

Event backgrounder: Meeting with NZIST Chief Executive and Chair on 13 July 2020

To:	Hon Chris Hipkins, Minister of Education
From:	Gillian Dudgeon, Deputy Chief Executive, Delivery
Date:	10 July 2020
Reference:	E-20-00495

Purpose

1. You are scheduled to meet with New Zealand Institute of Skills and Technology (NZIST) Chief Executive, Stephen Town, and Chair, Murray Strong, on Monday 13 July 2020 at 11- 11:45 am.
2. This event backgrounder provides you with high level content addressing the following topics that NZIST attendees would like to discuss at the meeting:
 - The formal naming of NZIST;
 - The funding envelope;
 - Forecast picture of the vocational sector for 2020 and 2021;
 - The Minister's vision going forward to 2022; and
 - Industry training organisation (ITO) transitions.
3. A summary of the recent progress around approving pilot centres of vocational excellence (CoVEs) for the primary and construction industries is also included.
4. Biographies of the NZIST Chief executive and Chair are attached as an appendix to this backgrounder.
5. We recommend that this event backgrounder is released with redactions made to protect the commercial position of the NZIST.

About NZIST

6. 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.
7. 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 institutes of technology and polytechnics (ITPs), improving their efficiency and effectiveness, and expanding their delivery of on-job and work-integrated learning.

8. 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 it was announced that the head office of NZIST would be located in Hamilton.

The formal naming of NZIST

9. A briefing with a recommendation on the legal name of the NZIST was provided to you on 10 June 2020 by NZIST. As at 8 July 2020, this briefing remains with your office.
10. Subject to your agreement, the Ministry of Education will facilitate the process of an Order in Council to give effect to the legal name recommended by the NZIST.

Crown funding for NZIST – “the funding envelope”

11. As you are aware, further funding for NZIST was considered at the Cabinet Business Committee (CBC) meeting on 6 July 2020 and it was agreed to invest an additional \$85.182 million in NZIST over the next three years to progress its establishment and transformation. Combined with funding already appropriated, this equates to nearly \$100 million in additional funding being provided to NZIST and follows the \$21.1 million paid to NZIST in April 2020 on its establishment.
12. We are preparing a draft letter for you to send to the Chair of NZIST after Cabinet on 20 July regarding the funding. This will outline details of the funding package being provided and some of the key messages and expectations around the funding. You may wish to reinforce some of these messages at the meeting, including:
 - This funding needs to drive change. Rapid progress needs to be made to begin to integrate and transform the network of subsidiaries and shift NZIST's focus from provider-based vocational education toward more work-based learning.
 - NZIST cannot be another layer of management in a system that is already seen as administration heavy. It needs to be small and nimble, and leverage off the extensive expertise that already exists within the individual subsidiaries.
 - At the end of 2022, NZIST will need 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.
 - NZIST needs to have a strong plan for how it becomes self-sustaining and how future transformation costs are met (i.e. operating surpluses through increasing revenue, costs savings, and/or borrowing and balance sheet rationalisation). Significant progress needs to be made before any further Crown funding could be considered.
13. NZIST is aware of the funding package at a high level as we engaged with senior management prior to the development of the Cabinet paper, and officials have informed NZIST of some parts of the decision at CBC. However, NZIST is not aware of all details, and we have informed them that the full details of the Cabinet decision will be communicated to them via a letter from you on, or shortly after, 20 July.
14. Shortly after NZIST is formally informed of the funding decision, we will negotiate a funding agreement with NZIST that sets out the terms and conditions for the release of funding. We will seek to negotiate this with NZIST as quickly as possible so that you and the Minister of Finance can consider it promptly. NZIST will not be provided any further funding until the funding agreement is signed.

Forecast picture of the vocational sector for 2020 and 2021

15. A large number of ITPs have faced financial viability issues over recent years, mostly due to a significant decline in enrolments, and many are not sustainable in their current form. As a sector, ITPs have reported respective deficits of \$56.2 million, \$72.4 million and \$46.1 million over the three years to 2019. In 2019, only five ITPs reported a surplus.
16. The ITP sector is currently forecasting a deficit of \$73.3 million (or 7.2%) of revenue in 2020. It should be noted that these forecasts include the positive impact of the funding guarantee, and given domestic EFTS are down for a number of ITPs, the result would be significantly worse if not for the guarantee.
17. While some of the negative impact is due to COVID-19, it also reflects the underlying weakness of many ITPs who were reporting lower enrolments before the impacts of COVID-19 became apparent.
18. Total cash (including short-term investments) at the end of December 2019 for the ITP sector was around \$313 million – a significant increase on 2018 levels. However, while the sector as a whole has considerable cash balances, some ITPs' cash positions are tight, or on a downward trend, while others are earmarked for capital projects.
19. There are three subsidiaries expected to run out of cash or have limited liquidity over 2020. These include:
 - Tai Poutini Polytechnic Limited (TPP) – TPP is expected to run out of cash in September 2020 and is requesting \$3.5 million in Crown support to ensure it can meet its commitments over 2020 and in early 2021.
 - Whitireia New Zealand Limited (Whitireia) – Whitireia is expected to finish 2020 with only \$1.2 million in cash. However, its reserves policy requires it to have a minimum cash balance of around \$5 million and so it will be operating on limited liquidity between September and December 2020 with reduced ability to respond to any unexpected or negative shocks.
 - Western Institute of Technology at Taranaki Limited (WITT) – WITT is expecting to finish 2020 with only \$1.1 million in cash, and to have limited liquidity over the last few months of the year. Furthermore, WITT is required to begin repaying its Crown loan at the end of the year with the first repayment of \$1.04 million due on 31 December 2020. This will cause WITT to essentially have no cash available at the end of the year.
20. While these three subsidiaries are presenting the largest viability concerns, forecasts are subject to change and other subsidiaries remain high-risk. NZIST is currently co-ordinating another re-forecast exercise across its subsidiaries and we expect to receive updated forecasts in August 2020. This should provide more reliable information around individual subsidiaries cash positions over the remainder of 2020.

Crown support for NZIST subsidiaries

21. We have recently engaged with NZIST regarding TPP and Whitireia. We have been very clear that the Government will not continue to bail out NZIST's subsidiaries and support the current unsustainable model. NZIST's role is to manage and integrate its network and it needs to take urgent actions to address those areas of the network that are performing poorly – in particular, s9(2)(b)(ii)

22. We have requested a plan from NZIST on how it will deal with the financial issues at TPP. However, we consider it likely that the Crown will have to provide some level of additional funding in 2020 to NZIST to support TPP. This can be sought from the \$50 million capital contingency established in March 2020 to support subsidiary viability. We plan to provide advice to you and the Minister of Finance on this issue after receiving further information from NZIST. You may wish to reinforce the urgency for decisive action to be taken on TPP.
23. For Whitireia, we have been clear that NZIST needs to explore all options before seeking further Crown support. This could include seeking support from WelTec (e.g. an inter-company loan) or NZIST making use of its cash position across the entire network (subject to the ring-fencing policy).
24. As part of the Crown funding agreement, we will also be seeking a financial strategy and a plan for NZIST, but also for each subsidiary, so that NZIST can move towards being self-sustaining. This plan will likely need to include a combination of rationalisation, structural changes, leveraging off the scale of the network, and innovation. You may wish to reinforce the importance of NZIST taking the lead on managing the financial position of its network.
25. s9(2)(f)(iv)

The Minister's vision going forward to 2022

26. NZIST has indicated that it wishes to discuss your vision for NZIST and reforms through to 2022. This vision is largely set out in the draft Letter of Expectations which is currently with you for consideration.
27. The Letter of Expectations sets out the vision of a nationwide network of provision that can respond to a fast changing future of skills, learning and work that will:
 - deliver for the unique needs of all learners, including those who have been traditionally under-served, such as Māori, Pasifika, and disabled learners, particularly as Māori and Pasifika will form a growing part of the working-age population in the future;
 - be relevant and responsive to the changing needs of employers;
 - be collaborative, innovative and sustainable for all regions of New Zealand; and
 - uphold and enhance Māori Crown partnerships.
28. Central to achieving these outcomes is the design and implementation of NZIST's longer-term operating model so that an integrated network of provision can be created by the end of 2022.
29. Transformative thinking and change is required to deliver a sustainable national network of vocational education and training which enables students and employers to transition seamlessly between delivery sites and educational modes. In achieving this, NZIST can be a true long-term skills training partner to firms and industries, operating both nationally and regionally.
30. I expect that NZIST will develop its initial operational model to clearly reflect the need to build an organisation ready to transition support for workplace learning into it; and with the capability to effectively build and manage employer, workforce development council (WDC) and regional skills leadership group (RSLG) relationships. During the transition phase, NZIST will be

required to work closely with TEC, Transitional ITOs and their respective employers on the transfer of support for learners into NZIST.

ITO transitions into NZIST

A summary of progress to date

31. We have received all 11 transitional plans. These outline Transitional ITOs' preferred approach, scope and timing for the transitioning of their standard setting and arranging training functions. The plans include the Transitional ITOs preferred form of transition to providers including NZIST, private training establishments and wānanga.
32. In summary, the initial desires of the Transitional ITOs are as follows:
- Three Transitional ITOs have indicated that they would like to undertake a "lift and shift" of their organisations into the NZIST around mid-2021, enabling them to also transition standard setting functions to the WDCs in parallel.
 - The NZ Marine Industry Association (NZMAC) Transitional ITO has indicated a preference to become a private training establishment.
 - The remaining Transitional ITOs have indicated they wish to transition toward the end of 2022, once they have confidence that they and NZIST are ready to transition functions without negatively impacting employers and learners.
33. The RoVE team and NZIST have had an initial meeting post receiving the ITO initial transition plans. We are aligned in our expectations of the importance of a smooth transition into NZIST and other providers.
34. Following Stephen Town commencing in his new role we are expecting to understand in the near future from NZIST how they wish to manage this transition activity and how they are planning to integrate into their new operating model.

Timeline of what has happened, and what comes next

33. June 2020 – Received first iteration of transition plans from the Transitional ITOs.
– Continued group and one-on-one sessions with each Transitional ITO to progress transition.
34. July 2020 – Commenced discussions with NZIST around respective roles in transition.
35. December 2020 – All final transition plans received from the Transitional ITOs for TEC assessment.
36. By June 2021 – All transition plans are approved (some earlier than June).

CoVEs for primary and construction industries

37. On Monday 6 July, the TEC Board approved funding for the pilot CoVEs for the primary and construction industries, subject to the negotiation of appropriate funding agreements.

38. The successful candidates were notified of the Board’s decision on 7 July 2020. They were also requested to keep the outcome confidential until their respective funding agreements are negotiated and signed. You will announce the identities of the CoVEs once the agreements have been signed.

39. The successful candidates for the Primary and Construction CoVEs are:

- The Food and Fibre Sectors’ CoVE – a consortium of 54 organisations, hosted by the NZIST through its subsidiary the Eastern Institute of Technology.
- The Construction and Infrastructure CoVE (ConCOVE) – a consortium of 11 member organisations, hosted by the NZIST through its subsidiary the Manukau Institute of Technology.

Gillian Dudgeon

Deputy Chief Executive, Delivery

Tertiary Education Commission

10 July 2020

Hon Chris Hipkins

Minister of Education

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Appendix: NZIST biographies

Chief Executive: Stephen Town



Stephen has held executive positions in the public sector for over 20 years in tertiary education, local government and transport. For the last seven years he was Chief Executive of Auckland Council, where he led a new organisation to serve the people of Auckland.

Stephen has previously been Chief Executive of Franklin District Council, Chief Executive of Tauranga City Council and Regional Director of the NZ Transport Agency in Northland/Auckland. His first chief executive role was at the Wanganui Regional Community Polytechnic in 1994, making him the youngest Chief Executive in New Zealand at the time.

Chair: Murray Strong



Murray is an independent Chair and professional director, and a Chartered member of the Institute of Directors of New Zealand. He has a long-term involvement with the TEC and the ITP sector.

He has experience in governance and advisory roles in both the public and private sector, including the New Zealand Qualifications Authority, Canterbury Earthquake Recovery Authority, the Ministry of Education and the TSB Trust. He has also been actively involved in the Christchurch rebuild.