AGENDA

Strategy session:
Vocational education and training
Wednesday 31 January, 7.30-9 pm

Attendees
Minister of Education
Associate Minister of Education, Hon. Kelvin Davis
Associate Minister of Education, Hon. Jenny Salesa
Associate Minister of Education, Hon. Tracey Martin
Ministry of Education: Claire Douglas (lead), Iona Holsted, Andy Jackson, Vic Johns, Andrea Schollmann
Tertiary Education Commission: Tim Fowler, Mike Blanchard, Cathy Scott, Amy Russell
Ministry of Business, Innovation and Employment: Hayden Fenwick
New Zealand Qualifications Authority: Grant Klinkum, Eve McMahon

Agenda

1. This strategy session provides an opportunity to discuss work on institutes of technology and polytechnics (ITP) reform and vocational education more generally. It follows earlier discussions and advice (Background for a first discussion about ITP viability [B/17/00875]; Review of vocational education and training [METIS 1098631]).

2. You have also asked for a discussion about overlapping provision. We provide some background information to support that discussion. This section also provides information requested about value for money of industry training and ITPs.

3. The discussion points are:

1) Process for managing ITP structural change:
   i. Does paragraph 4 reflect your broad objectives for the ITP reforms?
   ii. We will shortly provide you with detailed advice on a process for designing and implementing structural change in the ITP sector, built around Treasury’s Better Business Case process. This will include options for managing stakeholder engagement and public consultation.

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2) Vocational education work programme:
   iii. Do you agree that the March Cabinet paper should focus on making the case for change and the work programme for ITP reforms and VET more broadly?
   iv. Do you agree that vocational education should be integrated into wider themes at the Education Summit?
   v. Does the work programme outlined in paragraph 23 align with your priorities?

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### 3) Overlapping provision:

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Part 1: Process for managing ITP structural change

Objectives

4. We understand that the goal of the ITP reforms is to create a sector that is:
   a. Financially sustainable, due to economies of scale and scope
   b. Regionally based
   c. Responsive to learners, communities and employers
   d. Delivering high quality vocational education
   e. Agile, adapting quickly to different needs, both in what it delivers and how.

5. We would like to test whether these reflect your objectives.

Process for managing ITP structural change

6. TEC will shortly provide you with detailed advice on a process for designing and implementing structural change in the ITP sector.\footnote{9(2)(f)(iv) OIA}. In summary:
   a. We propose to use Treasury’s existing Better Business Case (BBC) process to robustly assess the risks, opportunities, costs and benefits of change. The BBC process incorporates robust stakeholder engagement as well as detailed desk-based analysis, including financial analysis. It is a recognised and fit-for-purpose framework to guide a decision process of this kind, and can be done relatively quickly (within a few months).
   
   b. The BBC process could assess\footnote{9(2)(f)(iv) OIA}:

   c. A key question any BBC assessment would need to consider is how Government could adequately preserve and protect regional and local responsiveness and accountability in a more consolidated ITP sector. This could be discussed in the BBC, and implemented in discussion with the incoming ITP(s) Council and management team. One option would be for TEC to require, in its Gazette notice setting out the required content of Investment Plans, that an ITP’s Plan have a local and regional slant. Another option would be to make changes to statutory settings for ITP governance and accountability, in which case we would provide you with relevant policy advice.

   d. The BBC analysis would be guided by stakeholder engagement via targeted interviews, workshops, forums and advisory groups. These would see us engaging with ITPs, other TEOs, employers, schools, iwi, community groups and other stakeholders to inform the analytical work. TEC could also instigate an “expert speakers” programme to share insights and messages with the sector to prepare it for change.

7. The Cabinet paper due in March (discussed in part 2 of this agenda) will set out the purpose, objectives, and problem definition for the ITP reforms. This will provide the basis for the BBC process described above.

8. An alternative to a BBC process would be an Expert Review, whereby you would establish an independent working group to produce consultation material, seek and hear public submissions, and provide recommendations to government. This kind of process can be valuable where the parameters of an issue are unclear. In this case, however, government already knows a lot about the nature of the problems and opportunities, so a BBC process seems like a better fit – and will certainly be faster.

9. Depending on your preferences about the timing and nature of public consultation, and taking
into account relevant legislation\(^1\), the BBC analysis could form the basis of one or more public-facing documents you could use to communicate your intentions to the general public, potentially shortly after the Education Summit in mid-2018. Options would include:

a. A **White Paper** presenting the public with proposed decisions about a new sector structure for ITPs, based on the BBC analysis, and seeking submissions.

b. A **Green Paper** presenting a range of options for change, again informed by the BBC analysis, and requesting feedback and submissions. This could be followed by a White Paper presenting decisions.

10. Your communications about ITP sector structural change could be presented in the context of your intentions for broader VET system reform, as per the next agenda item below. This would help to emphasise to the sector and public that, while structural change in ITPs is urgently needed to address sustainability issues, it is not a “silver bullet” that will in and of itself revolutionise New Zealand’s VET sector; policy reform is still needed.

11. TEC’s governance group for the BBC analysis and subsequent change process will include representatives from the Ministry of Education, the Ministry for Business, Innovation and Employment, possibly the Treasury, and an ITP sector expert.

*Policy implications of ITP reforms*

12. We should also consider whether the current funding framework is fit for purpose. The mix of national and regional functions may require a different funding relationship; we may also wish to consider how network of provision and collaboration functions are best supported, and how funding can support agile, responsive organisation(s).

**Discussion points**

i. Does paragraph 4 reflect your broad objectives for the ITP reforms?

ii. We will shortly provide you with detailed advice on a process for designing and implementing structural change in the ITP sector, built around Treasury’s Better Business Case process. This will include options for managing stakeholder engagement and public consultation.

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\(^1\) Section 164 of the Education Act 1989 requires the Minister to consult with Councils and the general public before disestablishing a tertiary education institution, so you cannot announce a final decision without giving the public an opportunity to provide feedback.
Part 2: Vocational education work programme

15. We would like to discuss the shape and timing of the ITP reforms and the wider vocational education work programme.

Cabinet paper – March

16. The draft Cabinet paper, “Education Portfolio Work Programme: Purpose, Objectives and Overview”, currently proposes a report back on “a programme of change for the institute of technology and polytechnic (ITP) subsector and for vocational education more generally”.

17. We would like to discuss the focus of this Cabinet paper with you. You could use it to set out your proposed reform agenda as it sits at present – making the case for change, and setting out the process to be followed. It would also provide the framework for the BBC reforms – the purpose, objectives and problem definition.

18. A further Cabinet paper would be required for the release of the consultation document on the ITP reforms. As discussed above, this would be timed for mid-2018.

Education Summit – May; preparation January - April

19. ITP reforms and vocational education more generally are to be informed by the Education Summit.

20. We intend to integrate tertiary education content within the broad themes that are being developed for the Summit (e.g. drawing insights from questions around the future people want and the changes that are needed to get there).

21. Specific engagement on vocational education and ITP reforms will occur alongside and beyond the Summit. This engagement would target stakeholders with a more focussed interest in vocational education matters.

Vocational education reforms – 2018/19 year

22. A number of vocational education changes are scheduled for the coming year. We would like to discuss their sequencing with you. The broad shape of the work is:

   a. To June 2018: Strategic discussions via Education Summit; ITP structural reforms

   b. June – October 2018: Direction setting for vocational education feeds into TES; policy work for Budget 2019

   c. October 2018 – June 2019: Policy design work, in time for 2020 implementation

23. In more detail, the work is:

   a. Restore the skills leadership role for ITOs – January to June 2018 – this will be progressed as part of the Education Amendment Bill No 2. Policy work will be completed in the first half of the year.

   b. Direction-setting for vocational education – February to August 2018 – alongside the work on ITP reforms, clarify the goals and direction of change for the vocational sector. We expect this will be important for the next TES. We will advise you on work to develop the TES shortly, and the sequencing of this work.
24. We will also contribute to cross-agency work programmes, which are still being shaped up. Major work programmes are on wage subsidies, the construction workforce, and an employment strategy.

**Discussion points**

iii. Do you agree that the March Cabinet paper should focus on making the case for change and the work programme for ITP reforms and VET more broadly?

iv. Do you agree that vocational education should be integrated into wider themes at the Education Summit?

v. Does the work programme outlined in paragraph 23 align with your priorities?
Part 3: Overlapping provision

‘Overlapping provision’ refers to TEOs delivering the same provision in the same region

25. Overlapping provision refers to TEOs in the same region offering similar provision. In particular, it refers to vocational education delivered by providers that looks similar to provision arranged by ITOs.

The concerns are driven by different funding rates for similar provision

26. Some ITOs have expressed concerns about unfair funding arrangements, because providers can deliver workplace-based training using higher subsidy rates. The provider rate is typically over $10,000 per Equivalent Fulltime Student, compared to $3,200 for trainees and $5,200 for New Zealand Apprenticeships.

27. ITOs argue that the higher subsidy allows providers to offer more generous services with lower employer contributions; they recommend equalising funding rates for similar provision.

Managed apprenticeships are a point of tension, despite their low numbers

28. The main area of apparent overlap is the ‘managed apprenticeship’, which is: provider arranged; based on a formal training arrangement between the provider, learner and employer; at level 4 and over 120 credits; and funded through the Student Achievement Component (SAC).

29. Around 1,200 students participated in managed apprenticeships in 2016, and the numbers are slowly increasing. Much of the delivery is in building, plumbing, automotive, and forestry.

30. Ministry of Education analysis of costs and outcomes for apprenticeships started between 2005 and 2008 suggest some managed apprenticeships were delivering comparable value to industry training due to higher completion rates. This may reflect real differences in the service provided such as better access to specialised off-job training (What is a managed apprenticeship?, March 2015).

31. Based on that research, it was decided in 2015 that managed apprenticeships should be allowed to continue, with performance management by TEC to address low-value activities. The decision also focussed on providing choice (managed apprenticeships offer an alternative to ITO-arranged programmes) and ITP sustainability (managed apprenticeships help providers to maintain student numbers in a strong labour market).

And some providers contend that ITOs deliver, not just arrange, in workplace-based programmes

32. The funding rate for ITOs assumes that much learning is delivered within the workplace. The responsibilities for designing these programmes have been loosely specified, and the model that has emerged has been employer delivery, supported by the ITOs’ training materials.

33. Some ITPs consider that ITOs are acting as providers, because they have extended the scope of their materials and are using online learning platforms. Third party providers of off-job industry training are not required to be NZQA-accredited. Improved completion rates may partly reflect ITOs and employers preferring more experienced and qualified candidates who require less training (prior qualifications and age have both increased in the last 10 years). In some cases, funding may effectively be used for recognition of prior learning.

34. Whilst recognition of prior learning provides some benefits to individuals and the labour market by improving the matching process, it is more limited than the wider productivity and equity gains we seek from vocational education. In particular, the public interest is more in the development of skills with long-term benefits, such as transferable skills and the theoretical knowledge that allows people to adapt to new situations and technologies. These skills often require some provider-based delivery, as a complement to experience and practice in the workplace.

35. This suggests that any solution to overlapping provision should focus on both what is being funded and TEO roles in the VET system.

We suggest work should focus options to change the price and roles in the system

36. So there are two parts to the work on overlapping provision:
• Price: Considering how to set the same price for the same provision. We would suggest that this should focus separately on off-job and on-job delivery.

• Roles: Considering whether to establish a clearer division of roles between arranging training and providing. This includes purchase of off-job delivery, but also programme design and the nature of training support offered by ITOs.

37. This work is also likely to raise quality assurance issues, in particular for ITO workplace-based delivery. We have some concerns about this (e.g. the use of unaccredited providers; limitations in assessment processes), which we think are worth exploring.

38. The timetable above suggests that we start this work later in 2018, but we are interested in your preferred sequencing of this work.

Value for money of industry training versus ITPs

39. In response to December advice on vocational education [METIS 1098631], you requested further information on the comment “Overall, industry training provides reasonable value for money, but poorer value than equivalent provider-based provision.”

40. This finding was from the research report “What we get from what we spend: Inputs, outputs and outcomes of the Government’s tertiary education expenditure 2004 – 2013”.

41. Focussing on the most recent year included in the analysis, the value of credit completions per dollar of government funding in 2013 was calculated as:
   - $0.78 to $0.81 in ITPs (the higher figure assumes that students whose completion status was not yet known did complete)
   - $0.64 to $0.74 in ITOs (the higher figure excludes the cost of brokerage)

42. Completion rates are also poorer in industry training compared to provider-based training. In 2016, the five-year qualification rates were:
   - 69% for level 1-3, and 64% for level 4, in providers (for domestic students)
   - 61% for trainees, and 59% for apprentices.

43. On these measures, provider-based training provided better value than industry training. This highlights the need for ongoing attention to the quality of industry training.

44. However, the figures do need to be interpreted with caution, because they do not take account of wider costs and benefits for either system, including student support costs. In addition, sub-sector comparisons need to be treated with some caution due to differences in learner profiles. And, these figures are averages, and both sectors have high- and low-value vocational education.

45. The overall conclusion from this is that we cannot take a black and white view of quality or value for money in vocational education. Despite the lower subsidies for ITOs, there will be occasions where ITPs offer the best value.

*Discussion points*

vi. Do you agree that the work on overlapping provision should focus on price, and roles in the system, and related quality assurance matters?

vii. Do you agree that the work on overlapping provision should start in the second half of 2018?

viii. Note the information on value for money of ITP and ITO provision.

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