

Approach to reforms of the institutes of technology and polytechnic subsector

Proposal

- 1 In February 2018, Cabinet invited me to report back in March with an approach to a programme of change for the institutes of technology and polytechnic (ITP) subsector and vocational education more broadly [SWC-18-MIN-0004 refers]. This paper sets out:
 - a. My preliminary case for action and problem definition. These are subject to work with the sector and other stakeholders to identify the drivers of viability in the ITP sector.
 - b. The broad types of options I expect to consider, again in consultation with the sector and other stakeholders.
 - c. How I intend to work with the sector over the next six months and when I expect to report back to Cabinet with progress and proposals.

Executive summary

- 2 It is important that people have access to skills development throughout their lives. We also have 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.
- 3 To help us achieve a world-class skills system, I believe there is value in exploring how the network of tertiary education providers can operate more as a system – so that we can use the resources of the network as a whole to achieve high quality provision across the country. The devolved network of autonomous providers largely does not co-ordinate capital planning and balance-sheet management, student mobility and credit transfer, some programme design, as well as many back-office services.
- 4 The system we have been operating has resulted in a sector of public tertiary providers – the institutes of technology and polytechnics (ITPs) – that has had variable performance and that is largely in an unsustainable financial position. Much of the sector is projected to be in deficit within two to three years under current settings. Some providers are excellent, and there are some models of co-ordination and collaboration within the sector. However, the sector lacks agility to respond to changing patterns of

demand (including international education demand) and the changing needs of their students and local stakeholders.

- 5 I am currently working with the sector to get agreement on the problems and reasons for them, and am aiming to co-create solutions with the sector, and wider stakeholders.
- 6 More generally, I have initiated a review of the vocational education and training (VET) system in New Zealand to identify what changes need to be made so it is producing the volume and quality of skills to support industries, and our economic development programme. This will operate in parallel to the work on stabilising the ITP sector. However, any changes to the settings for vocational education will be more successful if implemented for a sector that operates more systematically.
- 7 I will report back to Cabinet before December 2018 with possible options for change and update Cabinet on whether these options require other policy or legislative changes. On a similar timeframe I will update Cabinet on the direction of travel for the VET sector. If structural change is required, I must first consult on a proposal (as required by s164 of the Education Act 1989), but will seek Cabinet's agreement before doing so.

Our ITP sector needs to deliver on New Zealand's needs in the coming decades, but is currently struggling

Our ambitions for the regions, our commitments and individual learners require a high-quality, highly performing skills system

- 8 The Government has ambitious regional development and national improvement goals. Along with our Kiwibuild programme, which targets building 100,000 houses, and our planting programme of 100 million trees per year, we need a skills system that can support the development needs of individual industries and the Government's capital works programmes. For example, in the construction industry alone, there is projected to be up to 60,000 additional skilled people needed over the next five years. There are also skill needs in the social sector and across government.
- 9 Skills development gives people employment prospects, older people a chance to advance or change careers, and helps with personal development. A high performing skills system is connected to the communities it serves, and supports cultural aspirations alongside economic development. Our skills system has an important role to play in supporting whānau development.
- 10 A strong supply of skilled labour from our vocational education and training system is important to achieve these goals. The Government's economic agenda provides significant opportunities to upskill New Zealanders.

Successful ITPs are most likely to contribute strongly to the skills system

- 11 The ITP sector is the dominant source of pre-employment and off-job vocational education and training. ITPs are public providers that must operate viably and in accordance with their public educational purpose.

- 12 ITPs deliver vocational and technical education at trades level (levels 3-4) and are responsible for much of the pre-trades programmes that prepare people to become apprentices. They also provide advanced skills at diploma and degree levels – much of which is vocational in nature. In addition, ITPs provide significant amounts of literacy, numeracy and other foundation education. ITPs receive over \$500 million in public subsidies. Just over 30% of ITP provision is at degree level and above, which has been growing since 2008, while just under 30% is at level 1-3 (foundation level) and this has been declining over the same timeframe. The remainder is mainly trades and technological training, which has slowly been declining.

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- 13 ITPs have a role in co-ordinating research into vocational practice so that new ideas are seeded into regionally-based businesses.

ITPs are also important organisations in regional centres, and are important for meeting the development aspirations of regions¹.

- 14 There is some significant good performance and collaboration in the ITP sector. But it is not as widespread as we need, and there are variable learner outcomes across the ITPs. A well-co-ordinated network of public provision ensures that New Zealand's regions and metropolitan areas have a range of vocational, foundation and research services, centred on and accountable to local communities in a way that even a high-quality selection of non-public providers is unlikely to be. We therefore need ITPs to be strong and of high quality, and to act as a government arm of the regional development agenda.

We are planning to set the direction of travel and agree shared priorities at the Education Summit in May

- 15 As I noted to Cabinet in February, the upcoming Education Summit will allow for a whole of system strategic conversation to map out the big challenges and opportunities we face collaboratively, from early learning, schooling, and tertiary through to lifelong learning.
- 16 I want to use the Summit to kick off a broad system strategic conversation about the value of education and the future challenges and opportunities in the education system. I anticipate the Summit conversations will act as the 'blue skies' thinking that applies to all of our strategic work – including how our skill system can better contribute to our national skill needs.
- 17 As such, Cabinet also noted my reform agenda in related areas such as vocational education, the NCEA, tertiary education research, and a focus on achievement for Māori and Pasifika learners, incorporating our vision and priorities in a range of strategies.

There is an urgent issue of viability in the ITP sector

- 18 I noted my intention to address the uncertain sustainability of the ITP subsector to Cabinet in February [SWC-18-MIN-0004 refers]. What follows is a description of why I believe we need to work with the sector to understand the current trends and how we can reverse them. This work will produce a more robust problem definition, which can be used to determine what action we should take.

¹ For example, the Ministry of Health notes that the training of nurses regionally results in nurses staying in-region in greater numbers and results in a workforce that reflects the community it serves.

- 19 Many ITPs are in a weak financial position. Our strategy for ITPs needs to be resolved urgently to ensure new investment builds a healthy ITP sector, rather than propping up the status quo. We may need to look at ad-hoc solutions for some ITPs as early as this year. We have already provided capital injections to Tai Poutini Polytechnic in 2017 and 2018.
- 20 The reasons for the financial weakness of many ITPs appear to most strongly relate to falling demand for qualifications delivered by ITPs, which is driven in part by more full time employment opportunities. However, the current trends are cause for concern. The lower quartile of ITPs is already in deficit.
- 21 There are a number of possible scenarios that could further reduce the sector's sustainability, such as reductions in international students and cost pressures higher than existing assumptions (e.g. staff costs). It is possible that fees-free study will encourage more students to enrol in ITPs over the next few years, but we do not yet have enough information to model this impact.

ITPs are struggling to change their business to remain viable as demand for provider-based training places fluctuates

- 22 Over the last 25 years, the ITP sector has experienced significant viability issues several times, each as enrolment levels have decreased. Demand for places at ITPs is generally driven by demographics, strong labour markets – so that students move into work rather than an ITP – or both. Equivalent full-time students (EFTS) have been trending downward since 2010, coming off a peak driven by the global financial crisis. Students now have more employment options, while some ITPs deliver less foundation education, which has reduced opportunities to progress these learners into higher-level programmes.
- 23 The previous time EFTS were close to current levels (in 2008), the Government responded to viability issues in the sector by legislating a new governance and intervention framework for the sector.
- 24 We have seen that, taken as a whole, the sector struggles to adapt to situations of lowering volume by quickly adapting its cost structures to the new reality, or finding new groups of students to maintain volume. For example, despite losing students to the labour market, ITPs in general have not started offering programmes outside work hours that these learners could access. Some also have not offered different forms of provision such as e-learning or modular provision to reach new students. Provision to international students can make up for lowering domestic enrolments to some extent.
- 25 ITPs compete with a number of other parts of the system. They are vulnerable to losing students to universities at degree-level (due in part to universities being better-known institutions), the employment market and industry training systems when the economy is good (students often prefer to move into paid employment given the opportunity), and other providers such as private training establishments at trades and foundation education levels². As a sector, they have been unable to make significant headway against these factors as demand has reduced.

² For example ITPs have lost funding to private training establishments through competitive tendering for foundation level provision since 2013. Reductions in foundation level allocations have downstream effects on the ability of ITPs to enrol those students in higher level study later on.

- 26 At the same time, learners' expectations for modern, technology-enabled personalised learning have grown. While some ITPs have innovated well, many still offer more traditional learning that may seem to students like a step-back from what they experienced at school, and may not consistently be keeping pace with technology change in key industries.
- 27 ITPs are therefore facing rising cost pressures, but have limited ability to shift their business models and make them more sustainable to better meet the needs of their students and regions. These barriers include:
- a. Higher costs and compliance burdens resulting from the breadth of ITP delivery. This is driven by expectations of communities and reflected in the Education Act, and a research role for which ITPs receive little funding (because universities tend to win most of the research funding from the performance-based research fund). Reducing the scope of ITPs' activities has historically proven difficult because of community expectations.
 - b. Less ability to generate economies of scale than other large tertiary providers – due in part to the nature of the ITPs' core business being centred more around classroom learning than the sort of lecture-based delivery that characterises first year university study – and a need to offering greater pastoral care to support learners.
 - c. A workforce that by negotiation works relatively inflexible hours. Staff salaries represent the bulk of ITPs' costs, so ITPs would benefit from being able to renegotiate terms of employment to use staff more efficiently – but this generally has very high financial and other costs.
 - d. Variable management and governance capability. While this has improved since council sizes were reduced in 2010, there is significant competition for capable governors and managers.
 - e. A heavy investment in buildings in some providers. Some of these are difficult to adapt to more modern learning facilities and may have deferred maintenance (i.e. reduced value or high upcoming costs).

The issues are more fundamental than under-funding

- 28 I have considered whether increased funding, which was reduced in real terms over the last nine years, would solve the issues in the sector. There is a strong possibility that simply increasing funding, or even restructuring funding to better reflect the role of ITPs, will only mask issues with the overall structure of the sector, and will fail to realise the potential of the ITP network. Policy clarity combined with a funding system specifically designed to meet the cost challenges of the sector could mitigate against the ITP network's vulnerability to fluctuations in demand. However, it is not likely to result in the modern, dynamic institutions we need. Instead:
- It could lock in current inefficient structures and capital that are not even now meeting the expectations of modern learners and communities.
 - It would be more expensive to government (and students) than it needs to be, and therefore would leave ITPs vulnerable to disruption once more through the business cycle.

Some of our ITPs are excellent and innovative, but we need the whole system to operate strongly to meet our needs

- 29 Some of our ITPs are already innovative, highly performing, and well engaged with communities and industries. However, the current structure of 16 separate providers, of various sizes, and each focussed on its own operations and planning, has resulted in variable educational, governance and financial performance across the network. Successful innovations at one provider have not tended to spread to other providers, meaning we do not learn from such successes at a national level.
- 30 ITPs largely service separate student catchment areas, with all New Zealand's regions covered by the network. While some of the services ITPs offer to these areas and regions can be replaced by other provision (e.g. from private training establishments or industry training organisations), this approach is likely to result in significantly diminished opportunities and range of choices, and higher costs to government, particularly in regions with low population density or geographic dispersal.
- 31 A poorly performing ITP is also a missed opportunity in regions and localities because a modern, quality provider of skills can be a significant piece in the overall regional development puzzle, and can provide a bridge between local school leavers and local careers. A better-coordinated network of regional providers would also more effectively meet the training and skills supply needs of businesses and industries that operate across the country.

We have to consider reforms to address these issues

I want to explore how the sector can act more as a system, and to aggregate some areas of their business to be more efficient

- 32 The key characteristics of a strong ITP sector and wider vocational system include:
- a. a strong regional presence
 - b. a strong link between a regional presence and regional economic development
 - c. the ability to meet the aspirations of learners (including the expectations of Māori learners)
 - d. clear contributions to the local communities that the ITP sector serves
 - e. diversity of provision
 - f. a streamlined and efficient system e.g. more system-wide programme development, back office efficiencies
 - g. specialisation (e.g. to be a centre of excellence in specific industry areas)
 - h. scale to make strategic investments (which can be difficult for smaller providers)
 - i. responsiveness to employers and industry, and the ability to attract external funding.

- 33 To achieve this, I believe we should explore how the ITP sector can operate more as a system. Doing so provides advantages in terms of both scale and the efficiency of capital over time, and will allow the overall system to be accountable for ensuring quality delivery right across the network. A more aligned brand presence for ITPs globally would help attract international students into quality courses.
- 34 There is a continuum of change that would move the sector in the direction of a single system. At some point along this continuum we will have a strong and stable sector that avoids the pitfalls of highly centralised arrangements, such as a lack of flexibility and large amounts of red tape.
- 35 The continuum of options for a stronger system approach to ITPs include:
- Retaining the current system but making it behave more collaboratively, e.g. tightening requirements on existing providers with regards to programme approval, targeting investments into collaborative activity, and leveraging any future capital investments to create more nationally-focussed behaviour.
 - Modifying governance and administration of current system, e.g. regulating for greater shared services including back office, programme and resource development, and the associated research. This might require a stronger collaborative capacity in the sector.
 - Significant structural change – reducing the number of providers and ensuring each has a minimum size and scope.
 - Fundamental structural change (including reconsidering the type of bodies ITPs are) – either short-term (centralise while planning to re-devolve) or long-term.
- 36 There are some overseas models that I am exploring, for example recent TAFE transformations in Australia, where New South Wales and Victoria have taken very different approaches (one centralising their system, the other devolving it). These approaches have had both advantages and downsides which we will aim to learn from. There are also examples of different approaches further afield, such as the community college systems of California and Tennessee.

I will continue to monitor and manage risk for unstable ITPs in the interim

- 37 While I am working with the sector, many ITPs remain under pressure. I will continue to monitor the sector closely and use the levers I have to manage risk at ITPs while the work to stabilise the sector as a whole is underway.

A concurrent review into vocational education and training (VET) will also consider how quality VET can be better supported by the funding system

- 38 I have commissioned a review of VET, to clarify what the skills system should be producing, who should pay, and how the funding and regulatory systems can best support meeting our skill needs across the system as a whole.

- 39 I propose to consider various funding issues as part of this wider review into VET, so that, once we have a viable ITP sector, it has the incentives to deliver the scope and quality of education needed. The equivalent full-time student (EFTS) system, which features pricing that does not account for regional differences or different student intakes, works better for providers that can generate significant economies of scale in parts of their business. However, it is a harder fit for vocational skills and foundation education providers that lack the scope to create high-volume and low overhead programmes.
- 40 In addition, funding incentives sometimes can work against creating the best pathways for learners from school into work, for focussing providers on outcomes for Māori learners as Māori, and for supporting higher-needs learners. For example, providers have incentives to retain students even when completing qualifications in employment (via an ITO) makes more sense for them. Providers also have incentives to not work with students who require intensive support to succeed (as these students may cost providers more with no certainty of a positive outcome).
- 41 This work will take place over the next 12-18 months, i.e. alongside the ITP sector reform. This VET review will consider what New Zealand needs from the VET system generally, including as delivered by all relevant providers and through the industry training system. However, the work to improve ITPs may consider policy and legislative changes separate to the VET review, to ensure the framework for ITPs will support the sector if changes are made. I will report back on how I plan to sequence any changes once the options for ITP reform are clearer.

I propose to discuss the preliminary problem definition outlined here with the sector, experts and other stakeholders, with a view to decisions on how to proceed in about 6 months

- 42 Via the Tertiary Education Commission (TEC's) "ITP Roadmap 2020" project, I have discussed the high-level issues with the sector and the Tertiary Education Union. The ITP Roadmap 2020 project involves TEC working with the ITP sector to discuss and address sustainability issues for ITPs, and will be the key vehicle for ongoing government activity in this space.
- 43 The TEC will take a phased approach to stakeholder engagement. It will now focus on testing and sharing our understanding of the problems and opportunities for ITPs with a range of stakeholders. The goal of the first phase of engagement will be to arrive at a strategic case for change that is well-informed, widely understood, and accepted by a broad range of sector stakeholders.
- 44 The next phase of stakeholder engagement, from about April onward, will be to develop and assess different options, including structural ones, that could deliver the necessary change.
- 45 The TEC, with input from the Ministry of Education and other officials, will use multiple advisory and working groups throughout the project.
- 46 The TEC has formed working groups of ITP Chairs/Deputy Chairs and ITP Chief Executives to represent their respective interests and bring critical insights. These groups will work closely with the TEC on a regular basis.

- 47 The next phase will widen the project out to additional working and advisory groups, with representatives from the wider vocational and education training sector, businesses, local government, unions, iwi, secondary schools, and ITP staff and students. This will include working with Māori groups.

Wider public involvement

- 48 As proposals are developed, TEC will also seek the views of the general public, using a mixture of face-to-face and digital engagement to maximise input and voice. There are opportunities as part of this to work with Māori students and their whanau.

Steps to agree proposals

- 49 I will report back to Cabinet later in the year – by September if possible but in any event by December 2018 – with a preferred proposal. The steps after that depend on the nature of the proposal. For example, there is a lot of additional collaborative activity the sector could agree to explore itself, or that can be driven through funding or regulatory levers already available. However, structural change in the sector would require public consultation following a proposal made under s164 of the Education Act 1989.
- 50 I will also report back on a similar timeframe about the direction of travel for the VET sector.

Risks

- 51 There is likely to be public discussion of possible changes to their local providers, as experience shows communities can be very protective of retaining a regional ITP. I plan to mitigate these risks by clarifying what issues must be solved, our principles of action, and direction of travel with the full involvement of stakeholders and the sector.
- 52 I intend to use the Treasury's Better Business Case framework as a tool with which to analyse the issues and options. The discussions with the sector and stakeholders will provide important input on this. This ensures that the case is robust and that specific risks are identified and managed. A key message will be that all changes will be designed to enhance regional provision, not reduce it.
- 53 Part of this will be to identify any risks to Crown/iwi partnerships, including where individual ITPs have relationships of this nature with iwi. I am also mindful of the equity implications of uneven and low-quality services.
- 54 Many of the potential approaches will involve considering additional up-front investment. We will consider these costs as part of deciding on a preferred option.

Consultation

- 55 The Treasury, Department of Prime Minister and Cabinet, State Services Commission, Tertiary Education Commission, Ministry of Social Development, Oranga Tamariki–Ministry for Children, Ministry of Health, Ministry of Business, Innovation and Employment, Ministry of Internal Affairs, New Zealand Qualifications Authority, Te Puni Kōkiri, Ministry of Pacific Peoples, Ministry for Women, Education New Zealand.

Financial Implications

- 56 There are no financial implications arising from this Cabinet paper. The Cabinet paper presenting reform options will include indications of possible costs.

Human Rights

57 There are no human rights implications.

Legislative Implications and Regulatory Impact Analysis

58 There are no legislative implications at this stage. Any proposals following our discussions with the sector and public will include indications of possible regulatory changes to support the development of a strong system.

Gender Implications

59 The proposals in this paper have no gender implications.

Disability Perspective

60 There are no disability issues arising from the proposals contained in this paper.

Publicity

61 I announced the work programme for ITP reform following Cabinet discussion of the wider education portfolio work programme in February [SWC-18-MIN-0004 refers].

62 The proposals in this paper include a public discussion of the way the tertiary system operates, including viability problems with the ITP sector and possible solutions. This will involve significant publicity, including announcements of our conclusions once I have reported back to Cabinet later in the year.

63 I also propose to publish this paper, and reports drafted by the Ministry of Education and the TEC that set out the problems in more detail.

64 After that, I will communicate with the sector and public from time to time on progress, as it is important to provide assurance that we are focussing on how to improve the quality of skills provision. Regular updates will also remind stakeholders that they can be involved in the process.

Recommendations:

65 The Minister of Education recommends that the Social Wellbeing Committee:

- 1 **note** that in February 2018 Cabinet invited me to report back in March with an approach to a programme of change for the institutes of technology and polytechnic (ITP) subsector [SWC-18-MIN-0004 refers]
- 2 **note** that ITPs are sixteen autonomous providers that operate in a system that does not currently co-ordinate well
- 3 **note** that I am working with ITP Chairs and Chief Executives on serious viability issues for the sector with the intent to gain a common understanding of how to create a system of strong, modern institutions to meet skills needs across New Zealand
- 4 **note** that the options for reform range from more co-ordination between existing providers to significant structural change
- 5 **note** that I and the TEC will continue to work with the sector and other stakeholders over the next six months

- 6 **note** that I intend to provide updates on progress to the sector and the public from time to time during this period
- 7 **note** that I will report back to Cabinet no later than December 2018, with a proposed way forward, process and to indicate the direction of any associated policy changes.

Authorised for lodgement

Hon Chris Hipkins

Minister of Education

Proactively Released