



AIDE MEMOIRE

Reform of Vocational Education – Cabinet papers

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| Date: | 19 July 2019 | Priority: | High |
| To: | Hon Chris Hipkins, Minister of Education | METIS No: | 1199812 |
| From: | Vic Johns, Policy Director, Graduate Achievement, Vocations and Careers, Ministry of Education. Gillian Dudgeon, Deputy Chief Executive, Delivery, Tertiary Education Commission (Annex 2) | Security Level: | Budget sensitive |

Purpose

This aide memoire provides you with two sets of talking points to support your discussion on the proposed reform of vocational education with Cabinet on 22 July. The first set of talking points provides an overview of the reforms (including a brief update on the Judicial Review), and the second set of points outlines your approach to communication and engagement.

This paper also details the key changes that have been made to the RoVE Cabinet papers since they were considered by the Cabinet Social Wellbeing Committee on 26 June.

Recommendations

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

___/___/___

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 tuinga nui tonu

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

Updates to RoVE Cabinet papers since SWC

1. The Reform of Vocational Education Cabinet papers were discussed by the Cabinet Social Wellbeing Committee (SWC) on 26 June. Since then, several updates have been made to these papers.
2. A summary of these updates is as follows:
 - a. Clarifying that providers will not deliver work-based training but will support work-based training.
 - b. Noting that 'serious skills shortages across a number of industries' provides further impetus for the proposed reforms.
 - c. Adding further detail on the role of Centres of Vocational Excellence within the new system.

The Institute

- d. Clarifying that the Institute will be required to spend existing reserves (above a set limit) on the regions in which they had been accumulated by the relevant legacy ITPs.
- e. Adding that a duty would be placed in statute for the Institute's Council to ensure that the Institute has effective local and national stakeholder engagement processes, and gives appropriate consideration to international learners and their potential contribution to regions.
- f. Adding that the Institute's Council must establish a staff and a student committee, and that the Council must consult with these two committees on significant changes.
- g. Adding that around half the members of subsidiary boards of the Institute will be regional representatives.
- h. Adding that the Institute would be established as a new and unique tertiary education institution, rather than as an ITP, but that Institute and its subsidiaries would still be able use the protected terms 'polytechnic' and 'institute of technology' to describe themselves.

Role changes

- i. Emphasising the role of holding organisations in ensuring a smooth transition to the new system, including that they may (in some cases) continue to brand themselves as ITOs.
 - j. Adding detail on the process by which holding organisations would cease to be recognised by the Minister.
 - k. Highlighting that allowance has also been made for WDCs to continue to provide some brokerage functions to employers.
3. Where appropriate, these updates have been incorporated into your talking points (annex one)

Annexes

Annex one: Talking points to support your Cabinet discussion on the RoVE on 22 July

Annex two: Talking points on RoVE communications and engagement approach

Annex one: Talking points to support your Cabinet discussion on the RoVE on 22 July

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

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| Cabinet paper 1 | Reform of Vocational Education – Key decisions |
| Cabinet paper 2 | Reform of Vocational Education – Fiscal implications |
| Annex 2 | Short-form ‘change document for public engagement |
| Annex 3 | Long-form ‘change document for detailed engagement |
| Annex 4 | What we heard: Summary of public consultation and engagement |
| Annex 5 | Regulatory Impact Assessment |
| Annex 6 | Programme Business Case |

Judicial review update

- As you are aware, Skills Active applied to the High Court for judicial review challenging the seven-week consultation period for the proposed reform of vocational education.
- The focus of the judicial review is related to the process of engagement with stakeholders and interested Māori individuals or organisations, in particular the sufficiency or otherwise of the formal consultation period and process.
- The High Court will be hearing the Skills Active Case today and tomorrow (the 22 and 23 of July). There is likely to be media present at the High Court.
- s 9(2)(f)(iv) [Redacted]

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.
- New Zealand is experiencing persistent and widespread skills shortages that highlight imperfections in the vocational skills supply-chain. Furthermore, 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), supporting workplace-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 would support workplace-based training as well as delivering education and training in provider-based settings, to achieve seamless integration between the 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 play a key role in driving innovation and excellence in vocational teaching and learning in areas of strategic importance to New Zealand by strengthening links with industry and communities.

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 spend existing reserves (above a set limit) on the regions in which they had been accumulated by the relevant legacy ITPs. ITPs will also be transitioned to subsidiary companies initially, rather than directly into a single entity, 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. This will also give employers who are satisfied with their current support the assurance that the transition will be carefully managed over a three-year period to minimise any disruption to services.

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.

Annex two: Talking points on RoVE communications and engagement approach

- The decisions Cabinet makes today regarding proposals to reform the vocational education and training system will lead to significant changes to the system over time.
- Communications and engagement with key stakeholders and the general public will be key to sharing the rationale for change and the Government's vision for the future of vocational education.

Announcement

- We are still finalising the announcement date however at this stage I am considering either Wednesday 31 July or Thursday 1 August 2019 for a public announcement.
- On the morning of the announcement I will communicate Cabinet decisions to the Industry Training Organisation (ITOs) and Institutes of Technology and Polytechnics (ITPs) Chairs and Chief Executives and answer any questions they may have in relation to the reforms.
- I will be communicating these decisions via a teleconference. While my preference would be to do this in person with the ITOs and ITPs, a teleconference will enable the Chairs and Chief Executives to be in their regions and with their staff and learners to support communications. This was a concern that Chairs and Chief Executives raised about the announcement of the reform consultation in February 2019.
- I will also offer face-to-face meetings to the ITOs and ITPs in the weeks following the announcement should any wish to meet with me or Associate Ministers in person.
- In the afternoon I will livestream a public announcement. This will enable the Government's vision for the vocational education and training system is clearly articulated to the public directly.
- This will also ensure the message is not miscommunicated as it works its way through other channels of communications.
- I will invite a range of key stakeholders to the livestream virtually by sending them the link. I will also ask them to distribute the link to their relevant stakeholders and networks widely. My office and agencies will also share the link just before the announcement via social media and the relevant channels.
- The announcement will have Te Reo and Sign Language translations where possible. Following the announcement I will then conduct a media conference at parliament.
- Key information documents and materials will be published on the Kōrero Mātauranga – Education Conversation website. These will provide the clear rationale and information of the changes with clear messaging for all stakeholders.

Engagement

- Of course the announcement is a small piece of communicating Cabinet's decisions. A programme of ongoing stakeholder engagement will be crucial to the success of the reforms.
- Comprehensive engagement with stakeholders wherever possible will be a priority over the next three to four months as we move into implementation of the reforms.
- Engagement with affected organisations, key sector stakeholders (including unions) and employers immediately after the announcement will be important to further explain the outcomes and next steps, understand their response and how they feel, to explain the opportunities for them to get involved in the next phase and test how we involve them in the future.
- In most cases this will be ongoing engagement and not just a one-off discussions.
- Engagement will also be supported through ongoing media during this period with regular opportunities for media, for example op-eds in national, regional and industry publications to support direct communication.
- Direct communications to prospective and currently enrolled students and trainees (including student unions) will be very important. This will be supported by a social media approach and direct website activity on websites, such as Careers.govt and other agency websites.
- This will also include direct communication to job-seekers, learners, parents and whanau, and teachers and careers advisors through the Tertiary Education Commission's Careers Insights newsletter which alone has reach of almost 30,000 subscribers.
- Officials across the Tertiary Education Commission and Ministry of Education will use existing channels and events to communicate and engage with the schooling sector on the reforms.
- Officials are also looking at opportunities for engagement direct to employers and business through direct contact and through Chambers of Commerce, Regional Economic Development Agencies and BusinessNZ. This will be through industry conferences scheduled during the remainder of 2019, specific sessions with industry and regional employers hosted by Chambers of Commerce and Economic Development Agencies, and direct meetings where possible.
- We will also be providing direct communications and regular updates to employers and business through newsletters to which they can subscribe.
- It will also be important to widely engage with Māori and iwi, and Pacific peoples on the reforms. Where possible officials will use existing channels and events to engage however will consider whether additional and targeted events may be required such as regional hui and fono.

How can you support?

- I ask that you and your offices consider opportunities you may have to support communicating the Government's vision for the vocational education and training system and engage with key stakeholders in your portfolios. My office is preparing material for you, your offices and all Government MPs to support any engagements you may have with your stakeholder and members of the public.