

# Draft Regulatory Impact Statement: Proposed reform of vocational education

Advising agencies	<i>Ministry of Education, Tertiary Education Commission</i>
Decision sought	<i>Approval to consult on proposed reform of vocational education</i>
Proposing Ministers	<i>The Hon Chris Hipkins, Minister of Education</i>

## Summary: Problem and Proposed Approach

<p><b>Problem Definition</b></p> <p><b>What problem or opportunity does this proposal seek to address? Why is Government intervention required?</b></p>
<p><i>Summarise in one or two sentences</i></p>
<p>This draft Regulatory Impact Statement is intended to support Cabinet’s consideration of formal consultation to inform further analysis and final decisions on reform of the vocational education and training (VET) system. It will be updated and finalised after public consultation, when Cabinet considers the final proposed changes.</p> <p>The proposed reforms are focused on two opportunities:</p> <ul style="list-style-type: none"> <li>• <u>System reform: one VET system</u>: delivering better outcomes for learners and employers with diverse and changing needs, through greater collaboration among tertiary education organisations.</li> <li>• <u>ITP sector reform</u>: restructuring to deliver a robust and sustainable network of institute of technology and polytechnic (ITP) provision.</li> </ul> <p>Vocational education needs to adapt to technological, economic and social change through appropriate models of delivery, skill standards and qualifications and effective relationships between education and industry.</p> <p>Without change, we expect continued problems of poor skills matching, inefficiency resulting from unclear and overlapping organisational roles, inequitable outcomes for some groups of people, and financially unsustainable ITPs. ITPs compete with each other despite an essentially shared ‘mission’, so that services, fixed assets and good practice are not easily shared between them. They also compete, at the margins, with industries’ skills leadership organisations (industry training organisations (ITOs)), and ITOs compete with ITPs, creating a split between provider delivery and skills leadership, and between what should be complementary ‘off-job’ and ‘on-job’ learning modes that most learners experience.</p> <p>The issues in the system appear to be rooted in structures and roles established by legislation and other interventions. These interventions aim to protect learners, communities, industries, and the government’s investment by addressing market failures such as information asymmetry and incomplete markets. However, the current regulatory framework does not appear to encourage sufficient collaboration and responsiveness, or a sustainable ITP sector.</p>

## Proposed Approach

**How will Government intervention work to bring about the desired change? How is this the best option?**

*Summarise in one or two sentences*

The Minister will propose focusing consultation on the following options:

- ‘One VET system’: redefine the roles of vocational education organisations so that they are clear and complementary, by shifting the arranging of workplace-based training to providers, and greatly strengthening industry’s role in skills leadership through new Industry Skills Bodies (ISBs).
- *ITP sector reform*: to achieve a robust and sustainable ITP sector, merge all ITPs into one ITP bringing significant economies of scale, improved coordination, and making better use of ITP assets and expertise.

## Section B: Summary Impacts: Benefits and costs

We focus here on benefits, costs and risks in relation to the proposals that provide the focus for formal consultation. We have not yet monetised these impacts, but hope to be in a position to do so once we have further information on detailed design issues and impacts.

**Who are the main expected beneficiaries and what is the nature of the expected benefit?**

*Monetised and non-monetised benefits*

The main expected beneficiaries and the expected benefits of the reforms are:

- Learners: access to vocational education that has good educational outcomes because it is well-supported and has the right mix of off-job and on-job training, and that leads to good employment outcomes because it is shaped by industry and employer needs (expressed through Industry Skills Bodies).
- Employers and industries: greater influence over provider-based education, leading to better access to skilled, productive employees when they need them.
- Communities and regions: a more consistent and sustainable vocational education system with structured input into provision at a local level.
- ITPs and other vocational providers: as “one ITP”, the ITP sector becomes more sustainable and effective; all vocational education providers gain the opportunity to arrange workplace-based training.
- ITP staff: opportunities to engage in new activities (such as supporting apprentices and their employers) or specialise (eg in programme design).
- The Crown: improved labour and skills utilisation, employment rates, productivity, and other outcomes leading to improved living standards; reduced fiscal costs (eg welfare support); and reduced financial risk as the owner of the ITPs. Ultimately these are benefits to New Zealanders as a whole.

**Where do the costs fall?**

*Monetised and non-monetised costs; for example, to local government, to regulated parties*

The financial implications of the proposed reform are under development and will be included in the final Regulatory Impact Statement. The Cabinet Paper seeking final

decisions will provide analysis and options on who bears these costs. However, we expect significant system change to involve significant transition costs, such as for organisational redesign, meeting obligations to employees and suppliers, and establishing new systems and relationships. We expect that the Crown would meet some, but not all, of these costs.

**What are the likely risks and unintended impacts, how significant are they and how will they be minimised or mitigated?**

Risks under the status quo are significant and include: a continued mismatch between skills supply and demand; and ongoing risks to the viability of ITPs.

We will complete the risk assessment following consultation. The following is our preliminary assessment of the risks associated with the options proposed to be the focus for consultation.

“General risks” and risks specific to the ITP sector and industry are summarised in the following tables.

<b>General risks</b>	<b>Mitigations</b>
Learners, employers and communities experience significant disruption in educational services during the change process	Resource strong change management across all existing ITPs and ITOs Phase change to make it as smooth as possible for learners, employers and communities
Reforms do not meet the needs of Māori and iwi for vocational education that enables Māori to succeed as Māori, or good practice in parts of the system is lost	Meaningful consultation with Māori and iwi as part of the public consultation process; current good practice highlighted during the transition; legal requirements on the single ITP to ensure responsiveness to Māori; the availability of responsive wānanga and PTE provision
Significant disruption to ITP and ITO workforces, and loss of relationships and capability in the existing ITO network	Clearly communicate the reasons for reform, implement the reforms efficiently and effectively, include ITPs and ITOs in implementation planning, and ensure robust and proactive support for employees This risk cannot be fully mitigated. Many ITO employees will have new opportunities with providers, managing workplace-based training
Poor public understanding of the reforms, reducing participation in and engagement with vocational education	Clear consultation documents and communications, easily accessible and well publicised feedback processes, and direct targeting of communications to key stakeholder groups (like unions, iwi, Pacific communities, learners and employers)
Continued mismatch between supply and demand, and workplace training becomes less relevant or industry loses confidence in it due to reduction in direct industry involvement	Ensure that Industry Skills Bodies' influence through standard-setting and purchase advice is strong, government provision of labour market information to support decisions across the system, and new regional entities (eg skills hubs) to align supply and demand

Some international students avoid New Zealand due to uncertainty during the transition	Target consultation and communications to international education stakeholders, including on what is not changing Explicitly address the needs of international students in implementation processes
Loss of provider autonomy through a shift towards more government steering of parts of the tertiary education system	Appropriately balance the Crown's interests with the autonomy of individual organisations Be clear that the proposals do not apply to universities
Negative effects on wānanga and PTEs such as competition from a more effective ITP sector	Ensure that wānanga and PTEs are not excluded from new opportunities such as arranging workplace-based training
Workplace-based training could be monopolised by industry-owned PTEs rather than the transfer leading to greater integration between workplace-based and mainstream provider-based vocational education	The single ITP will be supported to use its collective resources to offer a high quality service to attract employers and learners

<b>ITP risks</b>	<b>Mitigations</b>
If the reforms fail to achieve a strong and sustainable ITP, diseconomies of scale outweigh economies of scale, and a single point of failure means a greater risk of system-wide impacts of any governance or management failures, which adds pressure for government to step in at times of financial difficulty	Scale economies achieved where available; improved, centralised planning with a capable governing body and management structures; and appropriate delegations to regions to avoid diseconomies of scale A bespoke funding system including robust TEC oversight of the one ITP Arranging workplace-based training and potentially more off-job training for trainees and apprentices will go some way to retaining ITP revenue through the business cycle
The current ITPs need further capital to continue operating before merging into one ITP, or they take actions that are inconsistent with the move to one ITP	Implement change swiftly TEC continues to rigorously monitor the financial situation of ITPs, identify risks or interventions at an early stage, and use available interventions
Weak incentives to innovate, and the needs of the centre (the ITP "national office") dominate those of the regions, reducing regional responsiveness	Legislation and accountability measures (such as an ITP charter and regional advisory bodies) designed to ensure a balance between regional and national priorities and decision-making and a meaningful voice for the regions Continued competition from other providers

<b>Industry risks</b>	<b>Mitigations</b>
The case for reform is not sufficiently developed or explained leading to confusion amongst industry as to what their role would be going forward, and how they would be involved	Ensure information, policy, consultation, and implementation outline a clear set of goals and outcomes Ensure that ITOs and other industry bodies are included in the design and implementation process, and that the communication around changes is on-going

ITOs decide not to engage and transition to Industry Skills Bodies (and instead – decide to wind up)	Emphasise the key role and expanded responsibilities envisaged for Industry Skills Bodies, the expected benefits for learners and industry, and that ITOs have skills and capabilities that will mean they are well-placed to transition to ISBs Determine an appropriate funding model and communicate this to industry
ITOs are unable to transfer/ change due to a lack of personnel/ finance to carry out new functions	Consider providing some assistance to ITOs to build the necessary capacity for the new role

**Identify any significant incompatibility with the Government’s ‘Expectations for the design of regulatory systems’.**

At this stage the proposed reforms appear broadly compatible with most of the Government’s expectations. However, we will reassess this matter when formal consultation on the proposals is complete and further detailed design of the options has been undertaken.

## Section C: Evidence certainty and quality assurance

**Agency rating of evidence certainty?**

*How confident are you of the evidence base?*

We are confident in the evidence of the current state of the vocational education system and the issues it faces. We do not yet sufficiently understand the likely impacts of the proposal and alternative options. Significant costs have not yet been adequately quantified. We consider that formal consultation and further analysis will provide a better basis for final decisions.

*To be completed by quality assurers:*

**Quality Assurance Reviewing Agency:**

Ministry of Education / The Treasury

**Quality Assurance Assessment:**

To be completed once analysis is final

**Reviewer Comments and Recommendations:**

# Impact Statement: Reform of vocational education

## Section 1: General information

<b>Purpose</b>
The Ministry of Education is solely responsible for the analysis and advice set out in this Regulatory Impact Statement, except as otherwise explicitly indicated. It will be updated and finalised after public consultation, when Cabinet considers the final proposed changes.
<b>Key Limitations or Constraints on Analysis</b>
<p><i>Describe any limitations or constraints, for example:</i></p> <ul style="list-style-type: none"> <li>• <i>Scoping of the problem</i></li> <li>• <i>Evidence of the problem</i></li> <li>• <i>Range of options considered</i></li> <li>• <i>Criteria used to assess options</i></li> <li>• <i>Assumptions underpinning impact analysis</i></li> <li>• <i>Quality of data used for impact analysis</i></li> <li>• <i>Consultation and testing</i></li> </ul> <p>For the purpose of these reforms, vocational education is defined as: all industry training; and provider-based provision at levels 3 to 7 (non-degree) on the New Zealand Qualifications Framework (NZQF), excluding te reo and tikanga Māori, English for speakers of other languages (ESOL), and university provision. ITPs’ non-vocational education is also within scope to the extent that it will be affected by any re-organisation of the ITP sector.</p> <p>In 2018:</p> <ul style="list-style-type: none"> <li>• the TEC established the ITP Roadmap 2020 project to work with the ITP sector and communities to clarify the sector’s issues and find options for a sustainable future</li> <li>• the Ministry of Education reviewed how the vocational education system meets the needs of learners, employers and communities, and the appropriate role of government in that system.</li> </ul> <p>The analysis in this draft Regulatory Impact Statement is informed by these reviews and also by New Zealand and international data and evidence on the performance of vocational education systems. Stakeholder engagement as part of the reviews did not include all aspects of the proposed reforms, so not all impacts on stakeholders are identified. The TEC has commissioned advice on the costs of the proposed reform. The Regulatory Impact Statement that supports the final Cabinet decisions will incorporate findings from consultation and the further work on estimating costs.</p> <p>The proposal to establish Industry Skills Bodies (ISBs) was not subject to consultation or engagement in 2018, so will likely require significant further consultation and analysis. Related work by the Ministry of Business, Innovation and Employment on regional skill councils to better align skills supply and demand is also at an early stage.</p>

The Government decided in mid-2018 to reinstate ITOs' statutory skills leadership role, but the legislation was deferred. That change is incorporated into the ISB proposal and will be updated and published in or alongside the final Regulatory Impact Statement.

**Responsible Manager (signature and date):**

Grant Klinkum, Deputy Secretary

Graduate Achievement, Vocations and Careers  
Ministry of Education

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# Section 2: Problem definition and objectives

2.1 What is the context within which action is proposed?
<p><i>Set out the context, eg:</i></p> <ul style="list-style-type: none"><li>• <i>Nature of the market</i></li><li>• <i>Industry structure</i></li><li>• <i>Social context</i></li><li>• <i>Environmental state, etc.</i></li></ul> <p><i>How is the situation expected to develop if no further action is taken? (This is the Counterfactual against which you will compare possible policy interventions in sections 4 and 5).</i></p>
<p>There are five core functions in the vocational education system:</p> <ul style="list-style-type: none"><li>• skills leadership: planning for future skills needs, and taking leadership of the changes needed to respond to those needs</li><li>• standards setting: developing standards and qualifications that address skills needs, and helping to ensure that graduates meet the standards set</li><li>• learning design: developing the curriculum, programmes, pedagogy and content required to successfully deliver a programme of learning</li><li>• purchasing vocational education: making decisions about what provider-based and workplace-based provision government will fund</li><li>• providing education and training: teaching and providing other support to learners, in workplaces (“on-job”) and/or at providers.</li></ul> <p>Vocational education in New Zealand involves around 250,000 learners each year. It is either “workplace-based” (delivered mainly on-job, by employers to employees) or “provider-based” (delivered to students, mainly by specialised education providers such as ITPs, and mainly “off-job”). Government provides \$632m towards tuition costs and industry training, and also provides funding of \$243m for non-vocational education tuition at ITPs. Most learners pay fees, and those who study fulltime at a provider forego a significant amount of income.</p> <p>Most workplace-based delivery is arranged by industry training organisations (ITOs), which are prohibited from operating as a provider and therefore must purchase any off-job components of the training. Some ITPs arrange a limited amount of workplace-based delivery in certain fields, in competition with ITOs.</p> <p><b>ITOs</b> are governed by industry and are responsible for coordinating traineeships and apprenticeships for people in employment, setting industry skills standards, and supporting employers and employees involved in apprenticeships and traineeships (including by contracting services from providers on behalf of employers). There are eleven ITOs that each work across New Zealand to serve particular industries.</p> <p>ITOs are subsidised, at lower rates than providers, based on the amount of training they arrange. Industry and employers are expected to make a significant contribution to industry training as they gain a significant benefit from industry training, and would undertake training to meet business needs even without a subsidy. The subsidy is to improve access to formalised training, to make it more consistent, comprehensive, and transferable. Industry</p>



training accounts for around 28% of government tuition subsidies for vocational education, 44% of funded vocational education credits, and 56% of vocational education learners.

**Providers** are subsidised at a higher rate than industry training because specialised provision costs more, requiring specialised training facilities and staff, and because learners are not, like apprentices, earning revenue for the provider (employer) in the course of training. Providers include:

- **Sixteen government-owned, regionally-based ITPs.** ITPs are required to offer a broad range of fields of study to maintain options for learners and respond to regional needs. Demand is highly counter-cyclical, driven by unemployment. ITPs provide around 55% of all provider-based vocational education, when measured in equivalent fulltime students (EFTS). ITPs compete with each other in areas of high demand (eg the Auckland international education market).
- **Three wānanga, and hundreds of private providers.** Unlike ITPs, these providers are able to focus on programmes where they can achieve viable enrolment levels. The wānanga provide both vocational and non-vocational education that is largely designed around the needs of Māori learners but also serves an equal number of non-Māori learners.

Vocational education organisations depend financially on learner demand, which is mainly derived from the perceived demand by employers for skilled employees. Learner and provider perceptions of employer demand are not always well-informed and can go out of date quickly, and employer expectations themselves can vary. Vocational education organisations also depend on TEC funding decisions and NZQA’s quality assurance system. Rapid technological and social change is expected to increase the challenge of responding to the needs of learners and industry. There is increasing awareness of the needs of ‘lifelong learners’ – particularly mid-career workers with skills of declining labour market value.

Currently, industry bodies focused on on-job training (ITOs) compete with education providers focused on off-job training, undermining collaboration between providers and industry to achieve the best mix of on-job and off-job learning.<sup>1</sup> The OECD recommends that all vocational education should be “work-integrated”.

## 2.2 What regulatory system, or systems, are already in place?

- *What are the key features of the regulatory system(s), including any existing regulation or government interventions/programmes? What are its objectives?*
- *Why is Government regulation preferable to private arrangements in this area?*
- *What other agencies, including local government and non-governmental organisations, have a role or other substantive interest in that system?*
- *Has the overall fitness-for-purpose of the system as a whole been assessed? When, and with what result?*

<sup>1</sup> In this analysis, “on-job training” is delivered to employees in the workplace. “Off-job training” is delivered by a specialised educational provider. “Workplace-based” training is mainly on-job, while “provider-based” is mainly off-job.

The overall structure of formal tertiary education is established by the Education Act 1989 and the Industry Training Apprenticeships Act 1992.

The Education Act 1989 defines categories of tertiary education provider, the role of ITPs, and the overall frameworks for government funding and quality assurance. Ministers determine the overall priorities of the system and the design of funding mechanisms, which are implemented by the Tertiary Education Commission (TEC). The TEC has powers to require performance reporting and to intervene (especially in ITPs as they are publicly owned). Publicly owned providers like ITPs are subject to financial controls to manage risks to the Crown. There are also provisions to protect the interests of learners. The New Zealand Qualifications Authority develops and implements rules for the quality assurance of credentials, programmes, skills standards, and tertiary education organisations.

The Industry Training and Apprenticeships Act 1992 provides for Ministerially-mandated ITOs, which set industry skill standards and have a near-monopoly on arranging workplace-based training for an industry (including purchasing off-job provision on behalf of employers).

These controls and monitoring activities aim to protect learners, communities, industries, and the government's investment in vocational education by addressing market failures such as information asymmetry and incomplete markets.

The reviews that led to the proposed reforms of vocational education set out to assess the fitness-for-purpose of the system as a whole.

### 2.3 What is the policy problem or opportunity?

- *Why does the Counterfactual constitute “a problem”?*
- *What is the nature, scope and scale of the loss or harm being experienced, or the opportunity for improvement? How important is this to the achievement (or not) of the overall system objectives?*
- *What is the underlying cause of the problem? Why cannot individuals or firms be expected to sort it out themselves under existing arrangements?*
- *How robust is the evidence supporting this assessment?*

A number of issues indicate that the VET system is not equipped to fully meet NZ's vocational training needs and respond to changing skills needs:

- Unclear and overlapping organisational roles – providers and ITOs both want to deliver on-job and off-job training, while not being sufficiently joined up with each other or the rest of the education system to deliver what learners and employers need.
- Not enough industry leadership – industry does not always exercise sufficient demand-side leadership or enough influence over the skills supply chain. The skills people gain through VET do not always align to the skills they will need on the job.
- Not all provision is relevant to learners – many providers focus on volume and revenue in order to survive, rather than on the value and relevance of programmes and learning, particularly in their local area, and are not able to respond nimbly when employers need short sharp bursts of skills development.

- Lack of a single vocational education funding regime – current funding arrangements disincentivise collaboration between ITOs and ITPs. This can lead to provider delivery that is very supportive of learners but insufficiently responsive to industry needs and expectations, or industry training that is specific to a current role but not very transferrable.
- Historic undervaluing of vocational education – many school students come to see vocational education as not as valuable or prestigious as university study.
- ITPs face challenges to their viability – requiring a number of bailouts, and the Government has indicated its limited ability and willingness do this again. Only a minority of ITPs are projected to be financially sound in the medium term. This reflects declining enrolments, and a funding model that does not reflect high fixed costs. Fewer students enrol when the economy is strong, and ITPs often experience pressure to retain programmes that run at a financial loss. ITPs tend to compete and duplicate rather than collaborate and share expertise and systems.

These policy issues have been evident for some time and, based on the stakeholder engagement, research, and analysis conducted in 2018, appear to be intrinsic to the roles and functions established in legislation and their interplay with the economic cycle.

Evidence from stakeholders on these issues is provided in section 2.5. Evidence of poor skills matching includes a measured mismatch between qualifications and job roles (eg the OECD's Survey of Adult Skills, OECD data showing relatively poor labour productivity), ongoing employer concerns about skills shortages (see section 2.5). Evidence of equity issues includes lower completion rates for Māori and Pacific learners, the concentration of these learners in lower-level programmes, low participation by people with disabilities, and Education Conversation respondents saying students with disabilities need more support).

There are few arrangements between ITOs and providers to enable learners to easily transition between a provider and workplace-based training. Completion rates in parts of the vocational education system remain relatively weak (despite improvements in the last ten years). There are few programmes to meet the needs of learners with disabilities.

An under-performing system matters because learners, employers and the government invest hundreds of millions of dollars of time and resources into vocational education each year, and they rely on that education to achieve good economic and social outcomes.

Government wants to ensure that vocational education meets the needs of diverse learners and supports a thriving, innovative economy. The development of proposals to address the issues has focussed on two broad opportunities:

- System reform: one VET system: delivering better outcomes for learners and employers with diverse and changing needs, through greater collaboration among tertiary education organisations.
- ITP sector reform: restructuring to deliver a robust and sustainable network of ITP provision that is better able to withstand economic cycles.

The two opportunities are connected: a unified vocational education system would go some way to protect the ITP sector from cyclical variations in demand; and restructuring the ITP sector to deliver a robust and sustainable network of ITP provision could provide more effective support for workplace-based vocational education.

These opportunities will need to be supported by a unified funding system for vocational education: one set of funding rates that incentivises blended on- and off-job learning; base funding for ITP provision and potentially for strategically important programmes; and funding for ISBs focused on their unique role in the system. At this stage of our analysis, these proposed funding reforms appear not to require regulatory change. However, they will be important to successful implementation of the system and ITP sector reforms.

#### 2.4 Are there any constraints on the scope for decision making?

- *What constraints are there on the scope, or what is out of scope? For example, ministers may already have ruled out certain approaches.*
- *What interdependencies or connections are there to other existing issues or ongoing work?*

This review is connected with other initiatives that aim to establish a skills system fit for the needs of the twenty-first century. It is informed by the Government's Future of Work initiative, and relates closely to the review of the National Certificate in Educational Achievement, the review of Tomorrow's Schools, and work to improve foundation education. The review will inform the Tertiary Education Strategy, Fees Free policy settings, NZQA's review of the NZQF, and work on the Careers System Strategy including the Careers Action Plan. Separate work in the education work programme will more directly address equity issues raised in the review.

The wider skills system includes the welfare and immigration systems (which can often provide a faster response to labour and skills shortages). There is an opportunity to align any reforms with other efforts to improve skills planning and investment at a regional level across government to improve social and economic wellbeing.

This draft Regulatory Impact Statement accompanies a Cabinet paper that seeks in-principle agreement to two broad reform options, being the redesign of vocational education organisation roles and the consolidation of the ITP sector into one ITP, subject to consultation and further analysis.

#### 2.5 What do stakeholders think?

- *Who are the stakeholders? What is the nature of their interest?*
- *Which stakeholders share the Agency's view of the problem and its causes?*
- *Which stakeholders do not share the Agency's view in this regard, and why?*
- *What consultation has already taken place and with whom?*
- *Does the issue affect Māori in particular? Have iwi/hapū been consulted, and if not, should they be?*
- *If consultation is planned, how will this take place, with whom and when? If is not intended, why is this?*

#### Stakeholder interests in vocational education

Our understanding of stakeholder views is limited by the fact we are yet to undertake formal consultation on the Government's preferred options for reform. However, based on

engagement to date, key stakeholders and their interests in vocational education can be summarised as follows:

- Learners have an interest in vocational education that has good educational and employment outcomes and is responsive to their varied and changing needs – which in most cases includes being responsive to employers’ needs. Māori have a relatively high rate of participation in vocational education but it does not always meet their needs. Therefore, Māori have a particular interest in improving the quality and relevance of vocational education. Learners with disabilities need better support to participate and achieve in vocational education, to improve their access to employment opportunities.
- Employers, industries and communities have an interest in skilled, productive community members and employees when they need them.
- ITPs and other vocational providers have an interest in retaining autonomy and viability (or profitability in the case of some commercial providers), while delivering and being seen to deliver good outcomes for learners and industries.
- Industry has an interest in a vocational education system that delivers the skills employers need, when they need them. It seeks clearer, more effective influence over provider-based vocational education.
- As organisations, ITOs have an interest in retaining their autonomy, influence, viability, and industry support.
- The Crown represents the national interest in improved social and economic wellbeing, including in the regions. The Crown also has an interest in reduced financial risk as the owner of the ITPs.

There are similar interests with respect to the non-vocational delivery of the ITP sector, albeit with a greater focus on the needs of communities such as access to quality te reo Māori delivery.

### **Stakeholder views of the vocational education system**

Engagement with stakeholders has focused on understanding the vocational education system and the issues it faces. Key findings include:

- Poor skills matching – We saw a mix of practice, with some great examples of TEO-industry collaboration, but also some frustrated employers who report difficulty hiring people with the skills they need.
- Counter-productive, system-driven competition – TEOs and employers noted that the system (especially the funding system) does not encourage collaboration between ITOs and providers. Providers tend to include relatively little workplace experience in programmes, and they reported difficulty supporting students to complete programmes if they found employment. Their focus on programme completions limited their focus on supporting learners into employment. Few “pre-trades” programmes had many students progressing to apprenticeships. ITOs were often sceptical about provider delivery not designed around industry skills standards, making credit transfer difficult. Some employers of trainees and apprentices wanted better support for trainees and access to expert tutors. Despite this, we saw many collaborative arrangements.
- Inequitable outcomes for some groups of people, such as Māori – We saw fewer examples of tailored approaches to learning and/or recruitment, with the result that

many groups are not well supported to participate and achieve, and some industries are not accessing all their potential workers.

In a mid-2018 survey of 30 medium-to-large employers, respondents told us:

- The primary focus of a skills system should be a learner's current and future needs. A substantial minority also told us that a skills system should benefit all New Zealanders.
- Equipping young people with work-ready skills (for example, a positive attitude, and enthusiasm) was important for them. Ensuring learners had digital literacy was also seen as important.

Employer experience of VET varied significantly, but some felt frustrated at the lack of options for how training could be delivered in their workplace, and a lack of educational and assessment support. Many ITOs have training arrangements with less than 20% of employers in an industry. New Zealand's high levels of over-qualification suggest we do not need more training, but better training that responds to firm and industry skill needs. Some stakeholders say the size of programmes is driven by funding rather than workforce needs.

On the whole, most respondents appeared to be satisfied with the state of New Zealand's vocational education system, but noted a few areas for improvement. These focused on:

- Improving the careers advice system. All but one respondent noted this issue.
- Improving support for Māori and Pacific learners. Most employers acknowledged that the system, including employers, could do more. Many also noted that better support could be provided to women in non-traditional fields or to learners with additional learning needs.
- Enabling and supporting employers to provide more work-based learning opportunities for young people. Some employers noted that health and safety requirements, or a lack of time and knowledge of who to contact, prevented them from providing young people with work experience opportunities.

### **Stakeholder views of the ITP sector**

In 2018, the TEC followed a robust and extensive consultation, co-creation, research and analytical process in partnership with the ITP sector and its stakeholders as part of its ITP Roadmap 2020 project. Key themes from stakeholder engagement are presented in Annex 1. Overall, stakeholders saw the performance of the ITP sector as variable, and raised similar concerns to those raised with respect to the vocational education system as a whole. In terms of structural change, there was a desire to balance centralisation – to achieve economies of scale and more consistent quality – with local and regional autonomy and responsiveness.

The TEC's engagement and research confirmed that:

- Most ITPs have seen nearly a decade of falling enrolment and rising costs, resulting in a sector under significant strain.
- Some ITPs have fared better than others, but most are unable to make needed investments in buildings, technology and people to protect and maintain the quality and relevance of their provision.

- Few ITPs are well-positioned, in terms of their staffing or delivery arrangements, to deliver effectively to adults in work, who will increasingly be seeking opportunities to upskill or retrain as automation disrupts their jobs.

The ITP Roadmap project later merged with the Ministry of Education’s review of the vocational education system to form the current Reform of Vocational Education project.

### Next steps for consultation

The next step in the policy development process will be formal consultation on proposals for change. This will involve the publication of a consultation document and more detailed factsheets on specific issues, with written submissions being sought over a period of approximately six weeks. Over this period, officials and the Minister will also engage with vocational education stakeholders across the country regarding elements of the proposals that directly affect them.

## Section 3: Options identification

### 3.1 What options are available to address the problem?

- *List and describe the key features of the options. Set out how each would address the problem or opportunity, and deliver the objectives, identified.*
- *How has consultation affected these options?*
- *Are the options mutually exclusive or do they, or some of them, work in combination?*
- *Have non-regulatory options been considered? If not, why not?*
- *What relevant experience from other countries has been considered?*

The options considered in this draft Regulatory Impact Statement have been informed by engagement with stakeholders, but the specific proposals have not yet been subject to formal consultation with stakeholders. Options may change as a result of consultation.

#### System reform: one VET system

1. *No action* (keep the status quo)
2. *Redefine roles of vocational education organisations* (proposed focus of consultation): create clear, complementary roles by shifting most of the role of arranging workplace-based training from ITOs to providers and greatly strengthen industry’s role in skills leadership through new Industry Skills Bodies (ISBs). This option, which would require changes to the Education Act 1989 and the Industry Training and Apprenticeships Act 1992, involves a number of inter-related components:

Proposal	Rationale / details
Reinstate a skills leadership role for industry via nominated industry skills bodies	This was consulted on earlier in 2018, and is awaiting an appropriate legislative vehicle

<p>Industry skills bodies would ensure industry involvement in standard setting by:</p> <ul style="list-style-type: none"> <li>• setting standards across all sub-degree vocational education</li> <li>• moderating capstone assessments for learners at the end of their study</li> <li>• contributing to curriculum and exemplary teaching and learning resources</li> </ul>	<p>Industry skills bodies would act as “bookends” to the vocational education system, setting expectations at the outset of the education process about the skills and competencies learners are expected to achieve, and then assessing learners at the conclusion to ensure that learners have acquired the skills and competencies being sought by employers</p>
<p>Industry skills bodies would have a formal role in approving programmes alongside NZQA in a “co-quality assurance” arrangement, possibly similar to the arrangements with professional registration bodies</p>	<p>This would ensure that learners gain the skills, experience and knowledge they need from a qualification to work in a particular industry</p>
<p>Industry skills bodies would have a role in purchasing all vocational education by providing advice to TEC on industry needs TEC would be responsible for all purchase decisions, but would be expected to act on advice from industry skills bodies</p>	<p>TEC can have a strong focus on social and network objectives, and industry skills bodies can advise on industry need</p>
<p>Centres of Vocational Excellence (CoVEs) would play a support role in developing programmes and/or curriculum</p>	<p>This would help ensure consistency of core programme content, at a scale and quality to support truly New Zealand qualifications</p>
<p>Providers would be responsible for delivering all vocational education, including supporting workplace-based training</p>	<p>Workplace-based training would have a stronger pedagogical underpinning and learners would be more supported, while provider engagement with employers would enhance their ‘off-job’ delivery.</p>

3. *Shift funding incentives to incentivise collaboration and improve learner outcomes, but retaining current legislated roles: s 9(2)(f)(iv)*

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████████████████████ The TEC would review its performance management and investment practices to align with this approach. This option would not require regulatory change.

**ITP sector reform: a robust and sustainable ITP network**

The TEC led an extensive consultation and co-design process with ITPs and their stakeholders, including students, employers and communities, to develop options for change. The TEC also sought the advice of EY Australia, and the TEC and the Ministry met with Australian federal and state officials and TAFE (Technical and Further Education institution – equivalent to ITP) leaders, to draw on Australia’s experience of consolidating and transforming TAFEs.

Analysis has focused on assessing these as discrete options although many variations including some combinations are possible. Some options could be achieved without amending legislation (for example, polytechnics can merge under current legislation).



However, we consider that legislation change could help to maximise the benefits of significant consolidation in the sector, such as moving to a single ITP. For example, legislation could address additional risks that arise with a single point of failure, and to appropriately balance national and regional interests.

1. *No action* (keep the status quo)
2. *Network with specialised ITPs*: centralise some ITP services; ITPs to specialise as “Programme Lead ITPs”, “Regional Access ITP”, and a single provider of distance learning for the network; some ITP mergers

This option would achieve economies of scale in services such as management systems and processes, learning design, data analytics, asset management, distance learning and managing Treaty of Waitangi relationships. There would also be economies of scale in programme design, albeit centred in different ITPs for different fields of study. Regional Access ITPs would mainly broker and host delivery from other providers (including other ITPs) rather than having to maintain the full range of ITP functions. Shared assets, improved coordination and centralised functions would be likely to result in more reliable quality of services, including in programme design. Common programmes would assist learner transfer between ITPs.

3. *Federation* (central entity providing shared services, owned by ITPs) or *franchise* (central entity delivering shared services, with decision rights over ITPs) *models*: Either of these models would achieve economies of scale by centralising programme development and some back-office, marketing and delivery support functions such as those identified under option 2.
4. *One ITP*: merging all ITPs into one national ITP (proposed focus of consultation), or a few large ITPs.

Under this option, centralisation would achieve economies of scale and improved coordination across many ITP functions including the design and delivery of vocational education programmes, capital planning and investment and support services. The ITP Roadmap co-design process also developed a variation on “One ITP”: “One VET system”, which would not only merge ITPs but also bring ITPs and ITOs under one governance structure.

### **3.2 What criteria, in addition to monetary costs and benefits, have been used to assess the likely impacts of the options under consideration?**

- *Comment on relationships between the criteria, for example where meeting one criterion can only be achieved at the expense of another (trade-offs)*

#### **System reform: one VET system**

The criteria used for this analysis focus on addressing key issues in the VET system.

- a. Likely to improve equity of access and outcomes
- b. Likely to improve learners’ experience of vocational education
- c. Likely to improve VET relevance/skills matching

### **ITP sector reform: options to achieve a robust and sustainable ITP network**

- a. Will deliver a financially sustainable ITP network
- b. Likely to deliver an effective and ITP network that responds to learner and employer needs
- c. Consistent with a viable and innovative wider network of vocational education provision.

#### **Trade-offs between the criteria**

There may be trade-offs between the criteria we have used to assess the likely impacts of the options. For example, matching skills solely to current employer needs may mean understating educational priorities around creating confident learners who can innovate and adapt to change in the longer term.

### **3.3 What other options have been ruled out of scope, or not considered, and why?**

- *List the options and briefly explain why they were ruled out of scope or not given further consideration.*

Early work on options for system change included various proposals that, for the most part, could be implemented without significant regulatory change. The proposals were, on the whole, not likely to deliver rapid system-wide change in keeping with the Government's objectives for vocational education.

The ITP Roadmap co-design process developed a "Big Picture" model in which learners would have access to a wide variety of high-quality, tailored learning experiences. This option was ruled out of scope as it described a desirable outcome rather than a means of achieving the outcome.

The ITP Roadmap process also identified an option to merge ITPs (other than the Open Polytechnic) into the universities (excluding the University of Auckland and Lincoln University). We ruled this out of scope as most university delivery is outside our definition of vocational education, the business models and strategic imperatives of ITPs and universities are fundamentally different, and any economies of scale that could be achieved would likely be limited.

## Section 4: Impact Analysis

### 4.1 What would be the impacts of the options?

Formal consultation and analysis will provide a much more complete picture of the impacts of the options on different stakeholders. We will complete the tables of impacts, including scoring of options, once we have considered stakeholders' feedback.

#### **System reform: one VET system**

##### ***Option 1: No action***

Some improvements in vocational education would likely occur as a result of continued pressure from NZQA, the TEC, and industry and learner demand. However, without a significant change in approach, we expect that the problems listed in section 2.3 would largely continue and the opportunity to deliver a more effective, coherent vocational education system would be missed. In particular, several ITPs are likely to face financial problems, and the system will be ill-equipped to respond rapidly to changing workforce needs.

##### ***Option 2: Redefine roles of vocational education organisations***

Overall, this proposal is expected to:

- create clear, complementary roles for vocational education organisations
- strengthen industry influence over provider-based vocational education as a whole, so that it becomes more relevant and responsive to industry needs; and
- bring greater pedagogical expertise to workplace-based vocational education and achieve a more effective balance of off-job and on-job training for all learners.

This option also has significant transitional costs that merit further consideration.

Risks associated with this option are discussed in section B, above.

##### ***Option 3: Shift funding incentives to incentivise collaboration***

This option is expected to encourage a greater level of collaboration between providers (especially ITPs) and ITOs than Option 1. However, we expect that the effects would not be as rapid or certain as Option 2. Unlike Option 2, Option 3 could be delivered without legislative change. The risks and transitional costs of this option are expected to be less than for Option 2.

#### **ITP sector reform: a robust and sustainable ITP network**

##### ***Option 1: No action***

This option is expected to result in further requirements for ad hoc capital injections to sustain ITPs, and other reactive and incremental measures such as mandatory mergers.

##### ***Option 2: Network with specialised ITPs***

This option is likely to deliver some significant economies of scale and, by focusing ITPs and the central organisation on their areas of expertise, is expected to improve delivery to learners and employers. There would be restructuring impacts for some but not all staff. It

would concentrate programme design and other services on a smaller number of staff who would be specialised in these roles. This option retains a focus on meeting local needs.

This option is in some respects more complex and less flexible than option 4, with each ITP being externally assigned a certain role or roles.

***Option 3: Federation or franchise***

This option may deliver economies of scale to a similar degree to Option 2. The franchise option risks a loss of scale economies due to failure to agree to consensus on shared services, while the federal model risks a loss of regional responsiveness. Like Option 2, there would be restructuring impacts for some but not all staff. Federation or franchise arrangements retain the disadvantages of organisations with separate governance, balance sheets and management teams competing for market share rather than collaborating to deliver consistent quality.

***Option 4: One ITP***

This option offers the greatest potential economies of scale of the options considered, and it spreads the financial risks associated with economic cycles (which tend to vary between regions). This option has risks of reduced regional responsiveness and increased risk of widespread impacts from any failures in management and governance. Further work is underway to develop mitigations for this risk – including regional advisory bodies that would have a substantive say in regional ITP delivery. This option could also involve the most restructuring of roles, although in some respects it is a less complex arrangement than Options 2 and 3.

This option is in some respects more flexible than option 2, as the one ITP would have more control over the roles of each regional branch or campus.

**Marginal impact: [Tables will be completed for both system reform and ITP sector reform once consultation is complete]**

How do the options identified at section 3.1 compare with the counterfactual, under each of the criteria set out in section 3.2? *Add, or subtract, columns and rows as necessary.*

*If possible use this table to provide information on monetary, as well as qualitative, costs and benefits for each of the options under consideration. Give evidence supporting your judgements, including stakeholder feedback where relevant.*

*Try to keep this table to a single side. If you find that you are having to write a lot to explain your assessment of whether each option is better or worse than taking no action under each criterion, add text under the table rather than filling the table with words.*

	No action	Option (name)	Option	Option
<b>Criterion (name)</b>	0	(symbol + brief comment, or paragraph reference)		
<b>Criterion</b>	0			
<b>Criterion</b>	0			
<b>Criterion</b>	0			
<b>Overall assessment</b>				

**Key:**

- ++** much better than doing nothing/the status quo
- +** better than doing nothing/the status quo
- 0** about the same as doing nothing/the status quo
- worse than doing nothing/the status quo
- much worse than doing nothing/the status quo

# Section 5: Conclusions

## 5.1 What option, or combination of options, is likely best to address the problem, meet the policy objectives and deliver the highest net benefits?

- Where a conclusion as to preferred option is reached, identify it and set out reasons for considering it to be the best approach (by reference to the assessment criteria).
- If no conclusion as to preferred option is reached, identify the judgement (eg, which stakeholders, or which criteria, are the most important) or the additional information that is needed, to enable a decision to be made
- How much confidence do you have in the assumptions and evidence?
- What do stakeholders think - in particular, those opposed? Why are they concerned, and why has it not been possible to accommodate their concerns?

We do not intend to determine our preferred option prior to the completion of formal consultation. Consultation with stakeholders will provide considerably more evidence on the impacts of the proposals, and what stakeholders think of the proposals.

## 5.2 Summary table of costs and benefits of the preferred approach [To be completed following consultation]

Summarise the expected costs and benefits of the proposed approach in the form below. Add more rows if necessary.

Give monetised values where possible. Note that only the **marginal** costs and benefits of the option should be counted, ie, costs or benefits additional to what would happen if no action were taken. Note that “wider government” may include local government as well as other agencies and non-departmental Crown entities.

See <http://www.treasury.govt.nz/publications/guidance/planning/costbenefitanalysis/x/x-guide-oct15.pdf> and <http://www.treasury.govt.nz/publications/guidance/planning/costbenefitanalysis> for further guidance.

Affected parties (identify)	Comment: nature of cost or benefit (eg ongoing, one-off), evidence and assumption (eg compliance rates), risks	Impact \$m present value, for monetised impacts; high, medium or low for non-monetised impacts	Evidence certainty (High, medium or low)
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### Additional costs of proposed approach, compared to taking no action

Regulated parties			
Regulators			
Wider government			
Other parties			

<b>Total Monetised Cost</b>			
<b>Non-monetised costs</b>		<i>(High, medium or low)</i>	

<b>Expected benefits of proposed approach, compared to taking no action</b>			
Regulated parties			
Regulators			
Wider government			
Other parties			
<b>Total Monetised Benefit</b>			
<b>Non-monetised benefits</b>		<i>(High, medium or low)</i>	

### **5.3 What other impacts is this approach likely to have?**

- *Other likely impacts which cannot be included in the table above, eg because they cannot readily be assigned to a specific stakeholder group, or they cannot clearly be described as costs or benefits*
- *Potential risks and uncertainties*

We expect any of the change options to have impacts on other aspects of the wider skills system including:

- NZQA and the TEC roles and functions
- cross-agency work on regional coordination of labour supply and demand
- immigration system reforms
- schools and other providers.

We will finalise our analysis of the impacts, risks and uncertainties of the preferred option following consultation.

### **5.4 Is the preferred option compatible with the Government's 'Expectations for the design of regulatory systems'?**

- *Identify and explain any areas of incompatibility with the Government's 'Expectations for the design of regulatory systems'. See <http://www.treasury.govt.nz/regulation/expectations>*

We will finalise our view on the compatibility of the preferred options with the Government's 'Expectations for the design of regulatory systems' following consultation.

# Section 6: Implementation and operation

## 6.1 How will the new arrangements work in practice?

- *How could the preferred option be given effect? Eg,*
  - *legislative vehicle*
  - *communications*
  - *transitional arrangements.*
- *Once implemented, who will be responsible for ongoing operation and enforcement of the new arrangements? Will there be a role for local government?*
- *Have the responsible parties confirmed, or identified any concerns with, their ability to implement it in a manner consistent with the Government’s ‘Expectations for regulatory stewardship by government agencies’? See <http://www.treasury.govt.nz/regulation/expectations>*
- *When will the arrangements come into effect? Does this allow sufficient preparation time for regulated parties?*
- *How will other agencies with a substantive interest in the relevant regulatory system or stakeholders be involved in the implementation and/or operation?*

We expect that the Education Act 1989 and the Industry Training and Apprenticeships Act 1992 will need to be amended. Implementation issues will include adapting the funding system to support the reforms, and designing appropriate organisational forms, governance and monitoring arrangements for the new organisations. However, we will complete this aspect of our analysis following formal consultation.

## 6.2 What are the implementation risks?

- *What issues concerning implementation have been raised through consultation and how will these be addressed?*
- *What are the underlying assumptions or uncertainties, for example about stakeholder motivations and capabilities?*
- *How will risks be mitigated?*

A summary of the risks of the Minister’s preferred options, and their mitigations, is provided in Section B. We expect stakeholder submissions to provide considerable detail about implementation risks, so we will complete our analysis of these risks and how they can be mitigated following formal consultation. The desired rapid pace of change will reduce the period of uncertainty for stakeholders while also presenting challenges for successful implementation.



# Section 7: Monitoring, evaluation and review

<b>7.1 How will the impact of the new arrangements be monitored?</b>
<ul style="list-style-type: none"><li>• <i>How will you know whether the impacts anticipated actually materialise?</i></li><li>• <i>System-level monitoring and evaluation</i></li><li>• <i>Are there already monitoring and evaluation provisions in place for the system as a whole (ie, the broader legislation within which this arrangement sits)? If so, what are they?</i></li><li>• <i>Are data on system-level impacts already being collected?</i></li><li>• <i>Are data on implementation and operational issues, including enforcement, already being collected?</i></li><li>• <i>New data collection</i></li><li>• <i>Will you need to collect extra data that is not already being collected? Please specify.</i></li></ul>
<p>We will plan our approach to monitoring the new arrangements following formal consultation.</p>

<b>7.2 When and how will the new arrangements be reviewed?</b>
<ul style="list-style-type: none"><li>• <i>How will the arrangements be reviewed? How often will this happen and by whom will it be done? If there are no plans for review, state so and explain why.</i></li><li>• <i>What sort of results (that may become apparent from the monitoring or feedback) might prompt an earlier review of this legislation?</i></li><li>• <i>What opportunities will stakeholders have to raise concerns?</i></li></ul>
<p>We will plan an approach to reviewing the new arrangements following formal consultation.</p>

## Annexe 1: Key themes from the TEC's ITP Roadmap engagement

### What's working well?

*Learner support:* Learners feel at home, respected and understood at their ITPs.

*Committed ITP workforce:* There are many dedicated ITP staff who will go the extra mile to help their learners succeed.

*Trusted local partners:* There are ITPs that work with industry to meet their needs and help to grow communities in their region.

*Some areas of provision:* ITPs have strengths in applied learning, vocational education and there are some innovative delivery models.

### What's not working well?

*Purpose and brand:* ITPs are trying to be everything to everyone, and suffer from perception problems. This is a challenge for the wider vocational education and training sector, not just for ITPs.

*The operating environment impacts on sustainability and quality:* The environment that ITPs operate in is competitive, creates duplication and inefficiencies, and they struggle to reach economies of scale. Staffing structures can be inflexible.

*Staff and student representation:* Good systems and processes exist at some ITPs but, at others, staff and learners aren't being involved enough.

*Learner success:* There are issues of churn and some ITPs are not yet meeting the needs of Māori and Pacific learners.

*Meeting industry need:* ITPs aren't responding well enough to skills shortages, mismatches and gaps in local labour markets.

### What needs to change or improve over the next decade?

*More outward-facing, flexible and responsive:* ITPs should be outward-facing partners that respond to the need of communities, industry, Māori and other stakeholders and contribute to regional transformation.

*Build the ITP brand:* ITPs can promote their advantages and build a stronger brand for the sector.

*Focus on skills:* ITPs need to develop people's skills for the future.

*Diversify models of teaching and learning:* ITPs should move towards more work-integrated, lifelong learning; shorter, flexible programmes; and blended models of delivery.

*Workforce model:* The ITP workforce can be more flexible, but it must have strong leadership, valued staff and well-supported learners at its centre.

### Ideas for the future ITP network model

*Balance centralisation and decentralisation:* Some things could be centralised, but the model needs to retain local diversity and autonomy.

*Not one-size-fits-all:* Each region is different and ever-changing, and the ITP network will require a solution that can continually adapt to meet local needs.

### Feedback on the funding system

*Funding models and operational settings:* Aspects of the system are slow, and disincentivise or stop ITPs from effectively fulfilling their roles while remaining financially sustainable.

*Agency collaboration:* Government agencies can improve how they work together to support the sector.

### What we heard from Māori

*Learning and success for Māori:* ITPs can better support Māori learners and whānau by focusing on flexible learning models, improving access to education, and giving learners skills for lifelong careers as well as other social and cultural benefits.

*Partnerships:* Government, ITPs and Māori whānau, iwi and hapū can build stronger partnerships that help create more positive outcomes for learners. Clear roles and responsibilities are important in making partnerships work.

### What we heard from Pacific people

*Learning and success as Pacific people:* ITPs need to ensure that Pacific learners and staff are well-supported, able to celebrate their cultures, and have culturally-relevant experiences.

*Careers education and community engagement:* ITP education works best for Pasifika where their families, schools and communities are actively involved, and support Pasifika learners to transition into areas of study that lead to work.