



# AIDE MEMOIRE

## Reform of Vocational Education – suite of Cabinet papers

<b>Date:</b>	25 June 2019	<b>Priority:</b>	High
<b>To:</b>	Hon Chris Hipkins, Minister of Education	<b>METIS No:</b>	1196272
<b>From:</b>	Vic Johns, Policy Director, Graduate Achievement, Vocations and Careers, Ministry of Education	<b>Security Level:</b>	Budget sensitive

### Purpose

1. This aide memoire provides you with talking points to support your discussion on the proposed reform of vocational education with Cabinet on 1 July.

### Recommendations

2. It is recommended that you:

**Agree** to proactively release this Aide Memoire once final decisions have been made on the reform of vocational education.

**Agree / Disagree**

Hon Chris Hipkins  
Minister of Education

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**We get the job done** Ka oti i a mātou ngā mahi

**We are respectful, we listen, we learn** He rōpū manaaki, he rōpū whakarongo, he rōpū ako mātou

**We back ourselves and others to win** Ka manawanui ki a mātou me ētahi ake kia wikitoria

**We work together for maximum impact** Ka mahi ngātahi mō te tukinga nui tonu

**Great results are our bottom line** Ko ngā huanga tino pai ā mātou whāinga mutunga

## TALKING POINTS

- This suite of papers seeks your agreement to significant reforms to New Zealand's vocational education system.
- There are seven papers in this suite:

Cabinet paper 1	Reform of Vocational Education – Key decisions
Cabinet paper 2	Reform of Vocational Education – Fiscal implications
Annex 5	Ako Mahi – A unified system for all vocational education
Annex 6	Ma te ako ma te mahi ka ora – Through learning and work we shall prosper
Annex 7	What we heard: Summary of public consultation and engagement – Reform of Vocational Education
Annex 8	Regulatory Impact Assessment: Reform of Vocational Education
Annex 9	Reform of Vocational Education: Programme Business Case

### **We need to be ready for a fast-changing future of skills, learning and work**

- We need a strong, unified, sustainable vocational education system that delivers the skills that learners, employers and communities need to thrive.
- Work-integrated learning is becoming an increasingly important part of vocational education, and we need to ensure that the right systems and support are in place for this type of learning.
- Some parts of our current vocational education system are very high performing, and we need to retain and build on these strengths, but the system as a whole is poorly positioned to serve New Zealand's future needs. It is in urgent need of reform.
- At present, vocational education is primarily split between eleven industry training organisations (ITOs), delivering work-based training, and sixteen institutes of technology (ITPs), delivering training outside of the workplace, complemented by wānanga and PTEs. These two parts of our current vocational education system each have their own funding system.

### **Reforming the vocational education system requires a set of interdependent changes to create one system**

- We need a unified vocational education system with strong leadership from industry and more collaboration between organisations.
- There are seven key changes that will drive the improvements we need in the system:
  1. *Create Workforce Development Councils (WDCs) with leadership across the whole vocational education system:* These would be

around four to seven industry-governed bodies, which would give industry greater control over all aspects of vocational education.

2. *Create a New Zealand Institute of Skills & Technology:* A unified, sustainable, public network of regionally accessible vocational education, bringing together the existing 16 ITPs.
  3. *Shift the role of supporting workplace learning from ITOs to providers:* the Institute and other providers of vocational education would deliver education and training in both workplace-based and provider-based environments to achieve seamless integration between the two settings and to be well connected with the needs of industry.
  4. *Establish Regional Leadership Groups:* RLGs would provide advice about the skills needs of their regions to the TEC, WDCs, and local vocational education providers. TEC would take their advice into account when making investment decisions.
  5. *Establish Centres of Vocational Excellence:* CoVEs would drive innovation and excellence in teaching and learning and improve links to industry and communities. They would be established in areas of study of particular importance to New Zealand.
  6. *Te Taumata Aronui:* to ensure that the Reform of Vocational Education reflects the Government's commitment to Māori-Crown partnerships.
  7. *Unifying the vocational education funding system:* A unified funding system would apply to all provider-based and work-integrated education at certificate and diploma qualification levels 3 to 7 (excluding degree study) and all industry training.
- The new system will provide employers with vocational education that better meets their skills needs, more support for their employees as they are engaged in training, and more consistency in vocational education across the country. Over time this is likely to increase the numbers of employers who are engaged in vocational education.
  - Learners will receive more support while they are training, and vocational education that is more relevant to work. They will be able to move more easily between regions and between work-based and provider-based training, and be able to continue training more easily if their employment situation changes.

**Many stakeholders are supportive of change, but some changes will be unpopular with some stakeholders**

- A wide range of stakeholders understand and support the need for vocational education reform. However, the changes require us to make some tough decisions to improve the system as a whole, some of which will be unpopular with some stakeholders.
- ITOs and a number of employers currently involved in industry training strongly oppose shifting the role of supporting work-based learning to providers. But this

shift is essential to create a new, unified vocational education system to better meet the needs of learners and employers.

- Not all ITPs support creating the Institute, and some have considerable support in their local communities to oppose any loss of autonomy. But the success of an integrated public vocational education system depends on integrating ITPs into a new organisation that drives collaboration and serves all of New Zealand.
- The consultation process has led to refinements to the previous reform proposals. For example, the Institute will be required to ring-fence cash reserves of existing ITPs above a set limit and the ITPs will be transitioned to subsidiary companies initially, which would minimise disruption their activities.
- Furthermore, to ensure that the transition of supporting work-based learning is carefully managed and funded, this role will transfer via holding organisations, rather than shifting directly to providers. This will provide a more structured transition, easing pressure on both ITOs and the Institute.

**There are costs and risks to manage, but the costs and risks of not acting are more significant**

- The changes are substantial. They require legislative change, significant organisational change for ITPs and other vocational education training providers, replacing ITOs with WDCs, and a redesign of the funding system. With any change of this scale, there are significant risks, and it is important to have strong mitigation strategies in place.
- However, the costs and risks of not acting are more significant. There is no risk- or cost-free path to strengthening the ITP sector, or to reshaping our vocational education system for the challenges and opportunities it must meet. The financial instability and structural issues within the current model mean the status quo is not sustainable. While change will be disruptive, it will strengthen the vocational education system for the long term.
- There are a range of measures we will take to mitigate the risks of this change. This includes a broad communications and engagement strategy for all employers, explaining the changes and the benefits they will bring. And a more targeted approach for those employers already engaged in industry training. The phased approach to transitioning the role of supporting work-based learning will help to reduce the risk of employers disengaging from the system, and the use of subsidiaries as part of a phased transition to the single Institute will minimise disruption the activities of ITPs.
- There are also significant costs and risks to manage.
- Most aspects of the proposed reforms have fiscal implications. Budget 2019 set aside \$197.1 million in contingency to manage the costs of implementing the Reform of Vocational Education, though Cabinet noted that additional funding will likely be needed.
- The Programme Business Case for the Reform of Vocational Education includes a range for the total estimated implementation and transition cost for

the reform of \$300 to \$416.4 million over the next six fiscal years. The bulk of this cost relates to the establishment of, and transition to, the Institute.

- The costs involved in establishing the **Institute** are significant, but so are the risks of inaction. Since the start of 2018, we have needed to provide almost \$100 million in Crown support to ensure the viability of three ITPs. Without transformation of the ITP system, it is inevitable that further funding will be needed, for those same ITPs, and most likely many more.
- The other main immediate cost of the reform involves establishing **WDCs**. Officials are carrying out further work with industry groups on the number, coverage and details of the roles of WDCs in the second half of 2019 to help finalise the costs of establishing WDCs. A Cabinet report-back by December 2019 will address future funding arrangements as part of the design of WDCs.
- With regards to **unifying the funding system**, further work with end-users and tertiary education sector experts is required to develop and implement the system. I will report back to Cabinet in February 2020 to seek agreement to initial policy design and phasing options. I expect to seek additional funding to improve the relevance and reach of vocational education in future Budgets.
- The proposed initial investments for implementation total \$69.7 million over four years funded by drawing down an initial \$59.7 million from the Reform of Vocational Education contingency and reprioritising \$5 million per annum of tuition and training funding from Vote Tertiary Education from 2021/22 onwards.