



23 July 2020

Murray Strong
Chair, New Zealand Institute of Skills and Technology
By email: Murray.Strong@vocationaleducation.ac.nz

Dear Murray

Further funding for the New Zealand Institute of Skills and Technology

In April 2020, the Government agreed to provide \$21.1 million of Crown funding to the New Zealand Institute of Skills and Technology (NZIST). This funding was to support NZIST establish operations, build capability, and begin its transformation. It also ensured that NZIST had sufficient working capital on its establishment.

As part of that decision, Cabinet also agreed to establish a \$50 million capital contingency to assist NZIST manage any forecast cash shortfalls in its subsidiaries. This funding was only to be sought as a last resort if NZIST could not manage the cash position of the network as a whole.

Cabinet has recently considered an additional funding package to support NZIST achieve its objectives. This followed consideration of the *Changing the vocational conversation: NZIST establishment and transformation funding request*, prepared by the Establishment Board, and which was submitted to me in February 2020. The request describes three objectives of an establishment and transformation programme to be delivered by NZIST from 1 April 2020 to 31 December 2022. Those objectives are to:

- reorganise current institute of technology and polytechnic (ITP) and industry training organisation (ITO) legacy organisations, to bring them into a single institution, and to govern and manage them;
- transform the network, its delivery models, its Tiriti o Waitangi relationships, its physical and digital presence, and how it engages with learners of all types, employers, and communities; and
- active management of a provider network facing significant financial stress so that it continues to operate effectively, including leveraging existing capability within that network.

The Government has agreed to provide up to a further \$99.7 million in Crown funding to NZIST

The Government has agreed to provide up to a further \$99.7 million over the period to 31 December 2022 to support NZIST to 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.

When combined with the \$21.1 million already provided in April 2020, it totals an investment of nearly \$121 million in NZIST from the Crown. This is a significant amount of funding and I have high expectations that it will be used to successfully transform NZIST into 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. The details of the funding package are outlined as follows.

Integration and transformation funding

The Crown will pay NZIST up to \$69.2 million over the next two and half years to support the establishment and operation of NZIST to plan, lead, and deliver the integration and transformation of the current network, including supporting greater delivery of on-job learning. This funding is in addition to the \$6 million paid for this purpose in April 2020. Furthermore, in 2019, Cabinet agreed that any funding unspent by the Establishment Board would be transferred to NZIST. I have been advised that the final underspend on the Establishment Board's budget is expected be around \$0.6 million, which would bring total integration and transformation funding to \$75.8 million.

This funding will be paid in quarterly instalments, and will reduce in 2022 to reflect my expectation that NZIST generates savings and efficiencies across its network, such that it is self-funded from the beginning of 2023. At that time, NZIST will operate like any other tertiary education institution and run its operations on funding from the Tertiary Education Commission (TEC) and other revenue.

I would also like to be clear that this funding is to support the establishment of NZIST, and is not intended to fund a head office that simply becomes another layer of management in a system that is already seen as administration heavy. It needs to be nimble and a driver of change, and leverage off the extensive expertise that already exists within NZIST and other key stakeholders.

Key systems investment

The Crown will pay NZIST 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 funding will allow NZIST to invest in technology to consolidate financial information and data and support it to manage the network well, effectively monitor performance, and make informed decisions.

An initial payment of \$4 million will be provided on the signing of a Crown funding agreement. Up to \$16 million of additional funding will be available subject to endorsement by the Minister of Finance and the Minister of Education of appropriate business cases for these investments.

Integration of arranging training activities funding

The Crown will pay up to \$6 million to NZIST to support it to plan and integrate the arranging training activities from those Transitional ITOs that transfer activities to NZIST, including supporting financial, legal, and educational due diligence of the Transitional ITOs. I expect NZIST to work closely with the TEC on this workstream. Funding will be able to be drawn-down based on appropriate project plans outlining the activities to be undertaken being approved by the Chief Executive of the TEC.

This funding will allow NZIST to prioritise and accelerate the work required to take on some of the responsibilities for supporting workplace-based learning from Transitional ITOs and contribute to the recovery from COVID-19.

Transformation planning and design funding

The Crown will pay a further \$3.9 million to NZIST to support it to plan and design the core elements of the transformation of its network. This funding is 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. This additional funding will be provided following the signing of a Crown funding agreement.

In total, the transformation planning and design funding is comprised of:

- \$3 million to support the design of an integrated teaching and learning delivery model;
- \$5 million to support a detailed physical footprint assessment and evaluation to assist the development of a capital asset management strategy and improvement plan; and
- \$1 million to support the development of a long-term information systems strategic plan.

I understand work has already begun in each of these areas. I expect this work will input into the development of a Programme Business Case for NZIST's overall integration and transformation work programme.

NZIST needs to take the lead in addressing viability issues in its subsidiaries

As outlined in my April 2020 letter to you, the Government agreed to establish a \$50 million capital contingency to assist NZIST manage any forecast cash shortfalls in its subsidiaries as a last resort. This funding also recognises the negative financial impact COVID-19 is having on NZIST's subsidiaries.

As previously noted, the Government expects NZIST to utilise all options available to it to manage the financial performance and cash position across its subsidiaries, and through the use of its balance sheet, before seeking any Crown funding from the contingency. This should include taking steps to make improvements across the network through collaboration and rationalisation where possible.

While I appreciate the negative impact COVID-19 has had on the sector, there are clear areas where action is needed to address those parts of the network that are performing poorly and are unsustainable. It is NZIST's responsibility to manage and integrate its network, improving efficiency and effectiveness across its functions, and I expect decisive action to be taken where required.

The release of funding from this contingency is subject to approval from the Minister of Finance and the Minister of Education and the conditions for the release of funding will be outlined in the Crown funding agreement. This will include a requirement that NZIST develop a financial management strategy for NZIST as well as for each subsidiary – particularly those under financial stress – to ensure NZIST as a whole remains financially viable. Funding will only be approved where a clear plan is in place to address the financial issues identified.

A funding agreement is needed to ensure accountability for funding

Given funding for NZIST is to be provided outside of the normal funding arrangements for tertiary education institutions, and mindful that there needs to be accountability for public expenditure, Cabinet requires that a funding agreement is established between the Crown and NZIST.

The funding agreement will set out the terms and conditions of the funding arrangement, including conditions for the release of funding, targets and milestones to be achieved, and reporting and monitoring requirements.

The TEC has prepared a draft of this agreement, which will be sent to you in the near future for discussion and agreement. The Crown funding agreement needs to be signed by NZIST and the Minister of Finance and myself, before any further funding will be paid. I therefore encourage you to give priority to engaging on and finalising the agreement with the TEC as soon as possible.

Transforming NZIST into our leading provider of on-job, off-job and online vocational education

The agreement of this funding package is a significant decision for NZIST and the vocational education and training sector. 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.

I appreciate that COVID-19 has changed the economic and social landscape in which NZIST is establishing itself. However, 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.

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, so that NZIST can be a true long-term skills training partner to firms and industries, operating both nationally and regionally. To achieve these objectives, NZIST will need to engage and work closely with Workforce Development Councils (WDCs) and Regional Skills Leadership Groups (RSLGs) – once they are established – to ensure transformation planning gives effect to the voices and needs of industries and regions.

This is a sizeable task, but I have confidence that the Council can provide the governance and leadership needed to turn this vision into reality. I am pleased that Stephen has now begun in his role as the inaugural permanent Chief Executive of NZIST. His skills and experience will be vital in making NZIST a success.

I look forward to working closely with you both as NZIST is transformed into 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. Further detail on my expectations and areas of focus are outlined in my Letter of Expectations to NZIST, which was recently sent to you.

Yours sincerely



Chris Hipkins
Minister of Education

cc. Stephen Town, Chief Executive, New Zealand Institute of Skills and Technology
Tim Fowler, Chief Executive, Tertiary Education Commission