



Tertiary Education Report: Funding Agreement between the Crown and the New Zealand Institute of Skills and Technology

Date:	20 August 2020	TEC priority:	High
Security level:	In Confidence	Report no:	B-20-00545
		Minister's office No:	

ACTION SOUGHT		
	Action sought	Deadline
Hon Chris Hipkins Minister of Education	<p>approve the funding agreement between the Crown and the New Zealand Institute of Skills and Technology, which sets out the terms and conditions of Crown investment as agreed by Cabinet on 20 July 2020.</p> <p>sign the attached Crown funding agreement.</p> <p>forward this briefing and the funding agreement to the Minister of Finance for his approval and signature.</p> <p>subject to approval from the Minister of Finance, sign and send the attached letter and funding agreement to the Chair of the New Zealand Institute of Skills and Technology for his signature.</p>	28 August 2020
Hon Grant Robertson Minister of Finance	<p>approve the funding agreement between the Crown and the New Zealand Institute of Skills and Technology, which sets out the terms and conditions of Crown support as agreed by Cabinet on 20 July 2020.</p> <p>sign the attached Crown funding agreement.</p>	28 August 2020
Enclosure: Yes	Round Robin: Yes	

CONTACT FOR TELEPHONE DISCUSSION (IF REQUIRED)			
Name	Position	Telephone	1st contact
s9(2)(a)	Principal Advisor	s9(2)(a)	✓
Gillian Dudgeon	Deputy Chief Executive – Delivery		

THE FOLLOWING DEPARTMENTS/AGENCIES HAVE SEEN THIS REPORT

- DPMC MPI ENZ ERO MBIE MoE MFAT
 MPP MSD NZQA NZTE TEC TPK Treasury

- Minister's Office to Complete:** Approved Declined
 Noted Needs change
 Seen Overtaken by Events
 See Minister's Notes Withdrawn

Comments:

Recommendations

Hon Grant Robertson, Minister of Finance, **Hon Chris Hipkins**, Minister of Education

It is recommended that you:

1. **approve** the proposed funding agreement (attached as Annex 2) between the Crown and the New Zealand Institute of Skills and Technology (NZIST), which sets out the terms and conditions of the Crown’s investment in NZIST for its establishment and transformation programme as agreed by Cabinet on 20 July 2020 [CAB-20-MIN-0336 refers].

Minister of Education

AGREE / DISAGREE

Minister of Finance

AGREE / DISAGREE

2. **sign** the attached Crown funding agreement;
3. **forward** this briefing and the funding agreement to the Minister of Finance for his approval and signature;
4. subject to approval from the Minister of Finance, **sign and send** the attached letter and funding agreement to the Chair of NZIST for his signature.
5. **note** that once the funding agreement has been signed by all parties, the Tertiary Education Commission and the Ministry of Education will make the next payment of Crown funding to NZIST.
6. **agree** that the Tertiary Education Commission proactively release this briefing once the funding agreement has been signed with commercially sensitive information and the funding agreement withheld to enable NZIST to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations).

Minister of Education

AGREE / DISAGREE



Gillian Dudgeon

Deputy Chief Executive, Delivery
Tertiary Education Commission

20 August 2020



Hon Chris Hipkins

Minister of Education

26 / 08 / 2020

Hon Grant Robertson

Minister of Finance

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Purpose

1. This briefing seeks approval from the Minister of Finance and the Minister of Education of the funding agreement between the Crown and the New Zealand Institute of Skills and Technology (NZIST) for the Crown's investment in NZIST's establishment and transformation programme.

Background

2. On 30 March 2020, Cabinet agreed to provide NZIST with initial funding of \$21.1 million [CAB-20-MIN-0140 refers]. This funding was paid to NZIST on 2 April 2020.
3. On 20 July 2020, Cabinet agreed to invest a further \$85.182 million in NZIST over the next three years [CAB-20-MIN-0336 refers]. Combined with funding already appropriated and underspends from the Establishment Board that will be transferred to NZIST, this will result in up to a further \$99.7 million in Crown funding being provided to NZIST. This funding will 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.
4. 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 required that a funding agreement was to be established between the Crown and NZIST. Cabinet delegated authority to the Minister of Finance and the Minister of Education to sign the funding agreement on behalf of the Crown.

Funding agreement

5. We have drafted a funding agreement that codifies the Cabinet decisions, and sets out the terms and conditions of Crown funding to NZIST. A copy of the agreement is attached to this briefing for your consideration and approval.
6. The funding agreement uses a similar approach to previous agreements we have negotiated – in particular, agreements 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.
7. The funding agreement with NZIST sets out:
 - the timing, amounts, terms and conditions for the payment and use of Crown funding consistent with the Cabinet decision;
 - the project plans and business cases that must be developed in accordance with Treasury's Better Business Case guidance, including the development of a Programme Business Case for NZIST's overall integration and transformation work programme;
 - the requirement to undertake independent quality assurance assessments on certain business cases to ensure that the programme of work is being well-managed and governed as strongly as possible;
 - 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;
 - the process and conditions for applying to Joint Ministers to draw-down funding from the \$50 million tagged capital contingency, which was established for the purpose of providing capital injections to support the financial viability of NZIST's subsidiaries; and
 - the monitoring and reporting requirements and a process for establishing and amending targets by which NZIST will be held to account.

8. Further work and planning is needed by NZIST before an appropriate set of targets and milestones can be agreed. As such, the funding agreement does not currently include any targets. However, it requires that NZIST develops quarterly targets for its work programme, and agree those targets with the TEC as soon as possible. This is a key issue we will engage with NZIST on over the coming months. This information will be used for reporting and accountability purposes and will be monitored closely by officials.
9. We will update Ministers on the targets agreed at a later date.

Consultation on the funding agreement

10. The draft funding agreement has been discussed in detail with NZIST. NZIST requested some minor changes, most of which we have now made, and NZIST is now comfortable with the agreement.
11. The Treasury and the Ministry of Education have been consulted on the agreement.

Next steps

12. Once you have approved and signed the funding agreement, it will need to be forwarded to the Minister of Finance for his approval and signature.
13. The draft funding agreement has a start date of 1 September 2020. As such, we are seeking for the funding agreement to be signed by Ministers by no later than 28 August 2020. The agreement will then need to be sent to the Chair of NZIST for his signature. A draft letter to the Chair of NZIST is attached to this briefing.
14. Following this, the TEC and the Ministry of Education will organise payment to NZIST of \$14.9 million. This will be comprised of:
 - \$7.0 million in integration and transformation funding (for the September 2020 quarter);
 - \$4.0 million in capital funding for key systems; and
 - \$3.9 million for physical footprint assessment and evaluation.

Appendix A: Letter to the Chair of NZIST

Murray Strong
Chair
New Zealand Institute of Skills and Technology

By email: Murray.Strong@vocationaleducation.ac.nz

Dear Murray

Funding agreement between the Crown and the New Zealand Institute of Skills and Technology

As per my 23 July 2020 letter to you, Cabinet requires that a funding agreement is established between the Crown and the New Zealand Institute of Skills and Technology (NZIST) for the Government's investment in NZIST. The funding agreement sets out the terms and conditions under which the Crown will make its investment to NZIST. This is important to ensure there is accountability for the funding being provided.

I understand that NZIST's management have engaged with the Tertiary Education Commission (TEC) on the drafting of the funding agreement and that NZIST is comfortable with the agreement.

You will note there are provisions in the agreement which require NZIST to agree a set of quarterly targets for its significant work programme with the TEC as soon as possible. These targets will form part of the agreement and NZIST will be accountable for delivering on these targets. I expect NZIST to prioritise this work and agree the targets with the TEC as soon as practicable.

The Minister of Finance and I have now had an opportunity to carefully consider and approve the funding agreement. Please find attached to this letter a signed copy of the funding agreement. I request that you please sign the funding agreement on behalf of NZIST and return it to my office as soon as possible. Officials will then organise the next payment of funding to NZIST.

Yours sincerely

Chris Hipkins
Minister of Education

cc. Tim Fowler, Chief Executive, Tertiary Education Commission

Andy Jackson, Deputy Secretary, Ministry of Education
Stephen Town, Chief Executive, New Zealand Institute of Skills and Technology