

Education Report: Revised outline of June Cabinet paper on
disestablishing Te Pūkenga

To:	Hon Penny Simmonds, Minister for Tertiary Education and Skills		
Date:	14 May 2024	Priority:	High
Security Level:	In-Confidence	METIS No:	1328732
Drafter:	Lisa Sengelow	DDI:	04 463 7696
Key Contact:	Vic Johns	DDI:	9(2)(a) [REDACTED]
Seen by the Communications Team:	No	Round Robin:	No

Purpose of Report

This report provides a revised Cabinet paper outline, following your discussion with officials on Monday 13 May on a draft outline for a June Cabinet paper that will seek agreement to consult on options for disestablishing Te Pūkenga [METIS 1328266 refers].

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.

Annexes to this paper

Annex 1: Revised outline of June Cabinet paper on disestablishing Te Pūkenga

Recommended Actions

The Ministry of Education recommends you:

- a. **indicate** amendments you would like us to make to the revised Cabinet paper outline attached as **Annex 1**.
- b. **note** that we will send you the next version of the Cabinet paper outline by noon on Thursday 16 May, as agreed at the meeting on Monday 13 May.

Noted

Proactive Release

- c. **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


Vic Johns
Policy Director
Tertiary and Evidence Group

14/05/2024

Hon Penny Simmonds
Minister for Tertiary Education and Skills

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Annex 1: Revised 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. It seeks agreement to announce consultation following Cabinet taking decisions on the options outlined in the paper, and delegate final approval of the consultation document to myself and the Minister of Finance in July.

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 efficient 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 will be provided that describes VET]

Proposed process

- Subject to Cabinet's agreement to the proposals outlined in this paper, consultation materials will be finalised in mid-July. I propose that the Minister of Finance and myself be given delegated authority to approve consultation materials after consideration of further financial analysis, also available in early July.
- Consultation will conclude six weeks following the release of the consultation document.
- Report back to Cabinet on findings from consultation and final policy proposals (including policy approval for legislation) by late November, with a Bill introduced in the first quarter of 2025.
- Work towards creation of financially viable ITPs will begin from Q1 2025 (This would involve TEC appointing establishment advisory groups, whose role would be to prepare for the establishment of the new entities and the decisions that would need to be made on day one).
- During 2025 Te Pūkenga makes further progress on preparing remaining ITPs for establishment, either as stand-alone ITPs or within a federation model.
- Legislation passed in late 2025, with full implementation from 1 January 2026.
- [A timeline diagram will be provided]

Current issues with 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).
- 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 in the form 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.
- 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 ^{9(2)(g)(i)} 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, less face-to-face delivery in the regions, the closure of some regional campuses, and significant staff reductions.

Proposal to address these issues

- It is proposed to dis-establish Te Pūkenga and re-establish some regional ITPs from the beginning of 2026. ITPs that are not yet financially viable will work within a federation model, centred around the Open Polytechnic, as they work through whether they can transition to become separate entities. More information on the use of federation models is included in Annex X.
- There will be access to ITP provision in every region - at a minimum foundation and trades education, and any other specialist delivery relevant to the region. Much of their delivery is likely to be offered in online or blended modes, with some limited face-to-face delivery retained for key sectors e.g., making more use of innovative approaches such as delivery in community centres, schools and Marae. Further modelling is needed to understand what provision will be possible in each region, how much of this will be face-to-face versus blended, and the degree of support needed from the Open Polytechnic.
- In the new structure, ITPs could retain their own identities, and would have varying degrees of reliance on the Open Polytechnic, e.g., Tai Poutini would likely have most, or all of its back-office functions supported by the Open Polytechnic, with only blended delivery onsite. Whereas another ITP, such as Western Institute of Technology Taranaki or Northtec, might have a greater amount of student support and administration on campus, with the Open Polytechnic providing academic board, budgeting and quality assurance services.
- There will be costs associated with setting up stand-alone ITPs and developing the federation (e.g., capitalising new entities, dealing with potential residual debts, changing operating models, making staff redundant, developing new capability, and selling assets). 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.

- 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. Initial estimates by Te Pūkenga suggest that approximately \$TBC million (15% of total ITP asset value) could be realised through asset sales.

Consultation will focus on the option of re-establishing the stronger parts of previous ITP sector as standalone entities and creating a federation model for the remainder of the system.

- I am intending to consult on the idea of establishing a federation model under the Open Polytechnic to address the financial sustainability issues across the sector. The federation model will feature a two-tiered governance structure, enabling local decision making on clearly defined matters, with overarching decisions on academic and financial viability made by the overarching federation governance entity, which would have representatives from the regional entities on it. This is similar to the federation of California universities.
- 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) 9(2)(g)(i)
- Proposed changes to Education and Training Act 2020, coming into force on 1 January 2026, will enable ITPs to move in and out of the federation, based on clearly defined criteria. This flexibility will allow ITPs within the federation, that demonstrate they can be viable, to transition to be stand-alone entities. It will also ensure that there is a backup option for stand-alone ITPs who may be struggling to maintain viability. A threshold for triggering transition into the federation model will be developed to prevent ITPs getting too far down the track to non-viability and avoiding the need for costly Crown bailouts.
- New legislation could mandate Open Polytechnic to make its distance delivery materials available for blended use by all ITPs to help the ongoing sustainability of the sector.
- Funding changes discussed later in this paper will also support the redesigned system.
- The new system will evolve over time and will need to be dynamic enough to adapt to changes in community support, industry engagement, and economic conditions.
- 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 about the long-term needs of industry and ensure continuity for the learners and programmes in Te Pūkenga's work-based learning subsidiary.
- Standards-setting and work-based learning are closely linked activities, which both require industry buy-in for success. There are three key functions here:

- industry standards-setting – developing skills standards, qualifications and micro-credentials that meet industry and workforce needs, and ensuring the quality of related programmes.
- arranging training – including developing training programmes, enrolling learners and establishing training agreements, providing pastoral care, and organising for assessment to occur.
- delivering training – primarily through structured ‘on job’ learning in the workplace that is ‘delivered’ by an employer. Some programmes supplement with this with specific components delivered ‘off job’ by providers.
- Possible options for the future of work-based learning and standards-setting involve considering how these functions can be grouped together to best achieve both industry responsiveness and educational quality.
- It is very likely there will be different views between, and potentially within, industries on the best model. Some sectors and employers prefer the previous model of Industry Training Organisations (ITOs) as it historically served them well, while others prefer the new WDC model due to a perceived greater focus on qualification development needs.
- No one model is likely to please all industry stakeholders. The benefits of each model are likely to differ depending on the nature of the industry and the size of the employer, and perceptions will be shaped by how well a stakeholder was served in the prior system.

I propose that consultation be carried out on two options:

1. Establish Industry Training Boards (ITBs), similar to the previous ITOs. ITBs would be responsible for standards-setting and arranging training, but with requirements to ensure greater collaboration with providers and a clearer delineation between their role in work-based training and providers’ 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 and Private Training Establishments currently delivering WBL). 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 a small number of industry-based providers who would both arrange and deliver training. ITPs, Private Training Establishments and Wānanga would be able to offer WBL, subject to meeting quality criteria, although building their capability to do so may take time.
- [Insert Diagram showing organisation of industry standard-setting, arranging training, and delivering training functions under the pre-RoVE model, current model, and both future options].
 - 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.
 - 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.
- Key benefits and risks of each option are:

	Key benefit	Key challenge
Option 1 (ITBs)	<ul style="list-style-type: none"> • Effective feedback loops between WBL and standards-setting, • Firms have a stronger connection to standards-setting, making it easier for smaller and niche sectors to influence this function.. • Smaller number of entities involved in WBL can support greater consistency for employers and learners. 	<ul style="list-style-type: none"> • ITBs have an effective monopoly over WBL which could lower quality over time. • Requires differentiating between arranging and delivery activities, which can be difficult in WBL. • Standards-setter is also in competition with non-WBL providers for potential VET learners, which creates potential conflicts of interest.
Option 2 (Independent industry standards-setters and all providers able to offer WBL)	<ul style="list-style-type: none"> • Removes the need to differentiate between arranging and delivering training. • Increased competition and choice for employers. • Smaller potential for conflict of interest between standards-setting and WBL activities. 	<ul style="list-style-type: none"> • Standards setting may become removed from industry; especially smaller and niche sectors. • Creates a bigger change for providers and ex-ITOs, which could initially be challenging.

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), depending on the number of entities established.
- I 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. Provider based rates can be increased by about 10% using strategic component funding only. This would not require any initial changes to the learner component (most of which is targeted to disabled learners and low prior achievement learners). The change should also be less operationally complex for TEC and providers to implement, given that it is relatively late in the year to adjust funding rates. This change will require an operational level consultation before the end of September.
- Final funding settings for both provider-based and work-based delivery, are proposed to be implemented from 1 January 2026, with the main decisions to be made in November 2024 alongside structural reform decisions.
- I also propose that new funding settings include enhanced financial levers to support desired behaviours, e.g., an internationalisation fund to support the growth of international student numbers within the regions, and a fund to support industry engagement, with the requirement to meet key performance indicators. The new settings may also include a base grant to ITPs to support planning and viability.

Beginning change in 2024 and 2025

- 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.
- Te Pūkenga and the business divisions will also be undertaking cost out and asset realisation work to support returning ITP divisions to financial viability.
- Further change can begin in 2025, with TEC appointing establishment advisory groups to support viable entities to prepare to be stand-alone.
- A significant amount of further work would also be needed in 2025 to assess whether other ITPs can be viable or not as independent organisations or would perform better as part of the federated organisation. I understand that Te Pūkenga has begun to make long overdue changes to the sector to improve viability over the remainder of 2024 and 2025 to give entities the best chance of being viable at the beginning of 2026. This process will involve staff reductions, reducing programme offerings, and preparing to right size institutions for the number of learners they have. This will likely be met with some resistance from stakeholders and generate publicity but is needed if we are to have a sustainable VET system.
- 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

- Subject to Cabinet's agreement to the proposals outlined in this paper, and approval of the final consultation document in July, I will instruct officials to carry out consultation on the future structure of the VET system.
- I will report back to Cabinet with the findings from consultation and final policy proposals (including policy approval for legislation) by late November.

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

High level overview of the consultation process and timing; key messages for initial announcement.

Communications

Proactive Release

Recommendations