



Report: VET reforms – confirming overarching policy objectives

To:	Hon Penny Simmonds, Minister for Tertiary Education and Skills		
Date:	11 October 2024	Deadline:	14 October 2024
Security Level:	In-Confidence	Priority:	Medium
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Why are we sending this to you?

- The purpose of this report is to seek your feedback on the final policy proposals for the VET reforms. Your feedback will be used to inform the material we are preparing for upcoming meetings with your ministerial colleagues and the draft Cabinet paper.
- Alongside this report, you have received a report on the final proposals for the Institutes of Technology and Polytechnic (ITP) sector [METIS 1336882 refers], this will be followed on Monday 14 October by further advice on the hybrid model for work-based learning and standards setting [METIS 1336883 refers]. Those reports will provide additional detail in relation to the proposals set out here.

What action do we need, by when?

- We seek your feedback on the matters set out in this report at the next officials meeting on Tuesday 15 October.

Key facts, issues and questions

- We have identified three overarching objectives and associated shifts for the next stage of policy decisions. We want to confirm our approach to these ahead of meetings with Ministers in the coming weeks.

Alignment with Government priorities

- This report is a part of work on the Vocational Education and Training (VET) system redesign, which was begun as part of the Government's 100-day plan and is one of your 2024 priorities for the Tertiary Education and Skills portfolio.

Context

1. Now that consultation on options for change has finished, and we are nearing final policy decisions, we need to finalise the overall system design and consider how the proposed suite of changes will work together. This includes being as clear as possible about areas where there are uncertainties, any key risks and trade-offs, and identifying how we can mitigate these. This will help in the development of your December Cabinet paper and in your discussions with colleagues prior to Cabinet taking decisions.
2. This report summarises, at a high level, our understanding of your vision for the reformed VET system. It also anticipates some of the questions you are likely to receive from your colleagues, and stakeholders more generally.
3. There will be some duplication in content between this paper and more detailed papers you are receiving in this tranche, but the purpose of this paper is to bring together the proposed changes for the different parts of the VET system (the ITP sector, standards-setting, and work-based learning) in one place, and consider how these changes will support the system shifts you are looking to achieve. A summary of policy proposals is included in **Annex 1**.

Confirming the key policy shifts for the VET reforms

4. In your June Cabinet paper [METIS 1330408 refers] you outlined overarching principles for a successful and sustainable VET system. Your Cabinet colleagues also raised a number of considerations for the re-design of the VET system in discussions on your June and July 2024 Cabinet papers.
5. The principles laid out in your June Cabinet paper were:
 - a successful and sustainable VET system will be based on the principles of enabling choice and flexibility, encouraging innovation, being cost effective for industry and government, maximising the potential of all learners, and driving economic growth by delivering the skills New Zealand needs.
 - To deliver results for New Zealand, the new system will need to be financially viable, have academic rigour, foster strong community connectivity, and be founded on strong, ongoing industry engagement.
6. This report simplifies these into three objectives and sets out proposed key shifts under each:
 - a. **The VET system provides opportunities for people and communities to get ahead**
 - **Key system shift:** Control over Institutes of Technology and Polytechnics (ITPs) is returned to the regions by establishing a network of stand-alone and federated regional ITPs. Work-based learning will move to regionally based providers, with Industry Skills Boards (ISBs) providing a national coordinating and support function.

b. The VET system supports New Zealand's long-term productivity and economic development

- **Key system shift:** The VET system responds to the needs of employers and industry and delivers on the skills businesses need to thrive. The VET system builds capability to support New Zealand's long-term success, improves the ability of learners to enter into meaningful work, and increases their earning potential.

c. The VET system is fiscally sound and represents good value for money

- **Key system shift:** The VET system is financially viable, with funding going to deliver training and support learning rather than expensive centralised bureaucracies.

7. The section below sets out each of these objectives in more detail, including the policy rationale, key trade-offs and risks and mitigations.

Objective one – the new VET system provides opportunities for people and communities to get ahead

Key system shift: Control over Institutes of Technology and Polytechnics (ITPs) is returned to the regions by establishing a network of stand-alone and federated regional ITPs. Work-based learning will move to regionally based providers, with Industry Skills Boards (ISBs) providing a national coordinating and support function

ITPs are a key contributor to healthy regional economies, providing a supply of skilled labour for local employers

8. ITPs delivered to over 67,000 learners in 2023¹ – around half of all provider based delivery (127,210 learners). In some regions, the local ITP delivers a large proportion of provider-based education, for example:
- Northland: 1,215 out of 3,225 learners
 - Taranaki: 1,360 out of 2,040 learners
 - West Coast: 190 out of 510 learners
 - Nelson: 1,050 out of 1,110 learners
9. There was dominant support for the importance of ITPs in consultation feedback, with significant support coming from employers and industries. Some submitters noted that ITPs help to foster skills through partnering with local industries to build regional growth and development. Locally delivered VET is also a key mechanism for retaining young people and workers within the regions as ITP students generally stay and work where they study.
10. A key objective of the reforms is to return control of ITPs to the regions. By the start of 2025, at least two ITPs will be operating independently (to the extent possible within the scope of functions and duties of Te Pūkenga NZIST), with an executive director and local branding, as a pathway to being established as stand-alone entities post legislative change.
11. During 2025, decisions will be made on which of the remaining ITPs can stand-alone, which will need to merge to be viable, and which will have to close or be sold. Te Pūkenga will be disestablished, ITPs will be established as tertiary education institutions (TEIs) and Workforce Development Councils will be replaced by Industry Skills Boards with effect on 1 January 2026.

¹ Data retrieved from Education Counts [05 - Vocational education & training | Education Counts](#)

12. For those ITPs not able to be financially viable as stand-alone institutions within the timeframe, but are on a path to viability, there will be additional support of a federation model. The federation, established in legislation, will be anchored by the Open Polytechnic of New Zealand. The Open Polytech will make its online materials available to all other ITPs as part of its role as anchor institution. Access to these materials along with shared services, including a shared Academic board, will significantly reduce costs for ITPs.

A sustainable, regional network of provision will need to be agile, making use of all provider types and delivery modes

13. ITPs are a critical part of the VET system in regions and cities. They offer a wide range of delivery, including pre-employment and pre-trades training, foundation education, vocational education (including some managed apprenticeships), and degrees (with associated research).
14. Private Training Establishments (PTEs) deliver learning to approximately 60,000 VET learners, including many in niche areas. As most PTEs are seeking a return on investment, they naturally deliver in regions and disciplines that require less capital investment and offer higher returns.
15. Likewise, Wānanga, as kaitiaki of mātauranga Māori in the tertiary sector, focus on te reo Māori and te ao Māori provision and do not offer the broad base of VET programmes that ITPs offer.
16. Without ITPs, New Zealand could lose access to many of the key skills we need to increase productivity and grow our economy. However, there is a clear role for both public and private provision in the reformed system.

A key trade-off is between financial viability of ITPs and a reduction in the delivery of face-to-face learning

17. Much of the existing ITP provision is loss-making and financially unsustainable. In order to achieve financial viability, hard choices will need to be made about what programmes can be delivered where.
18. ITP enrolments have dropped significantly over the past five years and staffing costs have not been adjusted in line with this decline. There is a need to improve staff to student ratios and lower support costs.
19. The work is underway to reduce costs across the ITP network and understand what provision will be possible in each region, how much of this will be face-to-face versus online or blended delivery, and the degree of support each ITP will need from the Open Polytechnic.
20. It is intended that each region will have access to core provision. What this core provision is has yet to be defined, but will be identified in close consultation with regions. It will likely include healthcare, trades training, and foundation education at a minimum.
21. Where an ITP is unable to deliver the core provision that its region needs, out of region options will be marketed and made available from elsewhere in the network. The federation will decide how gaps will be filled, with the local ITP taking the lead to ensure this happens. There will be no limitations on PTEs operating in regions.

Shifting to more online and blended delivery may increase access and equity issues

22. Feedback during consultation suggested that an increase in blended delivery could be beneficial for some learners. Blended delivery may also in some cases make smaller classes viable. However, there may be some challenges in shifting programmes to online only.

23. Online delivery relies on access to a quality internet connection and an appropriate device. Learning this way also requires a level of digital literacy that some learners, especially older learners who need to re-train, may not have.
24. Connectivity may be a particular issue for rural or geographically isolated learners. Research carried out in 2023 for the Ministry of Primary Industries (MPI) by Research First² found that, while rural communities would like to use the internet to study extramurally, they were often limited in their ability to do so because of issues with internet coverage and bandwidth.
25. Research³ has indicated that the inability to make the most of digital opportunities can magnify existing offline inequalities. These barriers, along with other less transparent factors, are likely to be behind the persistent gap in learner achievement in course and qualification completion rates for extramural learning.
26. Consideration will need to be given to these issues in the design phase, and the impacts of changes to delivery modes will need to be monitored carefully.

Objective two – the VET system supports NZ’s long-term productivity and economic development

Key system shift: The VET system responds to the needs of employers and industry and delivers on the skills businesses need to thrive. The VET system builds capability to support New Zealand’s long-term success, improves the ability of learners to enter into meaningful work, and increases their earning potential.

Delivering on the needs of industry is key to the success of the VET system

27. VET is an essential part of a functioning labour market, producing 87,000 graduates in 2023, mostly for construction, engineering, primary industries, health care and the service sector.
28. While all VET provision should be responsive to the needs of industry, work-based learning is particularly critical for meeting the skills needs of employers and industries. For example, in 2023, 33,850 learners were enrolled in work-based construction programmes, compared to 8,895 in provider-based programmes⁴.
29. Employers have a range of motivations for engaging in formal (credentialed) work-based learning. For those in regulated sectors, credentialed training is usually a requirement for employment. For employers in non-regulated sectors, credentialed training may be seen as an investment in their workforce and their industry more broadly.
30. If employers feel that the VET system is not meeting their needs, those that can may choose to exit the formal training system. Some will continue to offer non-credentialed training, but others will stop training altogether.
31. Giving ISBs both a relationship with individual firms and system-level standards-setting functions will restore feedback loops between learners and employers and standards-setters, leading to a more responsive system.

National versus regional approaches to VET

32. There are differences between the needs of regions and the needs of industry. Regions are focused on ensuring that local VET provision meets local employer needs and supports

² Rural users digital connectivity experiences, 2023, Research First. Retrieved from: [58336-Rural-Users-Digital-Connectivity-Experiences-March-2023 \(mpi.govt.nz\)](https://58336-Rural-Users-Digital-Connectivity-Experiences-March-2023(mpi.govt.nz))

³ OECD (2024), Digital divide in education. Retrieved from: [Digital divide in education | OECD](https://www.oecd.org/digital-divide-in-education/)

⁴ Data is as at 26 September 2024 for 2023 reporting year and has been sourced through administrative data held by the Tertiary Education Commission (TEC).

regional economic development goals, while industry prefers a national approach to training to ensure quality and consistency across the system.

33. During consultation, stakeholders were asked to comment on two options for the structure of work-based learning and standards-setting.⁵ The majority of submitters who identified as industry or employers stated a preference for Option B (56.9 percent; 11.5 percent preferred Option A, and 31.6% did not support either option).
34. The main reasons industry submitters gave for preferring Option B, were that it would retain an independent standards-setting function and employers would have the choice of training provider, with competition incentivising providers to be innovative and responsive.
35. Submitters who supported Option A considered that a single entity for each industry overseeing both standards-setting and arranging work-based learning would ensure quality and consistency across the system.
36. Following your discussions with industry representatives and consideration of consultation feedback, you have decided to progress a 'hybrid model'. Under this model, ISBs will provide a national training coordination function to work-based learners and their employers, while their continuing consent, endorsement, and moderation functions will support consistency and quality across the system. ITPs will provide training materials and educational support to learners, and off-job training where required. We are providing you with further advice to confirm key features of this system on Monday 14 October.
37. The hybrid model retains the integration of work-based and provider-based delivery in the same organisation, while also being regionally responsive. This will contribute to the financial viability of ITPs by softening the impacts of the economic cycle (the number of learners in provider-based VET tends to increase during times of higher unemployment, while work-based learning enrolments increase during times of low unemployment). Integration will also support learner mobility between different modes of delivery.
38. The hybrid model offers employers choice about who delivers their training, but choice will be constrained by what local providers are able to offer. The trade-off here is that the model breaks up the long-standing national industry training bodies who have the critical relationships with industry.
39. There will always be trade-offs when weighing up system settings, for example, competition versus collaboration, and regional responsiveness versus national consistency. Neither of the options consulted on would have resolved these tradeoffs entirely. However, some stakeholders may consider that the shift to regionally delivered training will negatively affect consistency and quality across the system, and the short transition time-frame may result in some shocks to industry, and potentially employer disengagement from the training system.
40. Concerns about negative impacts on consistency and quality of provision can be addressed by ensuring that ISBs have robust qualification development and assessment moderation practices. The use of skills-standards as the 'common currency' in programmes across the system will also support consistency and enable learners to easily transition between different modes of learning as their circumstances change.
41. NZQA will also continue to exercise their role as regulator in ensuring consistency of graduate outcomes across providers.

⁵ **Option A:** Establishing Industry Skills Boards⁵ that would both set standards and arrange work-based learning. **Option B:** Retaining separate standards-setters, with all providers able to offer work-based learning and Te Pūkenga's WBL divisions becoming standalone entities.

42. Clear communications to support the transition could help maintain employer attachment to industry training and minimise the impact that structural changes have on key relationships within the system.

Objective three – the VET system is fiscally sound and represents good value for money

Key system shift: The VET system is financially viable, with funding going to deliver training and support learning rather than expensive centralised bureaucracies.

43. There have been long-term financial sustainability issues in the ITP sector. The previous government's reforms, and the establishment of Te Pūkenga, has not resolved these.
44. Financial advice to date indicates that nearly all ITPs are carrying programmes that either make a negative contribution (loss making before considering any overhead costs), are poor performing (make a small positive contribution but are likely to be loss making overall when overheads are included) or deliver to so few EFTS that they do not justify the associated support costs.
45. Right-sizing provision, alongside a significant consolidation of assets, is needed to achieve a viable network and ensure that the ITP sector is providing value for money. The need for this work has long been signalled. Setting a deadline for ITPs to demonstrate they are on a pathway to viability has helped drive a sense of urgency.
46. To achieve financial viability, significant cost-out work is being done across the ITP network, including sustainable operating changes that will support a viable network of provision going forward.
47. Many ITPs are well underway with this work and are drawing on their local communities for support. However, even with support some ITPs will not be able to make the changes necessary to achieve viability and will face closure.
48. While setting a hard deadline for showing viability is important for retaining momentum, this also reduces the time that ITPs have to become viable and increases the likelihood of ITP closures.
49. Depending on the results of the cost-out exercise, future decisions may need to be made to redirect funding from other parts of the system to support niche/specialist delivery, or to support delivery to high-need learner cohorts or regions. However, the focus at this stage remains on the financial viability of the sector as a whole, rather than on the details of individual institutions.

There is a risk that the Hybrid model will increase complexity and duplication

50. Under the hybrid model, funding for work-based learning will be delivered through two streams. Providers will be paid directly for their education role in a learning relationship, while ISBs will be paid directly for their training coordination role.
51. While receiving the enrolments currently associated with Te Pūkenga's WBL divisions could support the financial viability of some ITPs, there is a risk that the new structure will lead to overlaps in roles and activities between ISBs and providers, and increased complexity for employers and learners. For example, each work-based learning relationship will involve both a provider (for educational elements) and an ISB (for coordination and pastoral care elements).
52. Without knowing how many ISBs will be established, there is also uncertainty about their ability to carry out their functions within the funding available, i.e., the more ISBs there are, the more dispersed the funding will be.

53. There are a number of other aspects of implementation that could lead to duplication and/or additional costs, including the systems and processes to monitor learners and additional investment in staff capability to manage the distinctive nature of work-based learning. Reducing the funding rates for work-based learning and dividing it between both providers and ISBs may also reduce its attractiveness to providers.

Next Steps

54. We note that some of the proposals outlined in this paper are still subject to your final decisions. Alongside this paper, you have received a report outlining final policy decisions for the ITP sector [METIS 1336882 refers], and on Monday you will receive detailed advice on the hybrid model for standards-setting and work-based learning [METIS 1336883 refers]. Once the final structure and settings of the Hybrid model are clearer, we will be better able to assess the possible risks and identify mitigations for these ahead of drafting your December Cabinet paper.
55. You have scheduled meetings with officials to discuss final decisions on proposals on Tuesday 15 October and Thursday 17 October.
56. Subject to any changes to the proposals following discussions next week, we will use this paper as a basis for drafting your December Cabinet paper, developing collateral to support your discussions with Cabinet colleagues, and developing a communications plan for use following the announcement of Cabinet decisions.

Recommended Actions

The Ministry of Education recommends you:

- a. **agree** to discuss the objectives and policy proposals in this paper at the tertiary agencies officials meeting on 15 October 2024.

Agree / Disagree

Proactive Release:

- b. **Agree** that the Ministry of Education release this paper after Cabinet has taken policy decisions for the disestablishment and replacement of Te Pūkenga, as part of the communications strategy for the announcement of those decisions, with any information needing to be withheld done so in line with the provisions of the Official Information Act 1982.

Agree / Disagree


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Annexes

The following are annexed to this paper:

Annex 1: Summary of VET policy proposals

Annex 1: Summary of VET policy proposals

1. To achieve your objectives, you are proposing the following changes to the VET system (subject to final policy decisions and Cabinet agreement):

A redesigned network of Institutes of Technology and Polytechnics (ITPs)

Key features of the reformed network include:

2. Te Pūkenga will be disestablished and replaced with a combination of stand-alone and federated polytechnics. ITPs (currently divisions of Te Pūkenga) that are not financially viable and able to stand-alone by 1 January 2026 will be either closed, merged, or moved into the federation.
3. The federation will have 'light levers'. It will not be financially responsible for its members but will provide access to shared services and programmes, supported by the Open Polytechnic of New Zealand (TOPNZ), and a shared academic committee.
4. To achieve financial viability, ITPs will need to reduce their current provision. Each region will have access to 'core' provision, but this will vary from region to region and will be decided by each region. In some cases, core provision will need to be provided by an ITP located outside the region, for example, TOPNZ, however, all core provision will be badged as local in some way.

An industry-led system for standards-setting and industry training (work-based learning)

Key features include:

Standards-setting

5. Workforce Development Councils (WDCs) will be replaced by between six and eight Industry Skills Boards (ISBs) and their standards-setting function assigned to the new boards.
6. ISBs will be responsible for developing qualifications and standards, endorsing programmes and granting consent to assess, carrying out any capstone assessments, and conducting external moderation of providers' programmes. They will also have a strategic workforce analysis and planning function.

Industry training

7. The responsibility for pastoral care and coordination elements of work-based learning will shift from providers to ISBs. ISBs will be responsible for, supporting employers to train and supporting apprentices and trainees to complete their programmes.
8. The responsibility for education elements of work-based learning would remain with providers. The current enrolments and programmes in the work-based learning divisions of Te Pūkenga would move to ITPs or in some cases to PTEs or Wānanga providers. This would be a shift from a centralised/national approach to arranging work-based learning for these sectors to a more regional approach.
9. Private Training Enterprises (PTEs) who are currently delivering work-based learning can continue to do so. However, there will be a short moratorium on new work-based learning delivery.

10. ITPs will hold the enrolment for a work-based learner and be responsible for providing any written and/or online learning resources, providing educational support, assessing learners in both on- and off-job settings, reporting credits, and awarding qualifications upon completion.

Changes to how VET is funded

Final decisions on funding settings from 2026 will not be made until next year, however, proposed changes include:

11. Restoring VET funding rates to what they would have been under the previous Student Achievement Component (SAC) system. This would require repurposing a significant proportion of Learner Component funding targeted to support learners with low prior achievement, disabled learners, and Māori and Pacific learners.
12. Reprioritising funding from work-based rates to provide dedicated funding for standards-setting.
13. Reprioritising funding from work-based rates to support and incentivise ITPs to engage with regional industries to support the development and retention of skilled workers, and to maximise the benefits of international education for regional New Zealand.
14. Dividing funding for work-based learning between education provider and ISB-focused strands, enabling both roles to be directly funded.