

Cabinet Paper material

Proactive release

Minister & portfolio Hon Chris Hipkins, Minister of Education
Name of package New Zealand Institute of Skills and Technology: Approval of Necessary Funding
Date considered 30 March 2020

These documents have been proactively released:

Cabinet paper: New Zealand Institute of Skills and Technology: Approval of Necessary Funding

Date considered: 30 March 2020

Author: Ministry of Education

CAB-20-MIN-0410 Minute

Date considered: 30 March 2020

Author: Cabinet office

Material redacted

Some deletions have been made from the documents in line with withholding grounds under the Official Information Act 1982. Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

The applicable withholding grounds under the Act are as follows:

Section 9(2)(j) to avoid prejudice to negotiations

You can read the Official Information Act 1982 here:

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

Budget Sensitive

Office of the Minister of Education

Chair, Cabinet

New Zealand Institute of Skills and Technology – approval of necessary funding

Proposal

1. This paper seeks necessary urgent decisions to provide funding to the New Zealand Institute of Skills and Technology, which is officially established on 1 April 2020.

Decisions to provide funding to the New Zealand Institute of Skills and Technology

2. Cabinet's Business Committee (CBC) was due to consider a paper on Monday 23 March 2020 proposing investments to progress the Government's Reform of Vocational Education (RoVE). That meeting was cancelled due to COVID-19.
3. This paper seeks necessary urgent decisions to pay funding already appropriated for the New Zealand Institute of Skills and Technology (the Institute) to it, and approval of a \$10 million capital injection to provide it with sufficient working capital to manage any short-term cash flow issues. These decisions are necessary to ensure the Institute receives funding on (or shortly after) 1 April 2020, when it will be officially established.
4. The total of \$21.1 million to be paid to the Institute on (or shortly after) 1 April 2020 will support it to progress establishment and transformation planning activities. This will allow the Institute to establish operations, appropriately manage risks to its subsidiaries, and begin its transformation planning projects. This will include:
 - establishing a Head Office to manage its network of subsidiaries;
 - initial planning for the transformation of teaching and learning models;
 - commencing the development of a Programme Business Case for its overall transformation programme;
 - a physical footprint / capital asset assessment and evaluation to progress the development of a capital asset management policy and strategy; and
 - the development of an information systems strategic plan.
5. This paper also seeks approval to establish a ^{s 9(2)(j)} contingency (funded from the existing Reform of Vocational Education contingency) specifically for the purpose of providing funding to support the operational viability of the Institute's subsidiaries (being the current 16 Institutes of Technology and Polytechnics (ITPs)). This contingency is important for providing the Institute and directors of its subsidiaries with assurance about their responsibilities under the Companies Act 1993.
6. I will write to the Chair of the Institute outlining our expectations and setting terms and conditions for the funding. This will include requiring that a formal Crown Funding Agreement be agreed, which would be signed by the Minister of Finance and myself. This will set the basis for funding provided to the Institute. No funding will be paid to the

Institute without the Council's agreement to the terms and conditions specified in the letter, which will acknowledge the uncertainty and challenges created by COVID-19.

7. With regard to the ^{s 9(2)(j)} contingency to support the viability of its subsidiaries, the letter will set a clear expectation that the Institute will look at all options available to it to manage their financial performance and cash position before seeking any Crown funding from the contingency. This would include taking steps to make improvements across the ITP network through collaboration and rationalisation where possible.
8. I also expect the Institute to liaise closely with the Tertiary Education Commission on the performance of the Institute's subsidiaries, including engaging early with the TEC in respect of any subsidiaries that may encounter cashflow issues.
9. Officials are revising the paper that was submitted for 23 March 2020. I intend to submit it for Cabinet's consideration later in 2020, as circumstances permit. The paper will propose additional funding for the Institute, along with other necessary investments to progress RoVE.

Recommendations

The Minister of Education recommends that Cabinet:

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 a paper on managing the fiscal implications of RoVE was submitted for consideration by Cabinet's Business Committee (CBC) on 23 March 2020, but was unable to be considered due to COVID-19
3. **note** that Cabinet agreed to provide \$17.1 million in 2019/20 and \$13.9 million in 2020/21 to fund the initial establishment costs of the New Zealand Institute of Skills and Technology (the Institute) and agreed that any funding unspent in 2019/20 would be transferred to the Institute upon its establishment [CAB-19-MIN-0344 refers]
4. **note** that paying funding to the Institute from 1 April 2020 requires changing the appropriation for the funding identified above from a departmental output expense to a non-departmental output expense
5. **agree** to establish the following new appropriation(s):

Vote	Appropriation Minister	Title	Type	Scope
Tertiary Education	Minister of Education	Establishment of a Single National Vocational Education Institution	Non-departmental Output Expense	This appropriation is limited to operating funding for establishing a single national vocational education institution
Tertiary Education	Minister of Education	Support for a Single National Vocational Education Institution	Non-departmental Capital Expenditure	This appropriation is limited to capital injections for a single national vocational institution

6. **agree to:**

- 6.1 transfer unspent 2019/20 funding of \$11.1 million, and the appropriated 2020/21 funding identified in recommendation 3, to the new non-departmental output expense appropriation; and
- 6.2 provide an up-front capital injection of \$10 million to the Institute for working capital and initial risk management purposes

7. **approve** the following appropriation changes to give effect to the decision in recommendation 6 above, with a corresponding impact on the operating balance and net core Crown debt:

	\$m – increase/(decrease)				
Vote Tertiary Education Minister of Education	2019/20	2020/21	2021/22	2022/23	2023/24 & out-years
Departmental Output Expense:					
Establishing a Single National Vocational Education Institution	(11.100)	(13.900)	-	-	-
Non-departmental Output Expense:					
Establishment of a Single National Vocational Education Institution	11.100	13.900	-	-	-
Non-departmental Capital Expenditure:					
Support for a Single National Vocational Education Institution	10.000	-	-	-	-
Total Operating	-	-	-	-	-
Total Capital	10.000	-	-	-	-

8. **agree** that the increase in expenditure agreed above be charged against the Reform of Vocational Education contingency established at Budget 2019, including a conversion of \$10 million operating funding to capital funding
9. **agree** that the proposed changes to appropriations for 2019/20 above be included in the 2019/20 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply
10. **agree** to establish a new tagged capital contingency of s 9(2)(j), with the profile identified in the table below, for the specific purpose of providing capital injections to support the financial viability of subsidiary companies of the Institute, as a last resort:

	\$million increase/(decrease)				
Vote Tertiary Education Minister of Education	2019/20	2020/21	2021/22	2022/23	2023/24 & out-years
New Zealand Institute of Skills and Technology – Tagged Capital Contingency	-	s 9(2)(j)	s 9(2)(j)	-	-

11. **note** that the above decisions would provide the Institute with 'day one' funding of \$21.1 million. and reduce the balance of the Reform of Vocational Education contingency to s 9(2)(j)
12. **agree** that the expiry dates for the Reform of Vocational Education contingency and the new tagged capital contingency established by recommendation 10 be 30 June 2022
13. **note** that:
 - 13.1 the Minister of Education will write to the Chair-designate of the Institute's Council setting expectations, terms and conditions for the payment of funding to the Institute
 - 13.2 no funding will be paid to the Institute until after its Council ratifies agreement to the terms and conditions set out in that letter.
14. **note** that officials will develop a revised version of the paper that was to have been considered by CBC on 23 March 2020, which will be submitted for consideration by Cabinet later in 2020.

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.

New Zealand Institute of Skills and Technology: Approval of Necessary Funding

Portfolio **Education**

On 30 March 2020, Cabinet:

- 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 in July 2019, following reference from the Cabinet Social Wellbeing Committee, Cabinet agreed to provide \$17.1 million in 2019/20 and \$13.9 million in 2020/21 to fund the initial establishment costs of the New Zealand Institute of Skills and Technology (the Institute) and noted that any funding unspent in 2019/20 would be transferred to the Institute upon its establishment [CAB-19-MIN-0344];
- 3 **noted** that paying funding to the Institute from 1 April 2020 requires changing the appropriation for the funding agreed in CAB-19-MIN-0344 from a departmental output expense to a non-departmental output expense;
- 4 **agreed** to establish the following new appropriation(s):

Vote	Appropriation Minister	Title	Type	Scope
Tertiary Education	Minister of Education	Establishment of a Single National Vocational Education Institution	Non-departmental Output Expense	This appropriation is limited to operating funding for establishing a single national vocational education institution
Tertiary Education	Minister of Education	Support for a Single National Vocational Education Institution	Non-departmental Capital Expenditure	This appropriation is limited to capital injections for a single national vocational institution

5 **agreed to:**

- 5.1 transfer unspent 2019/20 funding of \$11.1 million, and the appropriated 2020/21 funding agreed in CAB-19-MIN-0344, to the new non-departmental output expense appropriation;
- 5.2 provide an up-front capital injection of \$10 million to the Institute for working capital and initial risk management purposes;

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

	\$m – increase/(decrease)				
Vote Tertiary Education Minister of Education	2019/20	2020/21	2021/22	2022/23	2023/24 & out-years
Departmental Output Expense: Establishing a Single National Vocational Education Institution	(11.100)	(13.900)	-	-	-
Non-departmental Output Expense: Establishment of a Single National Vocational Education Institution	11.100	13.900	-	-	-
Non-departmental Capital Expenditure: Support for a Single National Vocational Education Institution	10.000	-	-	-	-
Total Operating	-	-	-	-	-
Total Capital	10.000	-	-	-	-

- 7 **agreed** that the increase in expenditure in paragraph 6 above be charged against the Reform of Vocational Education contingency established at Budget 2019, including a conversion of \$10 million operating funding to capital funding;
- 8 **agreed** that the changes to appropriations for 2019/20 in paragraph 6 above be included in the 2019/20 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply;
- 9 **agreed** to establish a new tagged capital contingency of s 9(2)(j), with the profile identified in the table below, for the specific purpose of providing capital injections to support the financial viability of subsidiary companies of the Institute, as a last resort:

	\$million increase/(decrease)				
Vote Tertiary Education Minister of Education	2019/20	2020/21	2021/22	2022/23	2023/24 & out-years
New Zealand Institute of Skills and Technology – Tagged Capital Contingency	-	s 9(2)(j)	s 9(2)(j)	-	-

- 10 **noted** that the above decisions would provide the Institute with ‘day one’ funding of \$21.1 million, and reduce the balance of the Reform of Vocational Education contingency to s 9(2)(j)
- 11 **agreed** that the expiry dates for the Reform of Vocational Education contingency and the new tagged capital contingency in paragraph 9 above be 30 June 2022;
- 12 **noted** that:
- 12.1 the Minister of Education will write to the Chair-designate of the Institute’s Council setting expectations, terms and conditions for the payment of funding to the Institute;
- 12.2 no funding will be paid to the Institute until after its Council ratifies agreement to the terms and conditions set out in that letter;
- 13 **noted** that the Minister of Education intends to submit a further paper to an appropriate Cabinet Committee later in 2020 seeking additional funding for the Institute and proposing other investments to progress the Reform of Vocational Education.

Michael Webster
Secretary of the Cabinet