Thank you for your Official Information Act request, received on 3 April 2019. You requested:

_Treasury Report T2019/17: Material to support your meeting with Treasury officials on Tuesday 15 January about the Reform of Vocational Education_

I have decided to release the documents listed above, subject to information being withheld under one or more of the following sections of the Official Information Act, as applicable:

- section 9(2)(f)(iv) – to maintain the current constitutional conventions protecting the confidentiality of advice tendered by Ministers and officials,
- section 9(2)(k) – to prevent the disclosure of information for improper gain or improper advantage.

Direct dial phone numbers of officials have been redacted under section 9(2)(k) in order to reduce the possibility of staff being exposed to phishing and other scams. This is because information released under the OIA may end up in the public domain, for example, on websites including Treasury's website.

In making my decision, I have considered the public interest considerations in section 9(1) of the Official Information Act.
Please note that this letter (with your personal details removed) and enclosed
documents may be published on the Treasury website.

This reply addresses the information you requested. You have the right to ask the
Ombudsman to investigate and review my decision.

Yours sincerely

Andrew Rutledge
Manager, Skills, Employment and Enterprise
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<tr>
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<th>Title</th>
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<tbody>
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<td>1</td>
<td>Treasury Report - Material to support your meeting with Treasury officials on Tuesday 15 January about the Reform of Vocational Education</td>
<td>1</td>
</tr>
<tr>
<td>2</td>
<td>Attachment - Agenda for meeting on Reforms of Vocational Education - January 15 2019</td>
<td>4</td>
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Treasury Report: Meeting with Treasury officials on Tuesday 15 January about the Reform of Vocational Education

<table>
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<tr>
<th>Date:</th>
<th>10 January 2019</th>
<th>Report No:</th>
<th>T2019/17</th>
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### Action Sought

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<td>note the annotated agenda attached to this report ahead of meeting with Treasury officials about the Reform of Vocational Education</td>
<td>Tuesday 15 January, 2.15-3.00pm</td>
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### Contact for Telephone Discussion (if required)

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<th>Name</th>
<th>Position</th>
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<th>1st Contact</th>
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<tbody>
<tr>
<td>Geraldine Wilkins</td>
<td>Analyst, Skills, Employment, and Enterprise</td>
<td>N/A (mob)</td>
<td>✓</td>
</tr>
<tr>
<td>Andrew Rutledge</td>
<td>Manager, Skills, Employment, and Enterprise</td>
<td>N/A (mob)</td>
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### Actions for the Minister’s Office Staff (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report

Enclosure: Yes (attached)
Treasury Report: Meeting with Treasury officials on Tuesday 15 January about the Reform of Vocational Education

Purpose

1. The Minister of Education is seeking Cabinet agreement on January 29, 2019 to consult on proposals for fundamental reform to vocational education in New Zealand.

2. In December we provided you with advice (T2018/3556 refers) which offered an overview of what the new Vocational Education and Training (VET) system would look like, outlined the immediate risks and issues to discuss with the Minister of Education and discussed the medium-term issues where further advice is required.

3. You indicated that you wanted to discuss this report with Treasury officials before the Cabinet discussion on January 29 2019.

4. Attached to this report is an annotated agenda to support your meeting with Treasury officials on Tuesday 15 January on the Reform of Vocational Education.

Recommended Action

We recommend that you:

a. note that you are meeting with Treasury officials on Tuesday 15 January to discuss the Reform of Vocational Education

b. note the annotated agenda attached to support this discussion

c. note the four suggested agenda items are:

   i. immediate issues to discuss with the Minister of Education ahead of the Cabinet discussion on 29 January

   ii. the approach to managing the fiscal implications of the reform programme

   iii. the risks associated with a single polytechnic and potential checks and balances that could be put in place to manage these risks
iv. how the future VET system could address issues associated with the Future of Work.

Hon Grant Robertson
Minister of Finance

Andrew Rutledge
Skills, Employment and Enterprise
The Minister of Education is seeking Cabinet agreement on January 29, 2019 to consult on proposals for fundamental reform to vocational education in New Zealand.

In December we provided you with advice (T2018/3556 refers) which:

- offered an overview of what the new Vocational Education and Training (VET) system may look like,
- outlined the immediate risks and issues to discuss with the Minister of Education before he lodges the Cabinet paper, and
- discussed the medium-term issues where further advice is required ahead of final Cabinet agreement to the VET reform in mid-2019.

You indicated that you wanted to discuss this report with Treasury officials before the Cabinet discussion on January 29, 2019. This annotated agenda sets out four suggested areas of discussion.

AGENDA

1. Immediate issues ahead of Cabinet consideration and consultation

Objective: To discuss the issues that we recommend you raise with the Minister of Education before he lodges the paper on January 24, and any other issues with the Cabinet paper and discussion document.

Key points:

Cabinet paper – The Cabinet paper seeks in-principle agreement to the one Institute of Technology and Polytechnic (ITP) model, subject to the results of consultation and detailed analysis of the costs of change. It also seeks agreement to release a discussion document in mid-February for a public consultation period of approximately six weeks.

Discussion document – We have not yet seen the discussion document but we understand that it will set out the Minister of Education’s proposals for change to
the vocational education system and invite public feedback. This document may also provide the range of options considered and set out initial views on impacts – estimated costs, benefits, behavioural changes and risks – to test with the public.

Immediate issues to discuss with the Minister of Education:

1. **Overall costs** – Setting a clear expectation that the Cabinet paper includes an indication of the estimated overall costs of the reform, including short-term transition costs, and ongoing funding requirements.

2. **Managing risks in the sector over the consultation period** – How to mitigate the risk that announcing the intention to consolidate ITPs weakens the incentive on individual ITPs to responsibly manage their institutions in the coming year and diverts attention away from providing high-quality education to learners. This presents a short-term financial risk to the Crown.

3. **Deferring consultation on funding changes** – We recommend that the consultation in early 2019 focuses on the proposed structural and functional changes, with changes to funding mechanisms considered once there is a more complete picture of what the VET system will look like.

**Discussion question:** Are there any further issues with the Cabinet paper, discussion document or consultation process that you would like to discuss?

**Attachments:**  
*Treasury Report: Key Roles and Functions in the New Vocational Education System (paragraphs 8-12).*

2. **Managing the fiscal implications of the reform programme**

**Objective:**  
To discuss the likely quantum and timing of the costs of the reform of vocational education and training (RoVE) and our advice on how to manage these costs.

**Key points:**

There are five components that will likely require funding:

1. **- Existing ITPs are still subject to financial risk, so it will be important to regularly assess the specific financial situations of ITPs. More regular monitoring and reporting by TEC will be important to identify potential problems early and ensure a range of options are available to Ministers.**
4. **System design and implementation funding from July 2019** – The TEC has received $5 million to meet design costs to the end of the 2018/19 financial year. Further funding will likely be required to meet the costs of design and implementation from July 2019 unless existing resource is redeployed.

5. **Permanent funding changes** - We recommend that decisions on permanent funding system changes are deferred until there is a better sense of the VET system’s long-term funding need and funding changes across the tertiary sector have become clearer (refer paragraphs 28–31 of the Treasury Report: *Key Roles and Functions in the New Vocational Education System*).

**Attachments:**

- Treasury Report: *Key Roles and Functions in the New Vocational Education System*.
- Annex Two: Analysis of proposed funding mechanisms for the Reform of Vocational Education.

3. **Checks and balances on the single polytechnic**

**Objective:**

To discuss the risk of the single polytechnic being ‘too big to fail’ and the Minister of Education’s proposal to mitigate this risk.

**Key points:**

- **Good governance and management:** Getting the right decision-rights, effective funding, and legislative levers will be important to ensure that the single polytechnic has strong incentives to govern and manage responsibly. Otherwise there is a high risk that the current financial problems are replicated (and possibly accentuated) in the new system.
- **Appropriate monitoring:** While it is important to avoid a situation where the Crown’s involvement stifles innovation, the Crown will need the appropriate power to monitor and intervene where necessary to ensure the new ITP is well managed, to ensure good outcomes for students and employers, and to manage the Crown’s financial risk.

- **Organisational form:** The Minister of Education is proposing that the single polytechnic remains a Tertiary Education Institute (TEI) under the Crown Entities Act, but that the responsible Minister appoints all members of the governing council, and that an institutional charter sets the Government’s expectations of, and intentions for, the ITP.

- **Government levers:** There is a risk that this charter does not address the current governance and management issues in the sector and that the new system will have the same issues but on a larger scale. The charter does not provide the Government with a way to identify and manage potential issues well in advance of them materialising and the appointment of board members is a limited lever.

- **Further work:** We recommend that further consideration is given to why the existing checks and balances of the ITP sector are insufficient and how decision-rights and legislative levers should be designed to address these issues. This may include reconsidering whether a TEI is the right organisational form for the entity.

**Discussion question:** How can the Crown best manage its financial and educational risks in a one ITP model?

4. **RoVE and the Future of Work**

*Objective:* To discuss how the reform of vocational education fits into the broader Future of Work programme in the context of the next tripartite forum on vocational education and training on 26 February.

*Key points:*

- **Role of VET in Future of Work:** Ahead of the February tripartite forum on VET, it will be important to consider how the RoVE will create a VET system that is able to adapt to changes in employment and to new education models. Recent OECD research suggests that these megatrends will require changes to the content and form of provision to support adults into retraining. It is likely that more modular learning programmes that recognise prior learning and learning materials which are practical and problem oriented will be important.
A planned approach: The TEC and the single polytechnic will determine what, where, and how education and training is delivered. They will be responsible for ensuring that both provider-based and work-based vocational education meets current and future demand. The single polytechnic will need to be able to adapt provision as technological change, globalisation and demographic changes result in shifts for industries, change the structure of the labour force and alter working arrangements.

Risks: There is a risk that the single polytechnic will be slow to adapt or will take a one-size-fits-all approach that doesn't meet the changing nature of learner and employer needs.

Mitigations could include:
- giving regional skill committees some role in local innovation,
- using funding system settings to incentivise the delivery of particular forms of provision or student outcomes, and
- using CoVEs as a tool for encouraging innovation.

Discussion question: Are there particular aspects of the Future of Work that you want us to consider in the design of the new VET system?