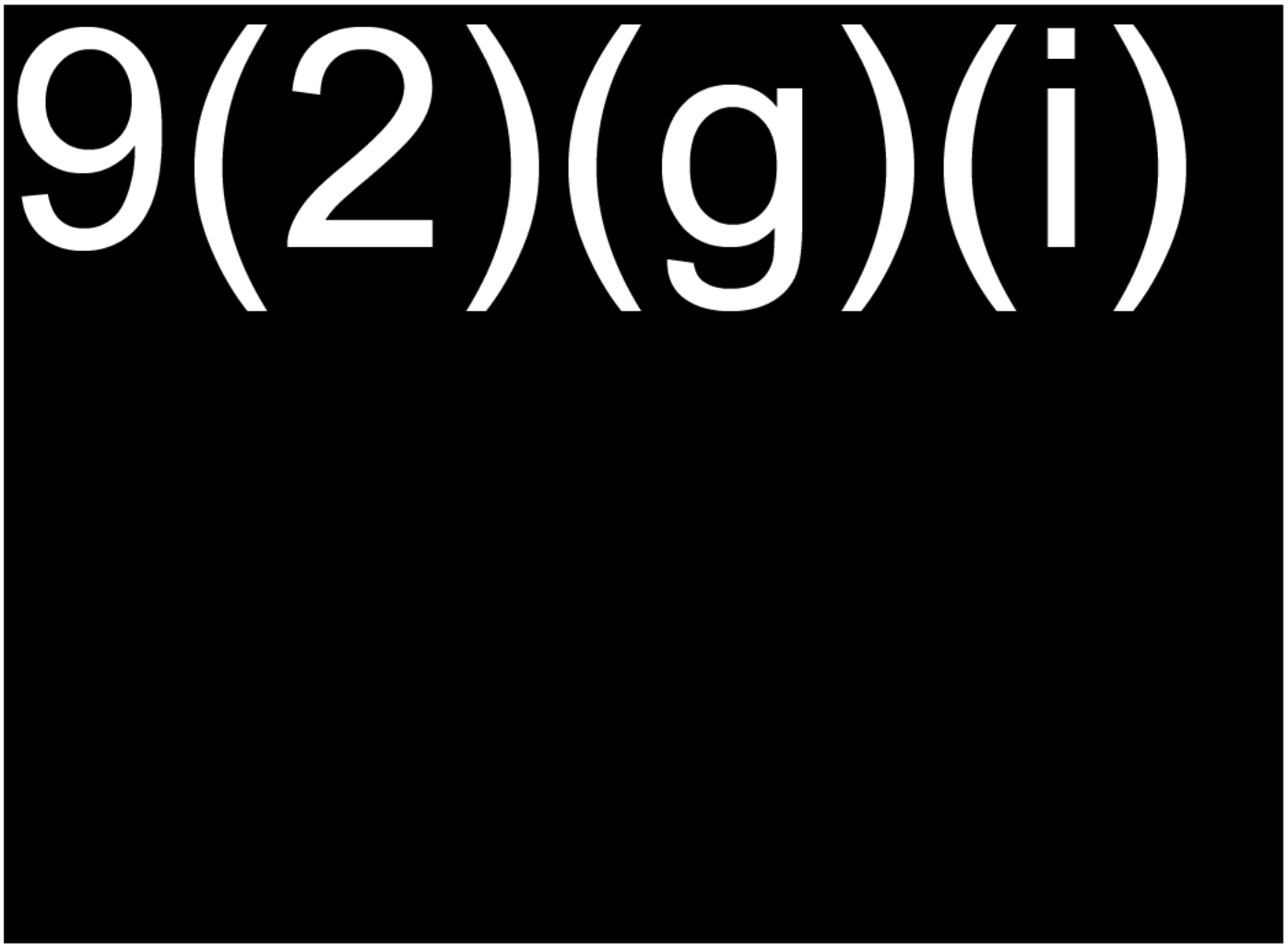
269. [redacted]

## Potential savings available

270. 9(2)(g)(i) [redacted]




271. 9(2)(g)(i)



9(2)(g)(i) [redacted]

272. 9(2)(j) [redacted]

## Addressing weak governance and management

273. Governance and management capability at ITPs is uneven. Some organisations are demonstrably excellently governed and managed; some appear to be "well-enough" governed and managed, but we suspect may prove insufficiently resilient or adaptive in the face of ongoing financial pressure; and some are demonstrably poorly governed and, at least historically, poorly managed. The area of weakest capability seems to be financial management, though some ITPs have also done a relatively poor job of managing educational quality.

274. 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.

275. It is also not clear that scale is the only or even the central issue.[22] 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.

276. 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 the institution.

277. 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. Potential change in this area could include 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

[22] Having said that, we do suggest that expertise in asset management be provided by the ITP centralised entity, as this is a specific skillset that some councils find it hard to access locally.

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.

278. 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.

279. 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.

### Management expertise

280. Like governance quality, management quality across ITPs is variable and requires both top-down and bottom-up enhancement at the system level. The bottom-up enhancement involves better PLD, including management training, for ITP staff, as discussed at paragraph 173. Less competition between ITPs will also make it easier for chief executives and management teams to create professional "communities of practice" across organisational boundaries; the ITP centralised entity could play a co-ordinating role here if desired.

281. The top-down enhancement lies in the fact that ITP councils appoint and manage the performance of chief executives, who in turn appoint and manage the performance of their leadership teams. High-performing councils will, in time, drive high performance in the chief executive and leadership team.

## Changes to the wider VET system

282. To realise the true potential of the ITP network changes outlined in this briefing, we recommend they be accompanied by a broader set of changes in the wider vocational education and training system, uniting the ITP Roadmap 2020 project with the Ministry of Education's VET review. While we believe that many sensible changes can be made to ITPs before final VET review decisions are made, we also think the greatest value will come from designing and implementing a single coherent package of changes.

283. We are working closely with the Ministry of Education as it considers the ideas below in the context of its VET review.

### Complementary roles for ITPs (and other providers) and ITOs (and other standard-setting bodies)

284. In the current VET system, ITPs and ITOs both have a role in designing qualifications, designing programmes, delivering training and/or arranging its delivery, and assessing students and moderating that assessment.

285. Sometimes these activities involve both ITPs and ITOs, for example where ITOs purchase off-job delivery from ITPs, or where ITPs deliver managed apprenticeships using ITO-developed unit standards. But most of the time the activities happen entirely through one party or the other, as when an ITP designs and delivers a programme using no ITO-

developed standards, or an ITO designs a programme using unit standards and without any off-job content and arranges the training itself.[23]

286. Our view is that education and training is most powerful when both ITOs and ITPs are involved. We think this based both on what we observe in practice, and for the principled reason that the two types of organisation have different focuses which need to be held in tension:

- ITOs are industry-owned bodies focused on helping employers access training for their staff, with a tendency to focus on the workplace's short-term skill needs; and
- ITPs are public education providers focused on educational quality and the lifelong learning needs of learners, with a tendency to prioritise pedagogical robustness over workplace relevance.

287. We see value in a system redesign in which, rather than these two types of organisation being able to operate in isolation from one another, instead they are required to work together to make productive use of the inherent tension in their areas of expertise. We have given considerable thought to how this could work and would welcome the opportunity to explore it with the sector.

## Careers advice and E2E integrator function

288. We see a role for a unified function in the tertiary education system to provide advice, integration and brokerage to multiple parties in the education-to-employment space. This would involve working closely with schools, tertiary providers and employers in particular, and also iwi, NGOs and government service providers where relevant. Activities could include:

- career advice and guidance, not just for school students but also for adults in work or seeking to enter or return to work;
- advice to prospective learners on the education and training options available to them, and how those options align to local or national labour market need;
- advice to employers on the training options available to them;
- support for secondary schools (expanding to primary schools in time) in arranging placements for senior students in work experience or at tertiary providers;
- support for graduates to find and succeed in work; and
- support for employers in fostering a pipeline of local talent through engaging with the education system.

289. These advice, integration and brokerage activities are currently spread amongst a large range of actors, with a mix of central government, local government, iwi and private or philanthropic funding. They include:

- career advisors in schools;
- STAR and Gateway co-ordinators in schools;
- career advisors and graduate employment services in tertiary providers;
- private market career development professionals;
- iwi education organisations;
- Work and Income offices and other Ministry of Social Development services and initaitives;

[23] NZQA analysis found that programmes overwhelming contain either all unit standards, or no unit standards; very few programmes involve a mix of unit standards and other types of assessment standard.

- NGOs, for example Whānau Ora providers, or those contracted to Youth Services;
- special-purpose programmes such as the Young Enterprise Scheme, Outward Bound or Eureka!
- Chambers of Commerce;
- TEC's E2E staff;
- the Ministry of Education's Principal Advisors Secondary-Tertiary;
- the Ministry of Business, Innovation and Employment's Sector Workforce Engagement Plan (SWEP) staff;
- joint agency initiatives such as He Poutama Rangatahi; and
- a range of local services particular to a given region (for example, Taranaki Futures in the Taranaki region, or Talent Central in Manawatu).

290. In many locations the actors are poorly co-ordinated and do not act as a system, creating confusing and fragmentation for career seekers.

291. We don't see the need for a "one size fits all" solution here – we believe local communities will be best-placed to determine how best to meet their needs with the unique resources available to them, making good use of both public and private resources. But central government can help by providing a framework to identify the functions that need to be fulfilled, and the funding streams available for each from the centre. This would enable multiple providers to work together to create a coherent service offering for career seekers in each location.

292. We see a potential role for ITPs as venues for, or facilitators of, multiple career services available across a region, including their own. The "Skills and Job Centres" model in Victoria is one model we could investigate here.[24]

## Other options we considered

293. During the course of the ITP Roadmap 2020 we encountered or generated many different potential ITP network models. The ones we seriously considered, all of which were shortlisted by the co-design group, are described below. We have drawn from all of these options to some extent or other in our preferred network design.

### One ITP (or a few ITPs) model

294. The "one ITP for all of New Zealand" (or a small number of very large ITPs, say three) has arisen during multiple stakeholder engagements. It is an intuitively attractive idea, in part because it is conceptually simple.

[24] Skills and Job Centres are learner-facing impartial advisors on training options, attached to TAFEs across Victoria. They are funded out of the "Community Development" strand of Victorian TAFE funding. Some Centres are sited on the TAFE campus and some on retail premises downtown. They work closely with their local equivalent to Work and Income, and with local Chambers of Commerce, to match learners to work-relevant training opportunities, sourcing training from the TAFE or elsewhere as best meets the learner's needs. They also refer learners to other services (eg drug and alcohol, health, housing, budgeting) where required. Some incorporate "ReConnect", a targeted outreach service aimed at re-engaging young people in education and training.

*Benefits and risks*

295. The main benefits of significant consolidation are that:

- it maximises economies of scale across the network (though can also create diseconomies of scale, if additional resource is needed to co-ordinate the internal activity of the organisation);
- it maximises the market prominence of the consolidated organisation;
- it makes good use of central planning powers and of scarce expertise, with the ability to move resource around the network relatively quickly; and
- it makes it very easy for students to transfer between sites. It also means that once a student has enrolled in the ITP, their information is recorded for life – they can do an initial course, then move town and get a job, and re-enrol in some upskilling some years later, and "the system" will remember them. This would reduce transaction costs for students and would also represent a marketing advantage for the ITP, to the extent that it could find means to track alumni and advertise relevant lifelong learning opportunities to them.

296. The main risks are as follows:

- **Very high and extended costs of change.** While the idea of consolidation is intuitively simple, the reality is that implementing mergers is complicated and costly. Merging just two back offices is expensive and difficult; the complexity increases exponentially for each additional party added into the mix. The activity requires significant additional resourcing, and even then will distract a lot of management attention away from core delivery for a period of time. Change programmes to consolidate of the back, middle and front offices of TAFE systems in Australia have run to the hundreds of millions of dollars and have generally taken several years.
- **A lack of regional responsiveness.** Any centralisation creates the risk that people on the ground in the regions not having the power to make decisions about regional delivery, or needing to wait for slow central bureaucratic processes to approve changes. This can be largely addressed through careful delegation of decision rights to regional offices – but the more that is delegated, the fewer benefits derive from consolidating (as opposed to just co-ordinating) in the first place.
- **A loss of sense of regional ownership or priority/importance.** We heard more than once that regional sites could feel neglected by head office or like they were less important than when they were their own institutions. We also heard that chief executives of enterprises in the regions want to talk to the chief executive of their local ITP/TAFE, not a second- or third-tier campus manager or business development manager.
- **Lazy monopoly behaviour.** A large central ITP with little competition would have few incentives to innovate in response to its customers' changing needs.
- **The risk of systemic failure.** This is a low risk but its consequences are extreme. South Australia is a cautionary tale; in 2017 its statewide TAFE system lost accreditation by the quality assurer for 10 qualifications, leaving South Australia temporarily without any TAFE provision in key vocational areas including plumbing, construction, commercial cooking, hairdressing and aged care.

*What we took from it*

297. The creation of an ITP centralised entity in our preferred option, and the centralisation of programme development to one site (but not the same site for every programme) nationwide, are intended to capture the key benefits of consolidation without incurring the costs of back-office change.

*Experiences in Australia*

298. Multiple Australian states have consolidated their TAFEs (broadly similar to ITPs, though with less degree-level delivery) to reduce their numbers in recent years. This includes:

- New South Wales, which is part-way through a multi-year programme to merge its 13 TAFEs into one;
- Queensland, which merged its 13 TAFEs into six and is now merging those six into one (with six regional divisions);
- South Australia, which merged its 3 TAFEs into one; and
- Western Australia, which merged its eleven TAFEs into five, but has no plans for further consolidation.

299. We and the Ministry of Education visited New South Wales and Victoria in June. Our visit coincided with a meeting in Sydney of TAFE directors from around Australia, so we had the opportunity to talk to them about the goals behind their network consolidations, how the experience compared to ex ante expectations, and what they considered the hallmarks of successful change. The benefits and risks mentioned above were prominent. Key additional messages were:

- the need for a clear (and relentlessly communicated) strategic purpose for the consolidation;
- advice to think carefully about the kind of culture you want to foster, and ensure that you have the right leadership in place in the institutions to grow that culture;
- advice to "give the bad news early" and "cut hard and cut fast" – that is, incur all the pain and costs of redundancies upfront, to be able to move into the rebuild as quickly as possible, rather than trying to ease the change process through iterative small restructures;
- the importance of "keeping an eye on the back office" to ensure that its numbers do not start to re-grow after cutbacks (noting that investing in good corporate software can make a huge difference to how many people are needed to complete administrative tasks); and
- advice to prioritise standardisation over flexibility – but to remember that standardisation doesn't need to mean centralisation.

## Federation and franchise models

300. Federation and franchise models have been proposed by different groups of ITPs during the Roadmap consultation process, and were shortlisted in the co-design event held in August. Variations on these models are currently in place in the University of Highlands and Islands (UHI) in Scotland, in some community college systems in the USA, and to some extent in non-Melbourne-based TAFEs in Victoria.

301. The key idea is the existence both individual ITPs and of an ITP centralised entity, with the main difference between federation and franchise arrangements being the ownership structure and decision rights of the ITP centralised entity, as per Table 3 overleaf.

*Table 3. Comparison of federation and franchise ITP network models*

| | Federation | Franchise |
|---|---|---|
| *Who owns the ITP centralised entity?* | ITPs | The Crown |
| *How is the ITP centralised entity funded?* | Fee for service from ITPs (but probably with Crown establishment funding) | Fee for service from ITPs (but probably with Crown establishment funding) |
| *How does EFTS funding flow?* | Paid direct to the ITPs | *Either* paid to the ITP centralised entity, then distributed to ITPs (the UHI model); *or* paid direct to ITPs |
| *What decisions rights does the ITP centralised entity have over individual ITPs?* | None or highly limited | Significant re. control over use of the "franchise" – programmes, materials, supporting technology |

302. The core functions of the ITP centralised entity on each model are similar if not identical, and include programme development as well as some back-office and delivery support functions. However:

- The **federation** model conceives of the ITP centralised entity as a jointly-owned subsidiary of the ITPs, and thus ultimately under governance and management control of the ITPs. This is likely to have the advantage of greater buy-in, at a conceptual level, from the sector. The accompanying challenge is that such an entity could only move at the pace of the slowest (individual ITP or voting coalition), or in circumstances where no one perceives themselves to be disadvantaged – so it would be more likely to add than to remove cost in the system.
- The **franchise** model seeks to avoid the risks noted above through establishing the ITP centralised entity as a separate body, probably owned directly by the Crown. As noted earlier in this paper, the detail of decision rights and balance of controls and coercion will still need to be worked through. The franchise model also offers more opportunity to establish sector leadership functions in the ITP centralised entity, without these being subordinate to every ITP.

*What we took from it*

303. We have used substantial components of federation and franchise models in our proposed approach, in particular:

- the creation of an ITP centralised entity to provide shared services to the sector as a whole; and
- the sharing of programme development across ITPs.

304. 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

305. This model emerged during our two-day co-design workshop in August. The proposal was sketched at a high level only at the co-design workshop, but the key idea was to unite ITPs and ITOs under a shared governance structure in a unified VET system, rather than them being two separate types of organisation in competition with one another in their own sub-systems.

*Benefits and risks*

306. The main benefit is the increased system coherence, and in particular the removal of counterproductive competition between ITPs and ITOs; in addition to the economies of scale gained by significant centralisation.

307. The main risks are the creation of a giant unwieldy monopoly with no real competition and poor responsiveness to the demand-side; and the risk of catastrophic high-stakes system failure if the entity did not deliver quality.

*What we took from it*

308. As described from paragraph 282, we are in discussions with the Ministry of Education's VET review team about potential proposals that capture the essence of this idea, in terms of creating a coherent system in which ITPs and ITOs play complementary rather than competing roles. But we would prefer a design that retains what we feel is useful tension between ITOs and ITPs.

## "Big Picture" model

309. This model has been piloted by the last four years by Te Aho o te Kura, the Correspondence School, to deliver NCEA 2 to learners in several locations. The pilots were judged highly successful, and Te Kura is now planning to gradually expand the model to become its mainstream delivery approach.

310. The key idea behind the 'Big Picture' model is the use of both online learning and place-based learning, including internships, to offer learners a very wide variety of high-quality learning experiences tailored to their unique situation, goals and drivers.

311. Each student enrolled in the Big Picture programme has an Individual Learning Plan developed by them in partnership with their teacher, articulating their goals and the range of learning experiences they need to undertake to achieve them. These might include (for example):

- self-paced online modules offered by Te Kura;
- small-group classroom learning with a Te Kura teacher, either in person or by video conference;
- 1:1 tutoring by a Te Kura teacher or other appropriate adult;
- peer-to-peer group activities and teamwork;
- hands-on learning at Te Kura's Trades Academy or sometimes at a school or polytechnic;
- job shadowing, mentoring, internships and other work experience; and
- volunteering activities.

312. Each teacher looks after about 15 learners, clustered by geography rather than by subject matter. The teacher treats the group as a cohort, encouraging team activities (social and educational) and creating a sense of belonging; and some learning activities are shared by all learners (eg annual presentations on their achievements during the year). But the teacher also connects each learner with the specific individual learning experiences set out in their personalised plan, drawing from a large library of online teaching and learning resources as well as place-based opportunities.

313. Te Kura has many "pop up" learning sites in small towns, where it leases or borrows space once a week (for example) rather than maintaining a permanent presence there.

*Benefits and risks*

314. The main benefits of the Big picture approach are:

- it is getting good results for students for whom the mainstream education system fails (particularly for Māori learners, who on average enter Big Picture with fewer NCEA credits than other learners but achieve qualifications at roughly the same rate);
- students graduate from the programme with meaningful work experience, soft skills, and a plan for the future, as well as an NCEA qualification;
- the programme is economic if run at scale and with flexible use of assets and resourcing; and
- as most delivery is managed via the LMS, teachers and Te Kura managers have good real-time access to learner analytics to track and monitor student progress.

315. The main risks, in terms of extending the approach to ITP delivery, are:

- it would require scale to work;
- it is untested at higher levels of the qualifications framework (bearing in mind that fewer higher-level qualifications are as flexible as NCEA); and
- it would require a paradigm shift in how most ITP staff conceive of their educational role. This has been challenging for teachers at Te Kura; we think it might be even more so for lecturers and tutors at ITPs.

*What we took from it*

316. The Big Picture model is a delivery approach rather than a network configuration. Despite its risks, we see a lot of potential 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.

317. The Big Picture delivery model may be a particularly good fit for Regional Access ITPs, who will already be curating delivery from multiple providers to meet the needs of their. The Big Picture model would see them doing that at the level of the individual student, rather than the region as a whole.

318. We suggest this is something to consider further in mid to late 2019, when we can make an assessment of whether any ITPs are likely to be in a good position to design pilots for implementation from 2020 or 2021.

## Next steps

319. See briefing B/18/00652 for a discussion of next steps.