

## Cabinet Paper material Proactive release

Minister & portfolio Hon Chris Hipkins, Minister of Education  
Name of package Reform of Vocational Education: Further Investment in the New Zealand Institute of Skills and Technology  
Date considered 20 July 2020

### These documents have been proactively released:

**Cabinet Paper: Reform of Vocational Education: Further Investment in the New Zealand Institute of Skills and Technology**  
20 July 2020  
Ministry of Education

**Minute: CBC-20-MIN-0067**  
20 July 2020  
Cabinet office

**CAB-20-MIN-0336 Report of the Cabinet Business Committee Minute**  
20 July 2020  
Cabinet office

### Material redacted

Some deletions have been made from the documents as the information withheld does not fall within scope of the Minister's portfolio responsibilities, and is not relevant to the proactive release of this material.

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<http://legislation.govt.nz/act/public/1982/0156/latest/DLM64785.html>

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Office of the Minister of Education  
Chair, Cabinet Social Wellbeing Committee

## **Reform of Vocational Education: Further Investment in the New Zealand Institute of Skills and Technology**

### **Proposal**

1. This paper proposes a draw-down from the Reform of Vocational Education (RoVE) tagged operating contingency to invest \$85.182 million in the New Zealand Institute of Skills and Technology (NZIST) over the next three years to progress its establishment and transformation. The proposed investments are crucial to enabling NZIST to support the economy to recover from the impact of COVID-19. The paper also proposes a draw-down of \$5 million for the New Zealand Qualifications Authority (NZQA) over the next two years to make necessary changes to its systems to implement RoVE.

### **Executive summary**

2. In July 2019, Cabinet agreed to create a fundamentally new vocational education system, with a different set of institutional arrangements, new and different roles and relationships, and a unified funding system [CAB-19-MIN-0354 refers]. The reforms will create a strong, unified, sustainable vocational education system that is fit for the future of work and delivers the skills learners, employers, and communities need to thrive.
3. On 1 April 2020, NZIST was formally established and the 16 former institutes of technology and polytechnics (ITPs) became its subsidiaries. On 30 March 2020, Cabinet agreed to provide an initial payment of \$11.1 million to NZIST so that it could begin to set up operations as well as \$10 million in capital funding to ensure it had sufficient working capital [CAB-20-MIN-0140 refers]. At the time of the decision, I noted I intended to seek further funding for NZIST later in 2020 to enable it to immediately start progressing its extensive work programme.
4. COVID-19 has changed the economic and social landscape in which NZIST is establishing itself. Its network of ITP subsidiaries will most likely experience an increase in enrolments and revenue over the next two to three years from the combined effect of increased demand and our Trades and Apprentices Training Package. However, we need to invest in NZIST now so it can ensure its network is effective and sustainable when unemployment returns to lower levels. As part of this process, I expect its head office will be self-funding from 2023.
5. It is also important that a short-term spike in participation is used as a platform to advance a more sustainable long-term operating model, rather than a temporary reprieve that merely delays tackling the unsustainable nature of the previous operating model. The need to better align on-the-job and off-the-job training has never been more urgent than it is now, and ensuring greater accessibility, portability, and consistency remain critical priorities for the reform programme.
6. NZIST has a significant work programme ahead of it. It is now responsible for making the current network unified and financially sustainable as well as transforming the way

teaching and learning is delivered. Its objective is to become our leading provider of on-job, off-job and online vocational education which is responsive to the needs of all regions of New Zealand, their learners, industries, employers, and communities.

7. NZIST also has a key role to play in the recovery from COVID-19 responding to the forecast increase in demand for vocational education over the next two years and supporting re-training to help people back into employment.
8. I am seeking agreement to provide up to a further \$85.182 million to NZIST over the next three years:
  - \$43.182 million in 2020/21 (including up to \$20 million for IT systems);
  - \$32.000 million in 2021/22; and
  - \$10.000 million in 2022/23.
9. This funding will enable NZIST to transition its 16 subsidiaries into a consolidated network of provision, and progress planning for its transformation to deliver better outcomes for learners, employers and New Zealand as our leading provider of on-job, off-job and online learning. The declining profile of funding reflects our expectation that NZIST will generate savings and efficiencies across its network, such that its head office is self-funded from the beginning of 2023.
10. It is important the establishment of the NZIST head office is not seen as simply adding another 'layer' to a system that is already seen as administration-heavy. We need to invest now to achieve greater synergies and efficiencies in the future.
11. The investment will be funded from the RoVE contingency, which was established as part of initial decisions to implement RoVE and currently has a balance of \$90.182 million. I will establish a formal legal agreement between the Crown and NZIST that will set out the conditions and schedule for the release of funding, and a set of targets and milestones to ensure accountability for funding.
12. NZIST has indicated that it will seek additional funding in the future for investments to modernise its physical and technological infrastructure and deliver new teaching and learning models. As part of its transformation planning and design, I expect NZIST's Council will carefully consider all funding sources available to it before approaching the Crown – for example, re-investment of any operating surpluses from its subsidiaries and the use of its balance sheet.
13. This paper also seeks to provide \$5 million from the RoVE contingency to NZQA over the next two years to ensure it is sufficiently resourced to progress its implementation of the RoVE programme at pace.
14. The two proposed investments will exhaust the current RoVE contingency. No funding is currently appropriated for the RoVE programme beyond June 2021. Additional funding to ensure the RoVE programme is adequately resourced will likely be sought at a later date, alongside funding to implement a unified funding system for vocational education. In seeking further funding in the future, I have set a clear expectation that funding bids will need to differentiate between short-term funding injections to support change, and bids that address long-standing funding equity and inadequacy issues for parts of the sector.

## Background

15. In July 2019, Cabinet agreed to create a fundamentally new vocational education system, with a different set of institutional arrangements, new and different roles and relationships, and a unified funding system.
16. The Education Amendment (Vocational Education and Training Reform) Amendment Act 2020 established NZIST as a new tertiary education institution on 1 April 2020. Its objective is to become a unified, sustainable, public network of regionally accessible vocational education, bringing together 16 ITPs, improving their efficiency and effectiveness, and expanding their delivery of on-job and work-integrated learning.
17. On 1 September 2019, I appointed an Establishment Board to prepare for the establishment of NZIST. In February 2020, the Establishment Board submitted a funding request and outlined an establishment and transformation programme. The Establishment Board requested § 9(2)(i) over the next three years, and also signalled potential future transformation costs of § 9(2)(i). Officials have closely reviewed and analysed the funding request.
18. Due to the impacts of COVID-19, Cabinet did not consider a comprehensive funding plan for NZIST before its establishment. To ensure some funding was provided, Cabinet agreed initial funding of \$21.1 million on 30 March 2020 [CAB-20-MIN-0140 refers]. An additional \$13.9 million has already been appropriated for NZIST for 2020/21.
19. As part of the March 2020 decisions, Cabinet also agreed to establish a new tagged capital contingency of \$50 million for the specific purpose of providing capital injections to support the financial viability of the 16 subsidiaries given many were already under significant financial stress, which may be exacerbated by the impact of COVID-19 on international education revenue. This funding is to be sought only as a last resort, if NZIST cannot manage the cash position of the network as a whole.
20. To help ensure the vocational education system supports economic recovery, we announced a \$1.6 billion Trades and Apprentices Training package of initiatives as part of Budget 2020 [CAB-20-MIN-0219.27 refers], including:
  - \$412 million to support employers retain and keep training apprentices;
  - \$334 million of funding for additional tertiary education enrolments;
  - \$320 million to fund free trades training in critical industries;
  - \$276 million to establish Workforce Development Councils (WDCs) and Regional Skills Leadership Groups (RSLGs);
  - \$50 million to support Māori Apprentices; and
  - \$32 million to meet demand in Trades Academies.
21. Additional funding for NZIST was not sought as part of the Trades and Apprentices Training package due to the intention to draw on the RoVE contingency – which was established in 2019 as part of decisions to implement RoVE and currently has a balance of \$90.182 million. This paper proposes additional investment in NZIST from the RoVE contingency so that it is able to be a leading part of how the vocational educational and training system supports learners, employers and the broader economy to recover from the impacts of COVID-19 whilst transforming itself to be financially sustainable into the future.

### **Investment to support the success of NZIST**

22. When formally established on 1 April 2020, NZIST became New Zealand's largest tertiary education provider, with approximately 70,000 equivalent full-time students (EFTS) and a network of subsidiaries with revenue of over \$1 billion per annum. In May 2020, I announced the head office of NZIST would be located in Hamilton. Stephen Town, who is due to begin in July 2020, will be its inaugural chief executive.
23. Over time, the consolidation of the ITPs will be more effective and efficient than 16 providers operating largely separately and competing against each other, rather than collaborating. However, the creation of NZIST does not automatically make its ITP subsidiaries sustainable, especially given the impact of COVID-19 on international education revenue.
24. The ITP sector has faced a range of financial viability issues over the past five years and was not sustainable. Since the start of 2018 until NZIST was established, almost \$100 million in Crown funding was provided to support three ITPs. Establishing an entirely new type of tertiary education institution that puts learners and employers at the centre of its operations requires an up-front investment so it can design and implement changes that ensure its long-term success.
25. I am proposing further investment to support NZIST to establish its head office which will drive the changes needed to integrate and transform its network of subsidiaries and shift its focus from provider-based vocational education toward more work-based learning, including taking on responsibility for supporting apprenticeships and other on-job training. Over the next two to three years, these changes will result in NZIST supporting around 300,000 learners per annum.
26. COVID-19 has changed the economic and social landscape in which NZIST is establishing itself. Its network of ITP subsidiaries will most likely experience an increase in enrolments and revenue over the next two to three years from the combined effect of increased demand and our Trades and Apprentices Training Package. However, we need to invest in NZIST now so it can ensure its network is effective and sustainable when unemployment returns to lower levels.
27. NZIST has a key role to play in the recovery from COVID-19 by responding to the forecast increase in demand for vocational education and supporting re-training to help people back into employment. To meet the needs of learners and employers over this time, I expect NZIST to focus strongly on developing innovative ways of delivering learning (e.g. micro-credentials) as well as more blended on- and off-job learning opportunities that minimise disruption and support people back into employment.

### **Overview of sought benefits**

28. The proposed investment is expected to deliver the following benefits:
  - Greater effectiveness through increased collaboration, leveraging off NZIST's scale and areas of excellence within its network to deliver a wide range of innovative and integrated learning options that enable learners to access different ways of learning;
  - Increased efficiency through reduced back-office costs, improved capital asset management, and better use of marketing, business, and qualification development expenditure to support financial sustainability;
  - An increased focus on stakeholder engagement, including working closely with WDCs and RSLGs so the vocational education sector is able to respond quickly to

changing labour market demands and deliver the skills that learners and businesses need;

- Supporting NZIST to lead a well-managed transfer of support for workplace-based learning from transitional industry training organisations (TITOs) and to support collaboration with TITOs to build capability and design solutions for apprentices and trainees impacted by COVID-19;
- Development of NZIST's long-term operating model that puts learners at the centre of the system – including to ensure those most impacted by COVID-19 receive the support and guidance they need to succeed. The operating model will deliver a robust regional network of provision, enabling learners to move between workplaces and other educational offerings and between locations as their needs change.

### **A range of potential funding packages were considered**

29. I considered a range of funding options to support NZIST achieve the above benefits as well as contribute to the outcomes sought by RoVE and our Trades and Apprentices Training Package. The options considered included:

- **Providing no additional funding:** Existing financial issues within the sector and our policy of ensuring ITPs' cash reserves are invested in the region they were accumulated in, means NZIST has almost no capacity in the short-term to fund the integration and transformation through existing ITP reserves. The initial operational funding provided to NZIST is only expected to last until September 2020. Providing no funding would result in NZIST being unable to meet its operating costs nor undertake its transformation. The objectives we are seeking through RoVE would not be achieved.
- **Providing \$40 million of funding:** This level of investment would allow NZIST to start building capability and integrate its network of subsidiaries, but at a slower pace and it would not provide sufficient certainty or funding for NZIST to begin the transformation of its network and support a well-managed transfer of support for workplace-based learning. This level of funding may result in a focus only on cost reduction without the transformational change needed to support learners and employers. I consider there is a high risk that NZIST would seek further Crown support in the near future, and that we would not achieve the desired benefits for NZIST and RoVE. This level of investment is unlikely to achieve our vision of a strong, unified, sustainable vocational education system that is fit for the future of work and delivers the skills learners, employers, and communities need to thrive.
- **Provide \$85.182 million:** This amount has been established based on the Establishment Board's February 2020 funding request and recognition of the current level of funding available in the RoVE contingency. I consider this level of investment will provide sufficient certainty to NZIST to build capability, manage its network, support post-COVID-19 initiatives for learners and employers and plan for its longer-term transformation. However, it also balances that NZIST has a significant amount of design and planning work to undertake, including refining the costs and benefits of the transformation, before any further Crown funding to assist NZIST implement a transformation programme could be considered. It should be noted that this amount is lower than that sought by the Establishment Board's request.

- Provide s 9(2)(i) to align with the Establishment Board's request: Officials considered this option. However, some parts of the funding request were lower priority and did not appear to offer value for money. Additional work is needed to refine the costs and benefits of the transformation, before any additional Crown funding could be considered. Some areas of the request (e.g. marketing and the launch of the new brand) can also be funded by NZIST leveraging off the existing capability and expertise within its network. Whilst officials considered an amount higher than \$85.182m could be justified, it would not have been able to be funded entirely through the RoVE contingency, and additional funding would have been required to be sought.

30. On balance, I consider an investment of up to \$85.182 million to NZIST over the next three years best balances value for money, available funding, and the incentives on NZIST to deliver on the sought benefits and the large work programme that I have tasked it with over the next two to three years.

### Overview of proposed investment

31. I propose the \$85.182 million investment is set out as follows and in the table below:

1. \$m	2. Paid 2019/20	3. Appropriated	Proposed further investment			4. TOTAL
			2020/21	2021/22	2022/23	
Head office	6.000	13.900	13.282	32.000	10.000	75.182
Key systems (capital)	-	-	20.000	-	-	20.000
Arranging training due diligence and integration planning	-	-	6.000	-	-	6.000
Transformation planning and design	5.100	-	3.900	-	-	9.000
<b>TOTAL</b>	<b>11.100</b>	<b>13.900</b>	<b>43.182</b>	<b>32.000</b>	<b>10.000</b>	<b>110.182</b>

32. The declining funding profile, from a total of \$57.082 million in 2020/21 to \$10.000 million in 2022/23 reflects my expectation that NZIST generates savings and efficiencies across its network, such that it is self-funded from the beginning of 2023.

### Head office costs

33. I propose to provide a further \$55.282 million to NZIST to fund its head office to the end of December 2022. Along with funding already appropriated, this will result in a total of \$75.182 million being provided for head office funding. This is in line with the Establishment Board's funding request, which estimated the salary and operating costs needed to operate the head office until the end of 2022. On an annualised rate, this is around 2.6% of total ITP sector revenue.

34. This is a significant amount of funding. However, NZIST has a considerable work programme ahead of it to drive the necessary changes and contribute to the outcomes sought from the reforms. This funding will give NZIST certainty to build capability and commence its integration and transformation of the current network, including supporting greater delivery of on-job learning. It will allow NZIST to consolidate duplicated and competing back-office functions across its network to generate savings, and shift its focus from competition to collaboration to improve effectiveness and better meet learner needs.

35. Over time, I expect this to lead to greater engagement with the vocational education system by learners, communities and employers, and improvements in quality which lead to improved employment outcomes. At the end of 2022, I expect NZIST to have made the necessary changes so that it will operate like any other tertiary education institution and run its operations on TEC funding and other revenue.
36. Expenditure of the head office funding will be closely monitored through a Crown funding agreement with NZIST to ensure strong value for money, including mechanisms for the recovery of unspent funding.

#### Key systems investment

37. I propose to provide up to \$20 million in capital funding for the establishment and operation of key information technology systems to support NZIST's financial operations and data analysis capabilities. This investment is largely in line with the Establishment Board's funding request.
38. This funding will allow NZIST to invest in technology to consolidate financial information and data from its 16 subsidiaries, many of which are using different legacy systems. This investment is crucial for accounting purposes and if NZIST is to manage the network well, effectively monitor performance, and make informed decisions.
39. I propose providing \$4 million up-front, with an additional \$16 million appropriated and able to be drawn-down subject to endorsement by the Minister of Finance and the Minister of Education of appropriate business cases for the investments. This investment will also require a conversion of up to \$20 million from the tagged operating contingency to capital funding.

#### Arranging training due diligence and integrating these activities into the NZIST

40. A key component of RoVE is shifting the role of supporting workplace learning from industry training organisations to providers. NZIST and other providers will be responsible for both provider-based and work-based vocational education to achieve seamless integration and be well connected with the needs of industry. I propose to provide up to \$6 million in funding to NZIST to help fund financial, legal, and educational due diligence of the TITOs as well as support NZIST to plan and integrate the arranging training activities from the TITOs. This funding is in line with the Establishment Board's funding request.
41. This funding is crucial to allow NZIST to prioritise and accelerate the work required to take on some of the responsibilities for supporting workplace-based learning from TITOs and contribute to the recovery from COVID-19. The funding will be accessed based on appropriate plans being approved by the Tertiary Education Commission (TEC).

#### Transformation planning and design

42. I propose to provide a further \$3.9 million in funding to NZIST to support it to plan and design the core elements of the transformation of its network. This funding would be in addition to the \$5.1 million already paid in April 2020, resulting in a total of \$9 million being provided for transformation planning and design.
43. The transformation planning and design funding is comprised of:
  - \$3 million for the design of an integrated teaching and learning delivery model;

- \$5 million for a detailed physical footprint assessment and evaluation to support the development of a capital asset management strategy and improvement plan; and
  - \$1 million to develop a long-term information systems strategic plan.
44. The Establishment Board requested s 9(2)(j) to plan and design NZIST's transformation over the next three years. However, this is a significant amount of funding for planning and, given the uncertainty in investment required, I propose to only provide \$9 million at this stage. This funding will support NZIST to complete a detailed assessment of its capital assets and develop a Programme Business Case for its transformation programme, with greater clarity on the estimated costs and the intended benefits. I also expect NZIST to use its head office capability to undertake this work as well as leverage off the significant capability that already exists in its subsidiaries.

*Further funding for NZIST's transformation programme may be sought later*

45. The Establishment Board provided an indicative estimate of the potential cost of a transformation programme of s 9(2)(j) NZIST will need to develop detailed business cases that meet Treasury's Better Business Case guidelines for its transformation programme. A significant amount of work is required to establish accurate costings as well as a strong plan for benefits realisation.
46. The business cases will need to consider a range of options to fund its transformation projects. NZIST will need to work hard to develop a viable and sustainable operating model to help fund its transformation as well as consider other funding options such as borrowing. Any further Crown funding to support NZIST's transformation programme will only be sought if there are no other viable alternative funding options. I have signalled that the funding available in future Budgets will be constrained.

*Management of subsidiary viability during transition period*

47. A number of NZIST's subsidiaries are unviable and have low cash balances. The decline in international student revenue as a result of COVID-19 has had an additional negative impact on sector viability. While many subsidiaries have adequate cash reserves, the ring fencing policy (which ensures cash reserves over a limit determined by NZIST's Council are ring-fenced to invest in the region they accumulated in) combined with subsidiaries' existing capital plan commitments mean cash reserves from one subsidiary cannot be readily used to support liquidity issues in another.
48. The \$50 million tagged contingency established in March 2020 can be used to support NZIST to manage the solvency of its subsidiaries during the transition period if needed. However, NZIST will need to look at all options available to it to manage the financial performance and cash position across its subsidiaries before seeking any funding from the contingency, including taking steps to make improvements across the network through collaboration and rationalisation where possible. NZIST will also need to implement its own mechanisms to manage liquidity across its subsidiaries such as a central treasury function and accessing commercial borrowings.
49. I seek Cabinet's approval for future draw-downs from the contingency to be subject to the approval of myself and the Minister of Finance.

*The establishment of a Crown funding agreement*

50. I will establish a funding agreement between the Crown and NZIST that sets out the terms and conditions for the release of funding and targets to ensure accountability for

delivering the programme. The agreement will outline what future business cases need to be developed and endorsed by myself and the Minister of Finance before funding is released. It will also outline an independent quality assurance programme.

### **Continued programme resourcing is needed to deliver the outcomes of RoVE**

51. RoVE is the largest and most complex change to New Zealand's vocational education and training system in a generation and is being designed and implemented over several years. It requires significant policy and operational system design, data collection and modelling, implementation planning, business process re-engineering and stakeholder engagement and change management expertise.
52. To date, NZQA has managed its contribution to RoVE largely within its baseline. It now needs additional resource to develop and implement changes to data collection, user interface and quality assurance systems, and to support a smooth transition to the new system. NZQA needs to ensure its quality assurance requirements are built into new entities' operating models and that its own systems are able to support the implementation of RoVE, including to remain the best source of information on qualifications, other credentials and learner achievement.
53. I therefore propose to provide NZQA with \$5 million over the next two years to make necessary changes to its systems to implement RoVE, which was not factored into initial estimates of the cost of the RoVE programme.
54. At this stage, no funding is currently appropriated for the RoVE programme beyond 2020/21. As RoVE transitions further into implementation, the programme will undertake new and different activities, particularly to support the transition from TITOs to WDCs, and NZIST and other providers being responsible for managing on-job training such as apprenticeships.
55. Education agencies have signalled that significant additional funding will be needed in 2021/22 and 2022/23. Additional funding may be sought at a later date. However, as with NZIST, I expect agencies to demonstrate how efficiencies resulting from RoVE are being managed alongside additional costs.

### **Financial Implications**

56. As set out above, I am proposing an investment of \$85.182 million for NZIST to support its establishment and transformation planning and \$5 million for NZQA to make necessary changes to its systems for the implementation of RoVE.
57. The investment will be funded from the RoVE contingency, which will fully exhaust the contingency. The remaining \$0.818 million investment will be sourced from funding unspent by the Establishment Board. Cabinet has previously agreed that any Establishment Board funding unspent in 2019/20 would be transferred to NZIST [CAB-19-MIN-0344 refers]. This will be finalised through the October Baseline Update.

### **Risks and mitigations**

58. There are several risks that NZIST will face which are outlined in the following table alongside planned mitigations.

<b>Risk</b>	<b>Description</b>	<b>Mitigation</b>
Disruption to the system	The disruption caused by the reforms may create uncertainty for	• Clear and regular communication with stakeholders from RoVE programme on

	learners, stakeholders and employers and negatively affect enrolment numbers	<p>reasons and benefits of the reforms.</p> <ul style="list-style-type: none"> <li>Targeted engagement and communications from NZIST to learners focussing on benefits of the reforms and to reassure ongoing delivery.</li> </ul>
Stakeholder needs (regional, iwi, employers) are not met as part of transformation	A lack of engagement with stakeholders in the development of NZIST's long-term operating model and in the RoVE programme will lead to increased uncertainty during the transition and the potential for stakeholder needs not being met.	<ul style="list-style-type: none"> <li>Ministerial Letter of Expectations to NZIST is clear on expectations regarding collaboration and stakeholder engagement.</li> <li>Engagement and consultation is undertaken by the RoVE programme to ensure learners, iwi, employers and communities can meaningfully engage in the programme</li> <li>NZIST will develop a comprehensive stakeholder management strategy.</li> <li>NZIST to develop systems and procedures to ensure learners, iwi, employers and communities can meaningfully help design the long-term operating model.</li> </ul>
Transformation does not achieve the desired benefits	The transformation is either too slow, too costly, or NZIST's operating model does not meet stakeholder needs and Government objectives.	<ul style="list-style-type: none"> <li>Strong focus on the development of Benefits Realisation Plans as part of future business case development.</li> <li>Letter of Expectations and Statement of Intent used to drive the culture, organisation and priorities of the NZIST.</li> <li>Strong governance and programme management established.</li> <li>Strong assurance arrangements established as part of Crown funding agreement.</li> <li>Intensive engagement between NZIST and officials to ensure NZIST sufficiently resources transformation and is collaborating effectively with stakeholders.</li> </ul>
NZIST cannot secure the required expertise and capability to deliver	NZIST unable to recruit the right people with the right skills to deliver, missing deadlines and causing work to be sub-optimal.	<ul style="list-style-type: none"> <li>A significant amount of Crown funding is being provided which will provide certainty for head office operations to the end of 2022.</li> <li>NZIST to seek appropriate expertise from around the world if unavailable in New Zealand.</li> <li>NZIST leverages off current skills in ITP and ITO sectors.</li> <li>Well-developed governance and management arrangements are outlined as part of business case development before further Crown funding is considered.</li> </ul>
Financial viability of NZIST and/or its subsidiaries is uncertain	Poor performing subsidiaries continue to be a drain and NZIST does not sufficiently manage the network, with ongoing duplication of costs e.g. in back office functions. Risk of cost escalation in major transformation projects	<ul style="list-style-type: none"> <li>Letter of Expectations and Crown funding agreement outlines clear objectives and responsibilities for actively managing the network as well as delivering transformation.</li> <li>NZIST and TEC to establish monitoring and performance expectations for subsidiaries.</li> <li>Well-developed governance and management arrangements are outlined in business cases to ensure transformation projects are well managed.</li> </ul>
Other parts of RoVE do not support NZIST's transformation	NZIST and its ability to deliver on the sought outcomes is dependent on other parts of RoVE being designed and implemented effectively and on time – including WDCs, RSLGs and the unified funding system.	<ul style="list-style-type: none"> <li>The TEC prioritises WDC and RSLG governance and actively supports their implementation.</li> <li>RoVE programme management and governance structures work closely with NZIST.</li> <li>Additional funding is sought for the RoVE programme in 2021/22 and 2022/23.</li> <li>\$276 million already announced to implement and operate WDCs and RSLGs.</li> </ul>

## Consultation

59. This paper has been prepared by the TEC. MoE, NZQA and the Treasury have been consulted and their comments have been reflected in the paper. The Department of Prime Minister and Cabinet has been informed.

### **Legislative Implications**

60. This paper has no legislative implications. The Education (Vocational Education and Training Reform) Amendment Act establish NZIST received Royal Assent on 24 February 2020.

### **Impact Analysis**

61. The proposals in this paper do not require an impact analysis.

### **Human Rights**

62. There are no human rights implications stemming from the policy decisions in this paper.

### **Gender Implications**

63. The proposals for investment in NZIST and the wider RoVE programme, including establishing on-going baseline funding for some core components will support establishing a more accessible and responsive vocational education system. This will improve opportunities and access to up-skilling and re-skilling for learners who are not well served by the current system, including women with family obligations. It will also support women who are potentially disproportionately affected by the impact COVID-19, given women make up a high percentage of sectors affected (e.g. hospitality, retail).

### **Disability Perspective**

64. People with disabilities are under-served by the current vocational education system and have significantly poorer employment outcomes than the general population. An explicit focus on the access, success, and outcomes (both educational and employment) of all learners in the new vocational education system will help address these inequities.
65. The significant investment proposed will support a strong network of high-quality provision across New Zealand, which is particularly important for disabled people, who may be less able to travel to access vocational and tertiary education. In addition, I expect that the reforms would give disabled learners more exposure to workplaces and to employer networks, which would improve employment outcomes for disabled learners.

### **Publicity**

66. I intend to announce funding decisions in July 2020.

### **Proactive Release**

67. I propose to release this paper proactively as part of any public announcement of funding for NZIST and RoVE. Proactive release of this paper will be subject to redactions as appropriate under the Official Information Act 1982.

## Recommendations

The Minister of Education recommends that the Committee:

### *Background*

1. **note** that in July 2019 Cabinet agreed to implement a wide-ranging Reform of Vocational Education (RoVE) to create a fundamentally new vocational education system, with a different set of institutional arrangements, new and different roles and relationships, and a unified funding system [CAB-19-MIN-0354 refers].
2. **note** that on 1 April 2020, the New Zealand Institute of Skills and Technology (NZIST) was established, bringing together 16 institutes of technology and polytechnics (ITPs) as subsidiaries of NZIST to create an integrated and collaborative network of vocational education.
3. **note** that on 30 March 2020, Cabinet:
  - 3.1 agreed to provide an initial payment of \$21.1 million to NZIST, comprising \$11.1 million of operating funding to progress its establishment and \$10 million of capital funding to ensure it had sufficient working capital;
  - 3.2 placed \$50 million of the RoVE tagged contingency into a new tagged capital contingency for the specific purpose of providing last-resort capital injections to support the financial viability of NZIST's subsidiaries; and
  - 3.3 noted the Minister of Education would submit a further paper later in 2020 seeking additional funding for NZIST [CAB-20-MIN-0140 refers].

### *Investment to ensure NZIST is a success*

4. **note** that I considered a range of potential funding packages for NZIST to ensure the investment balances the need to support NZIST to drive its transformation and support the reforms whilst recognising the level of funding currently available in the RoVE contingency and the risks associated with not supporting NZIST to carry out the significant work programme I have tasked it with.
5. **agree** to provide a further \$85.182 million to NZIST over the next three years to progress its successful establishment, transition its subsidiaries into a consolidated network of delivery, and progress planning for its transformation, including supporting greater delivery of on-job learning, to deliver better outcomes for learners, employers, and New Zealand and support communities and the economy to recover from the impacts of COVID-19.
6. **note** that the \$85.182 million in Crown support will be provided as follows:
  - 6.1 \$55.282 million to fund NZIST's head office until the end of 2022 which will drive the integration and transformation of the current network, consolidating duplicated and competing back-office functions to generate savings, and shifting its focus from competition to collaboration to improve effectiveness so that by 2023 it is self-funding;
  - 6.2 \$20 million in capital funding for the establishment and operation of key systems to support NZIST's financial operations and data analysis capabilities with \$4 million paid immediately and the remaining \$16 million subject to Ministerial endorsement of appropriate business cases;

- 6.3 \$6 million to help fund financial, legal, and educational due diligence of the transitional industry training organisations (TITOs) and help NZIST accelerate the work required to plan and integrate some of the responsibilities for supporting workplace-based learning from the TITOs; and
- 6.4 \$3.9 million to support NZIST to progress planning and the design of its transformation programme.
7. **authorise** the Minister of Finance and Minister of Education to jointly approve the capital instalments of up to \$16 million described in recommendation 6.2.
8. **note** that NZIST has indicated it will seek additional funding in the future for investments to modernise its physical and technological infrastructure and deliver new teaching and learning models.
9. **note** that NZIST will be required to develop detailed business cases consistent with the Treasury's Better Business Case Guidance for its future transformation, including a detailed assessment of the costs and proposed benefits and potential funding sources before any additional Crown funding is considered.

*Financial recommendations*

10. **note** that the Reform of Vocational Education tagged operating contingency established at Budget 2019 [CAB-19-MIN-0174.40 refers] currently holds \$90.182 million.
11. **approve** the following changes to appropriations to give effect to the decisions in recommendations 5 and 6 above, with a corresponding impact on the operating balance and net core Crown debt:

Vote Tertiary Education Minister of Education	\$m – increase/(decrease)				
	2020/21	2021/22	2022/23	2023/24	2024/25 & out-years
<b>Non-departmental Output Expense:</b>					
Establishment of a Single National Vocational Education Institution	23.182	32.000	10.000	-	-
<b>Non-departmental Capital Expenditure:</b>					
Support for a Single National Vocational Education Institution	20.000	-	-	-	-
<b>Total Operating</b>	<b>23.182</b>	<b>32.000</b>	<b>10.000</b>	-	-
<b>Total Capital</b>	<b>20.000</b>	-	-	-	-

1. **agree** that the proposed change to appropriations for 2020/21 above be included in the 2020/21 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply.
2. **agree** that the increases in expenditure required by recommendation 11 be charged against the Reform of Vocational Education tagged operating contingency established at Budget 2019 [CAB-19-MIN-0174.40 refers], including a conversion of \$20 million of operating funding to capital funding.

*Transfer of unspent Establishment Board funding to NZIST*

3. **note** that Cabinet previously agreed that any funding unspent by the Establishment Board for the NZIST would be transferred to NZIST upon its establishment [CAB-19-MIN-0344 refers].
4. **note** that Cabinet authorised the Minister of Finance and the Minister of Education to jointly agree any technical changes to appropriations required for the Establishment unit to transition from being a business unit within the Ministry of Education to the Institute [CAB-19-MIN-0344 refers].
5. **note** that \$11.1 million of unspent 2019/20 funding was transferred to the NZIST on 2 April 2020, although final expenditure by the Establishment Board had not been confirmed at that time.
6. **note** that further funding of up to \$0.950 million has been identified as unspent by the Establishment board in 2019/20 and that \$0.818 million will be transferred to the non-departmental output expense “Establishment of a Single National Vocational Education Institution” for head office funding as part of the October Baseline Update upon final confirmation of the 2019/20 financial statements for the Vote which will take total head office funding for 2020/21 up to \$24.000 million.

*Capital contingency*

12. **note** that a new tagged capital contingency of \$50 million was established in March 2020 for the specific purpose of providing capital injections to support the financial viability of subsidiary companies of NZIST as a last resort [CAB-20-MIN-0140 refers].
13. **authorise** the Minister of Finance and the Minister of Education to jointly approve any draw-downs from this contingency.

*Crown funding agreement*

14. **authorise** the Minister of Finance and the Minister of Education to jointly establish a formal legal agreement between the Crown and NZIST that sets out the conditions and schedule for the payment of funding to NZIST as well as key targets and milestones and future business case requirements.

*Funding to support the New Zealand Qualifications Authority deliver the RoVE programme*

15. **note** that RoVE is the largest reform of the tertiary education and training system in a generation and requires considerable expertise to ensure it is resourced and managed appropriately and delivers Government’s objectives.
16. **agree** to provide \$5 million to fund the New Zealand Qualifications Authority’s contribution to the programme over the next two years.
17. **approve** the following appropriation changes to give effect to the decision in recommendation 22 above, with a corresponding impact on the operating balance and net core Crown debt:

	\$m – increase/(decrease)				
Vote Tertiary Education Minister of Education	2020/21	2021/22	2022/23	2023/24	2024/25 & out-years
<b>Multi-Category Expenses and Capital Expenditure:</b>					

Oversight and Administration of the Qualifications System (MCA)					
<b>Non Departmental Output Expense:</b>					
Standards and Qualifications Support	2.000	3.000	-	-	-
<b>Total Operating</b>	<b>2.000</b>	<b>3.000</b>	-	-	-

7. **agree** that the proposed change to appropriations for 2020/21 above be included in the 2020/21 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply.
8. **agree** that the increased expenditure required by recommendation 23 above be charged against the Reform of Vocational Education tagged operating contingency identified under recommendation 10.
9. **note** that no funding is currently appropriated for the RoVE programme beyond 2020/21 and the RoVE programme will require additional funding to deliver the outcomes of RoVE in 2021/22 and 2022/23, which will be sought at a later date.

*Impact on Reform of Vocational Education contingency*

10. **note** that the draw-downs from the Reform of Vocational Education contingency agreed under recommendations 11 and 23 will exhaust the Reform of Vocational Education tagged operating contingency.

*Future reports to Cabinet*

11. **invite** the Minister of Education to report back to Cabinet on:
  - 17.1 the establishment of NZIST, including the financial position of its subsidiaries and impact of COVID-19, and its planning of transformation programmes by April 2021; and
  - 17.2 overall progress in implementing the RoVE programme by November 2021, including and how it is tracking towards delivering the programme's objectives and any capital injections provided to NZIST subsidiaries authorised by recommendation 19.

*Publicity*

18. **note** that the Minister of Education intends to announce Cabinet's decisions on the proposals contained in this paper in July 2020 following consultation with the Prime Minister and Minister of Finance, including the proactive release of this paper.

Authorised for lodgement

Hon Chris Hipkins

Minister of Education



# Cabinet

## Minute of Decision

*This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.*

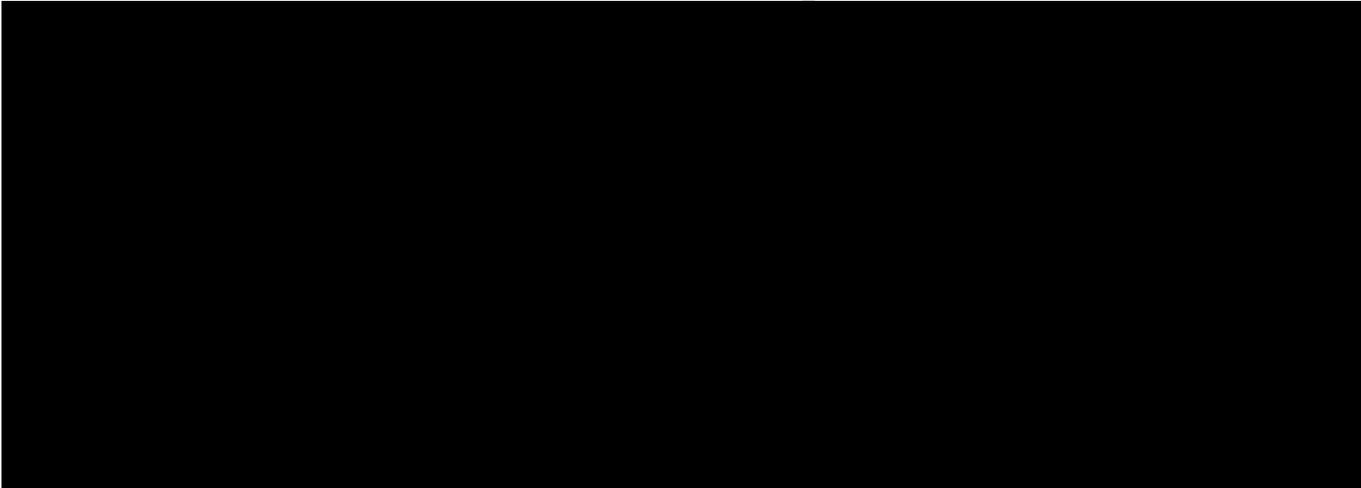
**Redactions made as content outside of scope of Minister's portfolio responsibilities**

### Report of the Cabinet Business Committee: Period Ended 10 July 2020

On 20 July 2020, Cabinet made the following decisions on the work of the Cabinet Business Committee for the period ended 10 July 2020:



CBC-20-MIN-0067	<b>Reform of Vocational Education: Further Investment in the New Zealand Institute of Skills and Technology</b> Portfolio: Education	CONFIRMED
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Michael Webster  
Secretary of the Cabinet



# Cabinet Business Committee

## Minute of Decision

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### Reform of Vocational Education: Further Investment in the New Zealand Institute of Skills and Technology

Portfolio                      Education

On 6 July 2020, the Cabinet Business Committee:

#### Background

- 1        **noted** that in July 2019, Cabinet agreed to implement a wide-ranging Reform of Vocational Education (RoVE) to create a fundamentally new vocational education system, with a different set of institutional arrangements, new and different roles and relationships, and a unified funding system [CAB-19-MIN-0354];
- 2        **noted** that on 1 April 2020, the New Zealand Institute of Skills and Technology (NZIST) was established, bringing together 16 institutes of technology and polytechnics (ITPs) as subsidiaries of NZIST to create an integrated and collaborative network of vocational education;
- 3        **noted** that in March 2020, Cabinet:
  - 3.1        agreed to provide an initial payment of \$21.1 million to NZIST, comprising \$11.1 million of operating funding to progress its establishment and \$10 million of capital funding to ensure it had sufficient working capital;
  - 3.2        placed \$50 million of the RoVE tagged contingency into a new tagged capital contingency for the specific purpose of providing last-resort capital injections to support the financial viability of NZIST's subsidiaries;
  - 3.3        noted that the Minister of Education would submit a further paper later in 2020 seeking additional funding for NZIST;  
[CAB-20-MIN-0140]

#### Investment to ensure NZIST is a success

- 4        **noted** that the Minister of Education has considered a range of potential funding packages for NZIST to ensure the investment balances the need to support NZIST to drive its transformation and support the reforms, while recognising the level of funding currently available in the RoVE contingency and the risks associated with not supporting NZIST to carry out the significant work programme it has been tasked with;

- 5 **agreed** to provide a further \$85.182 million to NZIST over the next three years to progress its successful establishment, transition its subsidiaries into a consolidated network of delivery, and to progress planning for its transformation, including supporting greater delivery of on-job learning, to deliver better outcomes for learners, employers and New Zealand, and support communities and the economy to recover from the impacts of COVID-19;
- 6 **noted** that the \$85.182 million in Crown support will be provided as follows:
- 6.1 \$55.282 million to fund NZIST's head office until the end of 2022, which will drive the integration and transformation of the current network, consolidating duplicated and competing back-office functions to generate savings, and shifting its focus from competition to collaboration to improve effectiveness, so that by 2023 it is self-funding;
  - 6.2 \$20 million in capital funding for the establishment and operation of key systems to support NZIST's financial operations and data analysis capabilities, with \$4 million paid immediately and the remaining \$16 million subject to Ministerial endorsement of appropriate business cases;
  - 6.3 \$6 million to help fund financial, legal, and educational due diligence of the transitional industry training organisations (TITOs) and help NZIST accelerate the work required to plan and integrate some of the responsibilities for supporting workplace-based learning from the TITOs;
  - 6.4 \$3.9 million to support NZIST to progress planning and the design of its transformation programme;
- 7 **authorised** the Minister of Finance and the Minister of Education to jointly approve the capital instalments of up to \$16 million described in paragraph 6.2 above;
- 8 **noted** that NZIST has indicated it will seek additional funding in the future for investments to modernise its physical and technological infrastructure and deliver new teaching and learning models;
- 9 **noted** that NZIST will be required to develop detailed business cases consistent with the Treasury's Better Business Case Guidance for its future transformation, including a detailed assessment of the costs and proposed benefits and potential funding sources, before any additional Crown funding is considered;

### Financial implications

- 10 **noted** that the Reform of Vocational Education tagged operating contingency established at Budget 2019 [CAB-19-MIN-0174.40] currently holds \$90.182 million;

- 11 **approved** the following changes to appropriations to give effect to the decision in paragraph 5 above, with a corresponding impact on the operating balance and net core Crown debt:

Vote Tertiary Education Minister of Education	\$m – increase/(decrease)				
	2020/21	2021/22	2022/23	2023/24	2024/25 & out-years
Non-departmental Output Expense:					
Establishment of a Single National Vocational Education Institution	23.182	32.000	10.000	-	-
Non-departmental Capital Expenditure:					
Support for a Single National Vocational Education Institution	20.000	-	-	-	-
<b>Total Operating</b>	<b>23.182</b>	<b>32.000</b>	<b>10.000</b>	-	-
<b>Total Capital</b>	<b>20.000</b>	-	-	-	-

- 12 **agreed** that the changes to appropriations for 2020/21 above be included in the 2020/21 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply;
- 13 **agreed** that the increases in expenditure required by paragraph 11 above be charged against the RoVE tagged operating contingency established in Budget 2019, including a conversion of \$20 million of operating funding to capital funding;

**Transfer of unspent Establishment Board funding to NZIST**

- 14 **noted** that in July 2019, Cabinet:
- 14.1 agreed that any funding unspent by the Establishment Board for the NZIST would be transferred to NZIST upon its establishment;
  - 14.2 authorised the Minister of Finance and the Minister of Education to jointly agree any technical changes to appropriations required for the Establishment Unit to transition from being a business unit within the Ministry of Education to the Institute;
- [CAB-19-MIN-0344]
- 15 **noted** that \$11.1 million of unspent 2019/20 funding was transferred to the NZIST on 2 April 2020, although final expenditure by the Establishment Board had not been confirmed at that time;
- 16 **noted** that further funding of up to \$0.950 million has been identified as unspent by the Establishment Board in 2019/20, and that \$0.818 million will be transferred to the non-departmental output expense ‘Establishment of a Single National Vocational Education Institution’ for head office funding as part of the October Baseline Update upon final confirmation of the 2019/20 financial statements for the Vote, which will take total head office funding for 2020/21 up to \$24.000 million;

**Capital contingency**

- 17 **noted** that in March 2020, Cabinet agreed to establish a new tagged capital contingency of \$50 million for the specific purpose of providing capital injections to support the financial viability of subsidiary companies of NZIST as a last resort [CAB-20-MIN-0140];
- 18 **authorised** the Minister of Finance and the Minister of Education to jointly approve any draw-downs from the tagged contingency in paragraph 17 above;

**Crown funding agreement**

- 19 **authorised** the Minister of Finance and the Minister of Education to jointly establish a formal legal agreement between the Crown and NZIST that sets out the conditions and schedule for the payment of funding to NZIST, as well as key targets and milestones and future business case requirements;

**Funding to support the New Zealand Qualifications Authority to deliver the RoVE programme**

- 20 **noted** that RoVE is the largest reform of the tertiary education and training system in a generation, and requires considerable expertise to ensure it is resourced and managed appropriately and delivers the government's objectives;
- 21 **agreed** to provide \$5 million to fund the New Zealand Qualifications Authority's contribution to the programme over the next two years;
- 22 **approved** the following appropriation changes to give effect to the decision in paragraph 21 above, with a corresponding impact on the operating balance and net core Crown debt:

Vote Education Minister of Education	\$m – increase/(decrease)				
	2020/21	2021/22	2022/23	2023/24	2024/25 & out-years
Multi-Category Expenses and Capital Expenditure:					
Oversight and Administration of the Qualifications System (MCA)					
Non Departmental Output Expense:					
Standards and Qualifications Support	2.000	3.000	-	-	-
<b>Total Operating</b>	<b>2.000</b>	<b>3.000</b>	<b>-</b>	<b>-</b>	<b>-</b>

- 23 **agreed** that the change to appropriations for 2020/21 above be included in the 2020/21 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply;
- 24 **agreed** that the increased expenditure required by paragraph 22 above be charged against the Reform of Vocational Education tagged operating contingency identified under paragraph 10 above;
- 25 **noted** that no funding is currently appropriated for the RoVE programme beyond 2020/21, and that the RoVE programme will require additional funding to deliver the outcomes of RoVE in 2021/22 and 2022/23, which will be sought at a later date;

**Impact on Reform of Vocational Education contingency**

26 **noted** that the draw-downs from the Reform of Vocational Education contingency agreed under paragraphs 11 and 22 above will exhaust the RoVE tagged operating contingency;

**Future reports**

27 **invited** the Minister of Education to report back to Cabinet on:

- 27.1 the establishment of NZIST, including the financial position of its subsidiaries and impact of COVID-19, and its planning of transformation programmes by April 2021;
- 27.2 overall progress in implementing the RoVE programme by November 2021, including and how it is tracking towards delivering the programme's objectives and any capital injections provided to NZIST subsidiaries authorised by paragraph 18 above.

Rachel Clarke  
Committee Secretary

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**Present:**

Rt Hon Jacinda Ardern (Chair)  
Hon Kelvin Davis  
Hon Grant Robertson  
Hon Phil Twyford  
Hon Dr Megan Woods  
Hon Chris Hipkins  
Hon Andrew Little  
Hon Carmel Sepuloni  
Hon David Parker  
Hon Nanaia Mahuta  
Hon Iain Lees-Galloway  
Hon Jenny Salesa  
Hon Tracey Martin  
Hon James Shaw

**Officials present from:**

Office of the Prime Minister  
Department of the Prime Minister and Cabinet