



Aide Memoire

Update on progress toward reform of vocational education

To:	Hon Chris Hipkins, Minister of Education		
Security Level:	In Confidence	Date:	7 December 2018
Priority:	Medium	METIS No:	1170895
From:	Andy Jackson	DDI:	s 9(2)(a)

Purpose

1. This aide memoire includes talking points (overleaf) to support your discussion at Cabinet on progress with the reform of vocational education. It also includes some material for you to talk to should you wish to provide further details to Cabinet at this stage and a summary of Treasury advice to the Minister of Finance, which may be raised at Cabinet.

Treasury advice to Minister of Finance

2. The Treasury has advised the Minister of Finance to engage with you before the proposed January 2019 Cabinet paper is submitted about:
 - including costs of proposed changes in the January 2019 Cabinet paper
 - how to mitigate risks to existing service after the announcement
 - a preference to not consult on funding mechanism changes.
3. If these matters are raised at Cabinet you may wish to respond with the following points:
 - The financial implications in the January Cabinet paper will be as well-developed as possible. However detailed financial analysis will be required following Cabinet consideration in January, including the extent to which resources of the sector can support change. The preliminary nature of the funding implications are why we are seeking contingency funding.
 - A change management strategy is part of the work programme for the reform of vocational education. The current Budget initiative includes scope to design “change funding” to maintain the expected level of service delivery during the transition, subject to further decisions.
 - We are working through the scope of consultation, and decisions about whether to include any proposed changes to funding mechanisms are yet to come.

Talking points for Cabinet paper

4. I want to update you on the progress of two items on my Education Work Programme, which I committed to reporting back to you on, by the end of the year, which involve:
 - investigating how the institutes of technology and polytechnics (ITP) sector could operate more as a system and gain efficiencies through scale (the ITP Roadmap 2020 project)
 - undertaking a review of the vocational education and training system to clarify how the skills system could best support our skill needs across the system as a whole.
5. The work we have done throughout the year has led me to decide that these two reviews should come together under one title, "Reform of Vocational Education".
6. I am working on a proposal to go to consultation to put to Cabinet early next year, hopefully in late January. This will allow consultation to take place soon after.
7. Broadly, I am considering extensive reforms to the structure of the ITP sector and to the roles and functions within the vocational education system, including standard setting, arrangements for training of apprentices and industry trainees, and provision of vocational education.
8. I have asked my officials to update the sector about the time frame for when it can expect announcements and consultation to happen in. Officials will also inform the sector that the two work streams are now a single reform of vocational education work programme.

Optional further detail about the proposed direction of travel if you wish to discuss the proposals more with Cabinet colleagues at this stage

9. The work so far has revealed several problems in the vocational system.
 - **unclear organisational roles** – providers and industry training organisations are not joined up to deliver what learners and employers need
 - **insufficient industry leadership** – for various reasons including the nature of our economy (with lots of small businesses), industry has insufficient influence over the supply chain of skills
 - **not all providers or provision is relevant** – and many providers are not nimble enough to manage the dynamics of a fast changing world of work where adults need short, sharp bursts of skill development
 - **lack of a single funding system** – with the result being that learners may experience insufficient workplace experience in some programmes and insufficient educational content and pastoral care in others
 - **it is not highly regarded** – school students are gaining the perception that vocational education is a poor cousin to university study
 - **ITPs face viability challenges in periods of protracted economic growth** – and are currently under great financial stress.
10. In response, I am considering fundamental change. This is a once-in-a-generation opportunity to shift a system designed for 20th century conditions to meet the challenges of the 21st century, such as future of work challenges.
11. I am therefore likely to propose the following changes in January 2019:
 - structural changes to the ITP sector to create a single ITP with a robust regional network of provision
 - regulatory changes to create clear, complementary roles for vocational education organisations – industry bodies would have stronger skills leadership and standard setting roles, and wider influence in purchasing, and all provision, including supporting employers to deliver in the workplace, would be undertaken by providers such as the proposed one ITP
 - an indication of reforms that will be needed to the funding system for vocational education, such as a single funding system to cover both workplace and provider based delivery.
12. This approach would create a single system that is recognised as delivering the skills demanded by employers, and which industry has significant influence over.
13. Learners will get good educational and employment outcomes from vocational education.
 - they can fluidly shift between provider-based and workplace-based learning

- they can move throughout the vocational education network, particularly between regional arms of the ITP
 - they are equipped to thrive in the changing world of work.
14. It will also stabilise and strengthen the ITP system, addressing the bailouts we have had recently.
 15. Change will not be straightforward, and the further report early next year will bring the picture together in detail, including the risks and opportunities, and funding implications.