

Joint TEC/MoE report: Draft Cabinet Paper – Further Investment in the New Zealand Institute of Skills and Technology

Date:	11 June 2020	TEC priority:	High
Security level:	In Confidence	Report no:	B-20-00410 (TEC) METIS 1230750 (MoE)
		Minister's office No:	

ACTION SOUGHT		
	Action sought	Deadline
Hon Chris Hipkins Minister of Education	<p>note that we have drafted a Cabinet paper seeking to draw-down \$85.182 million from the Reform of Vocational Education (RoVE) contingency to invest in the New Zealand Institute of Skills and Technology to support its establishment and transformation planning;</p> <p>note that the Cabinet paper also seeks to draw-down \$5 million from the RoVE contingency for the New Zealand Qualifications Authority to assist it to implement RoVE;</p> <p>discuss the attached draft Cabinet paper with officials at the agency meeting on 15 June 2020.</p>	18 June 2020
Enclosure: Yes	Round Robin: No	

CONTACT FOR TELEPHONE DISCUSSION (IF REQUIRED)			
Name	Position	Telephone	1st contact
s9(2)(a)		s9(2)(a)	✓
Tim Fowler	Chief Executive, TEC		
Andy Jackson	Deputy Secretary, GAVC, MoE		

THE FOLLOWING DEPARTMENTS/AGENCIES HAVE SEEN THIS REPORT

- | | | | | | | |
|-------------------------------|------------------------------|-------------------------------|-------------------------------|---|---|--|
| <input type="checkbox"/> DPMC | <input type="checkbox"/> MPI | <input type="checkbox"/> ENZ | <input type="checkbox"/> ERO | <input type="checkbox"/> MBIE | <input checked="" type="checkbox"/> MoE | <input type="checkbox"/> MFAT |
| <input type="checkbox"/> MPP | <input type="checkbox"/> MSD | <input type="checkbox"/> NZQA | <input type="checkbox"/> NZTE | <input checked="" type="checkbox"/> TEC | <input type="checkbox"/> TPK | <input checked="" type="checkbox"/> Treasury |

- Minister’s Office to Complete:**
- | | |
|---|--|
| <input type="checkbox"/> Approved | <input type="checkbox"/> Declined |
| <input type="checkbox"/> Noted | <input type="checkbox"/> Needs change |
| <input type="checkbox"/> Seen | <input type="checkbox"/> Overtaken by Events |
| <input type="checkbox"/> See Minister’s Notes | <input type="checkbox"/> Withdrawn |

Comments:

Recommendations

Hon Chris Hipkins, Minister of Education

It is recommended that you:

1. **note** that we have drafted a Cabinet paper seeking to draw-down \$85.182 million from the Reform of Vocational Education (RoVE) contingency to invest in the New Zealand Institute of Skills and Technology to support its establishment and transformation planning;
2. **note** that the Cabinet paper also seeks to draw-down \$5 million from the RoVE contingency for the New Zealand Qualifications Authority to assist it to implement RoVE;
3. **note** that the two proposed investments will exhaust the RoVE contingency;
4. **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;
5. **discuss** with officials the attached draft Cabinet paper, including the risks and choices that officials have made, at the agency meeting on Monday 15 June 2020;
6. **note** that officials recommend undertaking Ministerial consultation on the draft between 18 and 23 June 2020, so that the paper can be lodged with Cabinet Office on Thursday 25 June for consideration by Cabinet's Social Wellbeing Committee on Wednesday 1 July;
7. **agree** that the Tertiary Education Commission proactively release this briefing alongside the release of the Cabinet paper at a later date.

Minister of Education

AGREE **DISAGREE**



Andy Jackson

Deputy Secretary,
Graduate Achievement, Vocations and Careers
Ministry of Education
11 June 2020



Tim Fowler

Chief Executive
Tertiary Education Commission
11 June 2020



Hon Chris Hipkins

Minister of Education

 / / / 2020

Purpose

1. The purpose of this briefing is to provide you with a draft Cabinet paper which proposes:
 - To draw-down \$85.182 million from the Reform of Vocational Education (RoVE) tagged operating contingency to provide funding to the New Zealand Institute of Skills and Technology (NZIST) to support its establishment and transformation planning; and
 - To draw-down \$5 million for the New Zealand Qualifications Authority (NZQA) from the RoVE contingency so it can make necessary changes to its systems for the implementation of RoVE.

Investment in NZIST

Only necessary funding was provided to NZIST on its establishment...

2. In February 2020, the Establishment Board submitted a funding request and outlined an establishment and transformation programme. The Establishment Board requested s9(2)(j) over the next three years for the programme to be successful, and also signalled potential future transformation costs of s9(2)(j).
3. Due to the impacts of COVID-19, Cabinet did not consider a comprehensive funding plan for NZIST before its establishment on 1 April 2020. To ensure some funding was provided, Cabinet agreed on 30 March 2020 to provide NZIST with initial funding of \$21.1 million [CAB-20-MIN-0140 refers]. This was comprised of:
 - \$11.1 million in operational funding for the establishment and initial operation of NZIST's Council and head office as well as to fund preliminary planning for its transformation programme; and
 - \$10 million to ensure NZIST had sufficient working capital on its establishment.
4. An additional \$13.9 million of funding has also been appropriated in 2020/21 for NZIST.

...and we recommend a further investment of \$85.182 million in NZIST...

5. We recommend a further \$85.182 million investment in NZIST over the next three years, funded from the RoVE contingency. This amount is almost identical to the amount proposed in the March RoVE fiscal implications Cabinet paper that was not considered due to COVID-19. The additional investment relative to what has already been paid and appropriated is summarised below.

\$m	Paid 2019/20	Appropriated 2020/21	Proposed further investment			TOTAL
			2020/21	2021/22	2022/23	
Head office	6.000	13.900	13.282	28.000	14.000	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
TOTAL	11.100	13.900	43.182	28.000	14.000	110.182

6. This funding comprises:
 - **\$55.282 million in head office funding:** Alongside a further \$0.818 million in Establishment Board underspends which will be provided to the NZIST, this investment will result in a total of \$76 million being provided to fund the salary and operating costs

of the head office. This funding will allow NZIST to actively manage and drive the transformation of its network of subsidiaries, including greater delivery of on on-job learning. Funding will be provided quarterly in advance.

- **\$20 million in key systems funding:** This investment will fund capital investment for the establishment and operation of key systems to support NZIST’s financial operations and data analysis capabilities. This investment is crucial if NZIST is to manage the network well, effectively monitor performance, and make informed decisions. \$4 million will be provided up-front with the remaining \$16 million available subject to approval from you and the Minister of Finance of business cases for the specific investments.
- **\$6 million for arranging training due diligence and integration planning:** This investment will assist NZIST to undertake financial, legal, and educational due diligence of the transitional industry training organisations (TITOs) as well as support NZIST to plan and integrate the arranging training activities from the TITOs. 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 the TITOs and contribute to the wider recovery from COVID-19. This funding will be paid based on appropriate plans being approved by the TEC.
- **\$3.9 million in transformation planning and design funding:** This additional investment will result in a total of \$9 million being provided to support NZIST to plan and design its transformation programme, including its teaching and learning delivery model, its capital asset strategy and improvement plan, and its information systems strategic plan. This funding will be provided on the signing of a funding agreement with the Crown.

7. The \$85.182 million investment, alongside \$5 million for NZQA, will fully exhaust the RoVE contingency.

...and there are two key areas we recommend are not funded...

8. The Establishment Board included a request for \$20 million to launch NZIST’s new brand and name, and undertake a range of marketing and promotional activity to support engagement with learners, stakeholders, industry and employers. We consider the request is not a high priority and does not represent value for money.
9. We consider that the launch of the new brand can be met by leveraging off existing capability within the ITP network as well as through the funding being provided for head office. We understand that NZIST will present its recommendation for its permanent name to you in the near future. NZIST has noted that if no funding is provided, any launch of the new name and brand will likely be small.
10. The Establishment Board also requested \$10 million to fund small scale innovation projects. We considered this a lower priority than other parts of the funding request. We believe NZIST can leverage off existing funding and expertise to implement innovative initiatives, including as part of the transformation design and planning work.

...while further funding for NZIST’s transformation programme is likely to be sought later

11. The Establishment Board estimated that the implementation of many parts of the transformation would cost **s9(2)(i)**. Before any consideration of additional Crown funding (beyond the capital contingency), 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.
12. The business cases will also need to consider a range of options to fund its transformation projects, including re-investment of any operating surpluses from its subsidiaries and its balance sheet, as well as Crown funding. The TEC will work closely with NZIST as part of

the development of its business cases. It is likely that funding for NZIST's transformation will be sought from future Budget processes.

There are a range of other RoVE costs which will require funding

13. While some funding is being sought for NZQA, no funding is currently appropriated for the RoVE programme beyond 2020/21. Furthermore, given the accelerated work programme, it is likely there will be funding pressures that need to be carefully managed in 2020/21 which will be a risk for the programme.
14. Current estimates are that around **s9(2)(j)** in 2021/22 and **s9(2)(j)** in 2022/23 will be needed for the TEC and MoE to deliver the RoVE programme. This funding is additional to the prioritisation of agencies' baselines for RoVE implementation. Over the next three years, the RoVE programme will:
 - be required to implement the changes agreed under the RoVE programme with substantial operational impact as a whole and in relation to TEC's investment systems;
 - continue to undertake the design and transition of some of the ITO arranging training function and capability to NZIST and other providers;
 - Continue to work with Workforce Development Councils (WDCs) as they are established and broaden the development of their functions;
 - conduct detailed system design modelling and data collection for new funding categories;
 - implement processes and procedures for selection, funding and monitoring of Centres of Vocational Excellence (CoVEs);
 - design and implement changes to TEC's business as usual investment processes, including to provide for the funding and monitoring of NZIST and WDCs; and
 - undertake stakeholder engagement and consultation to ensure that employers remain supportive of the reforms.
15. Given we have been working within the amount of funding available in the RoVE contingency, and the urgent need to provide funding certainty to NZIST, no funding is being sought for these activities in this Cabinet paper. Additional funding will need to be sought at a later date.
16. In addition to funding for the RoVE programme, both new CoVEs and the Unified Funding System will also require further investment – particularly the Unified Funding System (where previous initial estimates indicated a potential cost of **s9(2)(j)** per annum).
17. We would like to discuss with you your priorities and the fiscal management approach for these key areas of RoVE at the agency meeting on Monday 15 June.

Crown funding agreement overview and process

A Crown funding agreement will be established to provide accountability for funding...

18. The Cabinet paper seeks agreement that a funding agreement between the Crown and NZIST is drafted that specifies the terms and conditions for the release of funding to NZIST, including specific milestones and reporting to help ensure accountability for funding and that the proposed benefits are realised.
19. Delegated authority is sought from Cabinet for you and the Minister of Finance to negotiate and sign the funding agreement on behalf of the Crown.

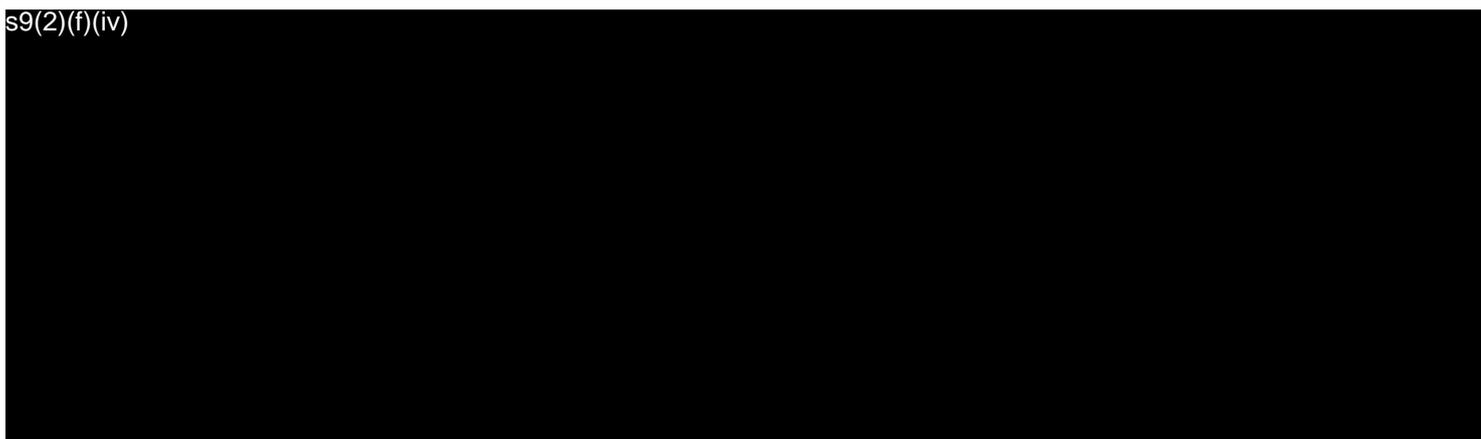
...and the funding agreement will be based on the framework used in similar agreements...

20. We have negotiated a number of Crown funding agreements in recent years – in particular, with the University of Canterbury for the Crown’s \$260 million investment in its rebuild and transformation programme after the 2010/11 earthquakes and with Lincoln University for the Crown’s \$80 million investment in the rebuild of its science facilities.
21. The funding agreement with NZIST will follow a similar model and take a similar approach. It will:
 - set out the timing, amounts, terms and conditions for the payment and use of the Crown funding consistent with the Cabinet decision;
 - set out the targets and milestones that NZIST is required to meet and a process for establishing and amending other targets, as well as reporting requirements;
 - detail the further business cases and project plans that must be developed in accordance with the Treasury’s Better Business Case process and guidance – both to access funding already appropriated and to seek funding for future transformation projects;
 - set out a future independent quality assurance programme required to ensure that the programme of work is being well-managed and governed as strongly as possible;
 - signal the Crown’s expectations of the outcomes that will be achieved as a result of the Crown’s investment as well as providing clarity on the roles and responsibilities of all parties;
 - set out the process and conditions for applying to joint Ministers to draw-down funding from the \$50 million contingency to manage any forecast cash shortfalls in NZIST’s subsidiaries; and
 - set out the monitoring and governance arrangements that will be put in place.

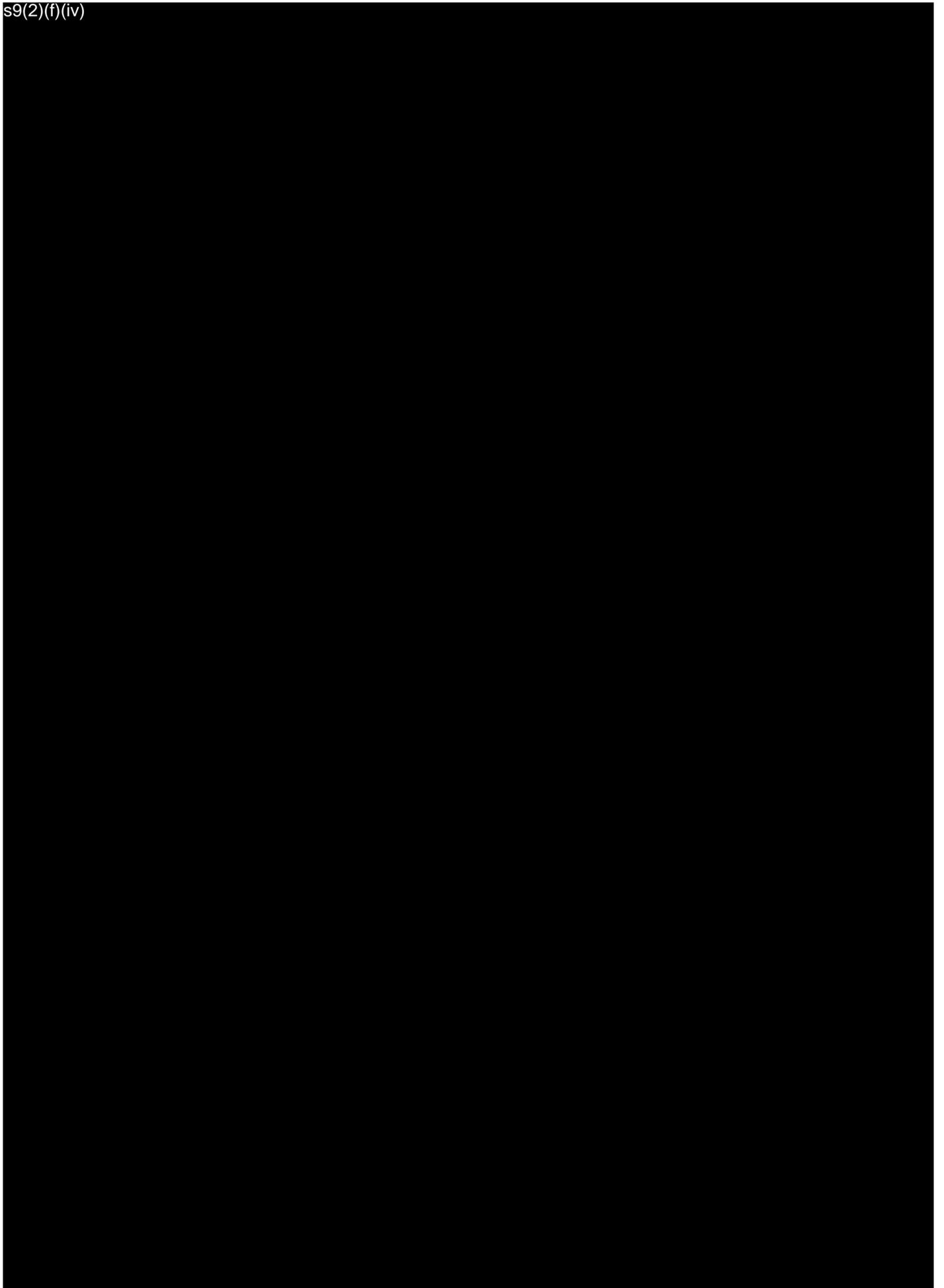
...and will require engagement with NZIST

22. The funding agreement will set out the key terms and conditions under which the Crown funding will be provided, reflecting the Cabinet decision where relevant. However, much of the detail will need to be discussed with NZIST, and will require a number of engagements with NZIST’s Council and senior management.
23. We have already developed a draft of the funding agreement and intend to begin negotiations with NZIST shortly after the Cabinet decision. We will consult with the Treasury and MoE on the development of the funding agreement.
24. After discussions have progressed with NZIST, we will provide a draft funding agreement to Ministers for consideration and input. No further funding will be provided to NZIST until the funding agreement is finalised and signed. This includes the \$13.9 million already appropriated in 2020/21.

s9(2)(f)(iv)



s9(2)(f)(iv)



Next steps and timetable

36. The TEC and MoE wish to discuss the draft Cabinet paper with you at the agency meeting on Monday 15 June 2020. There have been a number of trade-offs that have had to be worked through to ensure the funding provided remains within the amount in the RoVE contingency. We would like to discuss these choices and the risks with you.
37. The draft Cabinet paper can be used to consult with your Ministerial colleagues, and we will update the paper in consultation with your Office as needed. We propose lodging the final paper with Cabinet Office on Thursday 25 June, for consideration by Cabinet’s Social Wellbeing Committee on Wednesday 1 July. We can provide you with talking points for Cabinet if required.
38. We have worked closely with MoE and the Treasury on the draft Cabinet paper, and their comments have been incorporated. The Treasury support the proposed investment. The Department of Prime Minister and Cabinet (Policy Advisory Group) has also been informed.