

Education Report: Outline of June Cabinet paper on disestablishing Te Pūkenga

To:	Hon Penny Simmonds, Minister for Tertiary Education and Skills		
Date:	9 May 2024	Priority:	High
Security Level:	In-Confidence	METIS No:	1328266
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Seen by the Communications Team:	No	Round Robin:	No

Purpose of Report

This report provides you with a proposed outline for a June Cabinet paper that will seek agreement in principle to consult on options for disestablishing Te Pūkenga and for making associated changes to work-based learning and standard-setting arrangements within vocational education and training (VET).

The outline is for you to discuss and finalise with officials next week. We will also provide a copy to Department of the Prime Minister and Cabinet (DPMC) to discuss with the Prime Minister's Office.

Alignment with Government priorities

The June Cabinet paper will meet the Government's commitment in its Action Plan (1 April to 30 June) to take decisions to disestablish Te Pūkenga and consult on a proposed replacement model.

Recommended Actions

The Ministry of Education recommends you:

- discuss** the draft outline attached as **Annex 1** with officials to finalise an outline for the June Cabinet paper by Friday 17 May.

Agree / Disagree

- note** that officials will draft a June Cabinet paper in accordance with the agreed outline, and will provide a draft Cabinet paper to you on Wednesday 29 May for your feedback prior to Ministerial consultation.

Noted

- c. **note** that we will provide you with a timeline and process for developing a consultation document.

Noted

- d. **note** that we are working to have final policy decisions made by Cabinet by late November or early December 2024, for announcements on the changes to be made in December and to be in position to introduce the Education (Vocational Education and Training System) Amendment Bill in the first quarter of 2025.

Noted

- e. **note** that the outline includes a second option for work-based learning and skills leadership, that would emphasise competition in work-based learning and independent standards-setting.

Noted

Proactive Release

- f. **agree** that the Ministry of Education release this paper only after full Cabinet consideration of the issues, and as part of a communications strategy associated with Government announcements on the proposed vocational education and training (VET) changes.

Agree / Disagree


Katrina Sutich
Group Manager
Tertiary and Evidence Group

09/05/2024

Hon Penny Simmonds
Minister for Tertiary Education and Skills

___/___/___

Background

1. The Government has committed to take decisions by the end of June to disestablish Te Pūkenga and consult on a proposed replacement model.
2. These decisions will be taken through a paper taken to Cabinet on 24 June, which will seek agreement to consult on replacement models for Te Pūkenga and for work-based learning and standards-setting. We are still working with you on when consultation will commence and whether a further decision is required based on validated financial information.
3. This report provides a draft outline (attached as **Annex 1**) for the June Cabinet paper, to discuss with officials and agree a finalised outline by Friday 17 May.
4. You have recently socialised your approach to Cabinet decisions with key Cabinet colleagues, and met with Minister Willis (Finance), Minister Penk (Building), and Minister Hoggard (Agriculture) on Monday 29 April [METIS 1327530 refers].
5. We understand that the Prime Minister's Office has advised that an alternative option to the provisionally-named Industry Training Boards (ITBs) be included in consultation on the future of work-based learning (WBL) and standards-setting.
6. The draft outline includes a proposed alternative intended to contrast with the key features of the ITB model. This report includes a short discussion of the second option for work-based learning that is included in the draft outline, as this option has not been explored in advice to date.
7. The outline also includes high level references to the approach to changes to funding settings for 2025 and 2026. We will provide you with further advice on options for 2025 changes, which would need to be reflected in the final Cabinet paper.
8. We have removed restoring regional decision making from the problem definition following your drafting feedback.

June Cabinet paper timeframes

9. The timeframe for the June Cabinet paper is as follows:

Date	Cabinet paper stage
Friday 17 May	Outline finalised following discussions with you
Wednesday 29 May	Draft Cabinet paper provided to you for review before Ministerial consultation
Wednesday 5 June – Monday 10 June	Ministerial consultation Note that the standard 10 days for Ministerial consultation have been shortened
Thursday 13 June	Lodgement of final Cabinet paper
Wednesday 19 June	Consideration by the Cabinet Economic Policy Committee (ECO)
Monday 24 June	Confirmation by Cabinet

Consultation document and financial information

10. We are working through a timeline and process for developing a consultation document, and will finalise that with you and with DPMC officials (as discussed at your agency meeting) early next week.
11. You indicated a preference for a 6-week public consultation period and we agree this is appropriate. Following this there is then around 6-8 weeks required to analyse submissions and take a final Cabinet decision.
12. Based on current modelling work, high-level initial surplus and deficit forecasts for 2024, 2025 and 2026 for each individual ITP will be available by the end of May for inclusion into the draft Cabinet paper. This will enable the initial forecasts to be included in the version circulated for Ministerial consultation.
13. Further analysis and scrutiny of the high-level forecasts (which may enable modelling of some ITP configurations) will be available in July, after lodgement of the June Cabinet paper. These refined forecasts will enhance analysis of the current state of the challenge, but advice on the impact of alternatives will be qualitative due to the complexity of the number of factors involved.

Indicative legislation timeline for disestablishing Te Pūkenga.

14. We are working to have final Cabinet policy decisions by late November or early December 2024, to be in position announce in December and to introduce the Bill in first quarter of 2025.
15. The high-level plan for the Bill is as follows:

Indicative Dates	Legislation milestone
Late November or early December 2024	Paper to Cabinet seeking agreement to policy decisions following consultation and to issue drafting instructions to Parliamentary Counsel Office (PCO)
Mid-March 2025	Introduction and First reading
April to July 2025	Select Committee (four months) – note that ETAB 2 Bill may also be considered by Select Committee at this time
August 2025	2 nd and 3 rd readings
August or September 2025	Royal Assent
1 January 2026	Legislation comes into force

Options for Work-based learning and Standards-setting

16. The ITB model is built around a small set of statutory bodies who would be responsible for both standards-setting and arranging training, the only entities able to arrange WBL,

and required to contract with providers (initially ITPs during a 2-year moratorium period) for 'delivery' functions.

17. The current WBL learners, resources, and infrastructure of Te Pūkenga would shift to an appropriate ITB. We will provide further thinking on how to manage the distinction between arranging and delivery of training in future advice.
18. A contrasting approach to ITBs would emphasise competition in WBL, alongside independent standards-setting. We propose that the alternative model have the following features:
 - a. **Standards-setting** would be managed by a small number of industry-specific standards-setters. Like ITBs, these would be statutory bodies, have industry and some ministerial representation on their boards, and be tightly focused on setting standards and accreditation with potential for some strategic workforce analysis and planning. There would be multiple such bodies representing appropriately clustered groups of industries.
 - b. **Work-based learning** programmes could be offered by ITPs, Private Training Establishments (PTEs), and Wānanga. This means that these organisations could offer WBL as well as provider-based programmes. The small number of PTEs currently offering WBL programmes would be able to continue doing so.
 - c. **The WBL Subsidiary of Te Pūkenga** becomes either a stand-alone entity or a small number of industry focussed entities, in the same way that the new ITPs transition out of Te Pūkenga..
19. As with ITBs, this model would require significant new legislation. The new WBL entity formed out of Te Pūkenga would likely be established as a new class of education organisation. This would enable you to establish specific requirements in areas such as governance and constraints on its operation, such as requiring involvement of providers in developing and offering programmes.
20. Note that we will make clear the risks with this option, reflecting your concerns. The purpose of having options is to draw out the functions that industry values for Ministerial discussion. However, we consider that it needs to be included based on our discussions with DPMC.

Next steps

21. We have a number of opportunities to discuss this with you next week.
22. We will meet with you and DPMC early next week to work out a timeline and process for developing a consultation document, and will provide you with a draft consultation timeline by close of play tomorrow (Friday 10 May) to support these discussions
23. We will provide support for your second meeting with VET Ministers that we understand is scheduled for 20 May. We suggest providing them with the agreed Cabinet paper

outline, and the background material from the first meeting (for any Ministers who attend in person for the first time at the meeting on 20 May).

24. After you have agreed the outline, we will draft a Cabinet paper to send to you on Wednesday 29 May. Ministerial consultation will start on Wednesday 5 June. The paper will be lodged with Cabinet office on Thursday 13 June.

Annexes to this paper

Annex 1: Outline of June Cabinet paper on disestablishing Te Pūkenga

Proactively Released

Annex 1 – Outline of June Cabinet paper on disestablishing Te Pūkenga

Title: Consultation options for Implementing our commitment to disestablish Te Pūkenga

Purpose

- This paper sets out the scope of options to be consulted on for the re-design of the Vocational Education and Training (VET) system. [TBC (subject to decisions on timeline for producing consultation document and detailed modelling)] It seeks agreement to consultation options, ahead of further analysis which will be available in early July, and approval to delegate final decisions on consultation to [either the Minister for Tertiary Education and Skills and the Minister of Finance, or the VET Ministerial group]].

Background/Problem definition

- There have been long-term issues in the Institutes of Technology and Polytechnics (ITP) sector, particularly financial sustainability, these issues have become worse under Te Pūkenga. The previous government's reforms have resulted in a system too focussed on centralisation, without showing improvement in the financial position of providers or delivering education that meets the needs of New Zealand's regions.
- Workforce Development Councils (WDCs) are another feature of the system that have overly complex governance arrangements, and they are not sufficiently focussed on their essential standards-setting function.
- We need a sustainable and affordable VET system that supports greater industry leadership and delivers on the skills New Zealand needs now and in the future.
- This will require difficult decisions, and given the financial challenges at many ITPs, we need to re-imagine/redefine what the ITP network and delivery may look like in future for some regions across New Zealand.
- [Annex that describes VET]

Proposed process

- [Timeline for report back to Cabinet, or to Ministers with delegated authority, on draft consultation document and final modelling TBC following discussions with the Minister and DPMC next week]
- Consultation on options [timing TBC including option of verifying financial modelling before commencing consultation]
- Final policy decisions by late November/early December, with a Bill introduced in the first quarter of 2025.
- Regional ITPs – where financially viable – are created progressively from Q1 2025 (likely to be a small number, created by the Te Pūkenga council as subsidiaries of Te Pūkenga).
- During 2025 Te Pūkenga makes further progress on preparing remaining ITPs for establishment.
- Legislation passed in late 2025, with full implementation from 1 January 2026.
- [A timeline diagram will be provided]

Institutes of Technology and Polytechnics

- ITPs are important tertiary education providers in regions (and cities). They offer a wide range of delivery, including pre-employment and pre-trades training, foundation education, vocational education, and degrees (with associated research).
- It is proposed to dis-establish Te Pūkenga and re-establish some regionally viable ITPs from early 2025. A regional network model, centred around the Open Polytechnic, will be developed, with some limited face to face delivery for key sectors e.g., Nursing.
- Because of the current lack of viability of most of the ex-ITPs (now business divisions of Te Pūkenga), it is not possible to return to the 16 ITPs that existed before the previous Government's reforms. The status quo is also not a viable option, due to the worsening financial situation of Te Pūkenga. We need to re-establish those ITPs that can be viable and let them get on with delivery and improving sustainability. Further work is then needed to establish how other parts of the network can be viable.
- There will be costs associated with these changes (e.g., capitalising new entities, dealing with potential residual debts). Some of the costs of change can be met from within Te Pūkenga reserves (mainly from the work-based learning divisions), but are expected to exceed these, and an operating contingency of \$157 million has been approved through Budget 2024 (Budget sensitive). This work will be undertaken within the fiscal envelope agreed by cabinet with significant asset realisations across the country critical for less viable regional delivery options.

Consultation will focus on the option of re-establishing the stronger parts of previous ITP sector and creating a lower cost blended learning model for the remainder of the system.

- Moving to a regionalised model allows for flexibility to respond to local priorities. But there are significant financial viability problems to be addressed.
- The key decision is the number and scope of ITPs to be re-established and how they are to operate. Financial modelling to date has focused on whether the individual business divisions within Te Pūkenga could be viable as stand-alone ITPs, and what consolidation options might work. Early indications are that 4 – 5 ITPs could initially be viable as stand-alone institutions (number to be determined by modelling). We would also look to develop a regional delivery model based around Open Polytechnic, with remaining viable delivery in the regions transferred into this group.
- 9(2)(g)(i) [REDACTED]
- It is not possible through modelling to map the precise pathway to financial viability as the future system is likely to require fundamental changes to how many of these ITPs operate and deliver education. Some ITPs will be able to manage their way back to viability if we return the funding system to what it was prior to 2023 and give them freedom to set their own business strategy. But others will need significant work before they are ready to be independent organisations, if they can be at all.
- Viability will likely require mergers with other ex-ITPs, reducing areas of loss-making provision (it is estimated that most current provision is unprofitable), and looking at different delivery options for learning. For some ITPs, the expenditure reductions will need to be significant which will mean fewer programmes being offered and less regional delivery, including the closure of some regional ITPs or campuses, and significant staff reductions.
- To support viability, it is proposed that much of this in person provision would either need to be moved online or to a blended mode of delivery, or would cease to exist altogether, which

would have large impacts on what provision is offered in many regions. Further detailed analysis would be needed to establish whether this model could be viable and its impact on the network of provision, as well as what it means for learner access and outcomes.

- Once we have identified those ITPs that are initially viable, the remaining job of Te Pūkenga and its successor organisations will be to establish what mix of online and in-person delivery is possible in each region, within the existing available funding. This process will take some years to fully implement.
- The proposed option will be evaluated against the status quo using the following criteria:
 - Responds to local communities and economies
 - Supports system sustainability
 - Delivers to the needs of learners and employers
 - Minimises implementation time and costs.

Work-based learning and standards-setting

- It is proposed to disestablish the existing Workforce Development Councils (WDCs) and establish an industry-led system for standard setting and work-based learning. We need a system where there is coherence between provider-based and work-based learning (WBL), but also one that is agile and fundamentally delivers what employers need. It also needs to be able to think long-term and ensure continuity for the learners and programmes in Te Pūkenga's work-based learning subsidiary.

Consultation will be undertaken on two options:

1. Establish Industry Training Boards (ITBs), similar to the previous Industry Training Organisations (ITOs) but with requirements to ensure greater collaboration with providers and a clearer delineation between arranging work-based training and delivery of off job training. ITBs would initially be made up of staff from WDCs (mainly those responsible for standards setting), and the providers currently offering apprenticeships and traineeships (the WBL business unit in Te Pūkenga). To support continued focus on their standard setting function, funding for standards-setting would be separate from support for work-based training.
 2. Replace WDCs with a small number of industry-specific standards-setters and continue to permit all providers to offer work-based learning. The work-based learning business division in Te Pūkenga would become either a single independent, industry-led provider or a small number of industry-based providers.
- The proposed options would remove unnecessary bureaucracy and create the opportunity for a more efficient system focused on the functions that industry find most valuable.
 - However, there were some key problems with the pre-RoVE system that we do not want to reintroduce. For example, there was limited cooperation between provider-based and work-based organisations and standard setting activity was inconsistent across ITOs. Option 2 may also fragment funding for WBL more widely across the system, exacerbating viability issues in the re-established ITP sector.
 - Options will be evaluated against the following criteria:
 - Encourages employer buy-in to the system
 - Enables flexible and relevant responses to industry skill needs
 - Supports successful learner outcomes
 - Promotes an integrated, sustainable, and clear system
 - Ease and length of transition.

Funding system changes

- The funding system for VET (the Unified Funding System implemented in 2023) is designed specifically to support the structure of the current system. As the institutions are reformed, the funding will also need to be reformed. In particular:
 - The funding rates for provider-based (including online) delivery will need to return to a level closer to pre-2023 rates to support the financial position of the new ITPs. This change would be fiscally neutral as it would be funded via the reallocation of current strategic funding, and potentially some of the funding aimed at supporting learner success.
 - Changes will be needed to work-based learning rates to reflect the final model for work-based delivery. This can be consulted on at a high level alongside the structural options.
 - Some funding will need to be set aside from work-based learning funding to pay for industry skill standards-setting. This cost is estimated to be around 9(2)(f) depending on the number of entities established.
- We propose to make some initial changes to provider-based funding rates from 1 January 2025, providing greater certainty about funding settings and helping to support the viability of ITP provision. This will require an operational level consultation before the end of September.
- Final funding settings would be implemented from 1 January 2026, with the main decisions to be made in late November/early December 2024 alongside structural reform decisions.

Beginning change in 2024 and 2025

- Change can begin in 2025, with the Te Pūkenga establishing a small number of regional ITPs as legal subsidiaries. This decision would be taken by Te Pūkenga's Council, not by Ministers as there is no legal power to direct them. We would work with Te Pūkenga over the remainder of 2024 to firm up this commitment and provide them with support as appropriate. Greater certainty of the policy direction is important for them to act with confidence.
- Te Pūkenga has already begun work to prepare for disestablishment and return decision-making to the regions. This includes appointing regional leaders, returning national staff back to their former business divisions, and delegating greater decision-making powers to local leadership. Te Pūkenga has also established a disestablishment working group and appointed specialist advisors to support the disestablishment process.
- Further work would be needed in 2025 to assess whether other ITPs can be viable or not.
- Full implementation of the new legislative and funding arrangements in 2026 is necessary to allow time for consultation and legislative reform.
- It is important to note that change will continue for some years as the new online and blended learning institution establishes a financially viable mix of national and regional provision.

Next steps

- [Drafting note - this section will set out the process from Cabinet decision to consultation; include proposed report-backs and/or delegations e.g., to the established Ministerial group to approve the 'in principle' decisions sought in this paper in light of the further analysis].

Risks and mitigations

Cost of Living Implications

Financial Implications

Legislative Implications

Impact Analysis

- Regulatory Impact Statement
- Climate implications

Population implications

Human rights

Use of external resources

Consultation

Communications

Proactive Release

Recommendations