

Cabinet Paper material

Proactive release

Minister & portfolio Hon Chris Hipkins, Minister of Education
Name of package Reform of Vocational Education – Fiscal Implications
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Cabinet Paper: Reform of Vocational Education – Fiscal Implications

Date considered: 26 June 2019, Social Wellbeing Committee

Author: Ministry of Education

Social Wellbeing Committee Minute – SWC-19-MIN-0081

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Cabinet Minute – CAB-19-MIN-0344

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Author: Cabinet Office

Material redacted

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

Budget Sensitive

Office of the Minister of Education

Chair, Cabinet Social Wellbeing Committee

REFORM OF VOCATIONAL EDUCATION – FISCAL IMPLICATIONS

Proposal

1. This paper follows on from a companion paper, “Reform of Vocational Education – Key Decisions”. It addresses the financial implications of the reforms, including agreement to initial funding draw-downs from a contingency set aside for the reforms in Budget 2019.

Background

2. The companion paper proposes that we:
 - 2.1. *Create a New Zealand Institute of Skills & Technology (the Institute)*: A unified, sustainable, public network of regionally accessible vocational education, bringing together the existing 16 Institutes of Technology and Polytechnics (ITPs).
 - 2.2. *Establish Regional Leadership Groups (RLGs)*: RLGs will provide advice about the skills needs of their regions to the Tertiary Education Commission (TEC), Workforce Development Councils, and local vocational education providers. The TEC would take their advice into account when making investment decisions.
 - 2.3. *Create Workforce Development Councils (WDCs)¹ with leadership across the whole vocational education system*: These would be industry-governed bodies, which would ensure vocational education meets the needs of industry and employers.
 - 2.4. *Shift the role of supporting workplace learning from Industry Training Organisations (ITOs) to providers*: the Institute and other providers would deliver education and training in both provider-based and work-based settings to achieve seamless integration between the settings and to be well connected with the needs of industry.
 - 2.5. *Establish Centres of Vocational Excellence (CoVEs)*: CoVEs would drive innovation and excellence in teaching and learning and improve links to industry and communities. They would be established in areas of study of particular importance to New Zealand.
 - 2.6. *Unifying the vocational education funding system*: A unified funding system would apply to all provider-based and work-integrated education at certificate and diploma qualification levels 3-7 (excluding degree study) and all industry training.

Note: unless otherwise stated, all redactions in this paper made in accordance with section 9(2)(f)(iv) of the Official Information Act 1982

¹ Workforce Development Councils (WDCs) were referred to as Industry Skills Bodies (ISBs) during public consultation on the proposed Reform of Vocational Education.

3. The reforms will create a fundamentally new vocational education system, with a different set of institutional arrangements, new and different roles and relationships, and a new unified funding system. This will create a more cohesive system built around the needs of learners, employees, regions and communities. It will help ensure all New Zealanders have the skills, knowledge and capabilities they need to adapt and succeed in a world of rapid change.
4. Most aspects of the proposed reforms have fiscal implications. Budget 2019 set aside \$197.1 million in contingency to manage the costs of implementing the Reform of Vocational Education, though Cabinet noted that additional funding will likely be needed [CAB-19-MIN-0174.40 refers].
5. This paper provides a preliminary assessment of the potential costs of the reforms. They will likely be significantly higher than the amount set aside at Budget 2019. However, I consider that the costs of not committing to these reforms will be higher in the long-run, and that they are outweighed by the potential long-run economic benefits of the reforms, if they are implemented successfully.
6. Through this paper, I seek your agreement to initial draw-downs from the Reform of Vocational Education contingency to:
 - 6.1. implement crucial first steps in the reform programme, including the establishment of the Institute
 - 6.2. support further engagement with employers and industries on the design and roles of WDCs
 - 6.3. ensure the reform programme is appropriately planned and managed.
7. I will report back to Cabinet later in 2019 with a more detailed strategy for managing the fiscal implications of the reforms, including on how some costs will be managed through reprioritisation of existing funding for similar functions and retaining underspends resulting from lower-than-expected learner volumes. I intend to only seek new funding to significantly improve existing functions and for substantively new functions.

The Institute's establishment and transition costs

8. The Programme Business Case for the Reform of Vocational Education includes a range for the total estimated implementation and transition cost for the reform of \$285 to \$395 million (excluding inflation). The bulk of this cost relates to the establishment of, and transition to, the Institute. This section outlines those costs.
9. The establishment of the Institute requires investments to launch it with sufficient capability to design and build an operating model to be the centrepiece of a national network that delivers the education and training our learners, employers and regions need to thrive.
10. The costs involved in establishing the Institute are significant, but so are the risks of inaction. Since the start of 2018, we have needed to provide almost \$100 million in Crown support to ensure the viability of three ITPs. Without transformation of the ITP system, it is inevitable that further funding will be needed, for those same ITPs, and most likely many more.
11. I am recommending that an Establishment business unit within the Ministry of Education is created immediately, and that we approve initial funding from the Reform of Vocational Education contingency to enable this unit to begin building a new kind of tertiary

education institution that partners with employers and learners to deliver the skills they need to prosper.

12. Table 1 provides the current estimates from the Programme Business Case for the establishment of the Institute. The costs outlined in Table 1 reflect the scale and complexity of establishing an entity that is responsible for the new role of supporting work-based learning, as well as the activities of 16 existing ITPs, each with multiple delivery sites, including integrating and upgrading the diverse IT systems across that network of delivery. It also reflects the capability needed to plan and manage delivery across that network. Over time, I expect this consolidation of capability will be more effective and efficient than that of 16 ITPs.
13. As is clear from Table 1, the estimated cost of establishing the Institute exceeds the amount available from the Reform of Vocational Education contingency. I am recommending that Cabinet agree an initial draw-down of \$31.0 million from the Reform of Vocational Education contingency for the first two years of the Institute's establishment (\$17.1 million in 2019/20 and \$13.9 million in 2020/21). I consider this initial investment to be relatively small in the context of the annual Government investment in ITPs through tuition and training subsidies of more than \$500 million per year, and crucial to mitigating future bail-out investments to maintain the status quo.
14. The proposed initial draw down includes institute information technology (IT) costs for 2019/20 only. Significant IT costs beyond the first year will be subject to future Cabinet approval.
15. I intend to propose further draw-downs as part of Cabinet's consideration of an Implementation Business Case for the Institute and a more detailed strategy for managing the costs of reform later this year.
16. The Establishment unit would also be responsible, with support from education and other agencies, for developing an Investment Plan that sets out how it would become a consolidated organisation focussed on delivering sustainable, responsive and high-quality work-based, provider-based and online education across New Zealand.
17. The initial investment in the establishment of the Institute can be managed through draw-downs from the Reform of Vocational Education contingency. I propose that the upcoming Implementation Business Case and the Institute's initial Investment Plan be the basis for future decisions to provide the Institute with further funding to build and embed the capability and systems it needs to succeed. These investments may exceed the funding remaining in the Reform of Vocational Education contingency, meaning that further funding may need to be sought through Budget processes.
18. There may be some scope to manage some of the Institute's establishment costs through reprioritisation of existing funding and leveraging accumulated reserves across the sector. However, this needs to be balanced by enabling reserves built up by existing ITPs to strengthen provision in that region. In addition, while some current ITPs have strong balance sheets, others have significant debt. Managing accumulated reserves and debt will form part of the more detailed strategy for managing the costs of reform that I will present to Cabinet later this year.

Table 1: Indicative Establishment costs for the Institute

\$m	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	TOTAL
Indicative personnel and overhead costs							
Establishment of the Institute (low)	9.7	13.9	13.8	13.2	5.4	0	56.0
Establishment of the Institute (high)	13.7	16.5	15.9	15.3	5.4	0	66.8
Proposed Initial Investment	9.7	13.9	-	-	-	-	23.6
Indicative Information Technology (IT) project costs							
Institute IT Costs (low)	█	█	█	█	█	█	█
Institute IT Costs (high)	█	█	█	█	█	█	█
Proposed Initial IT Investment	█	-	-	-	-	-	█
Total indicative Establishment costs for the Institute and proposed initial investment							
Total Institute Costs (low)	█	█	█	█	█	█	█
Total Institute Costs (high)	█	█	█	█	█	█	█
Proposed Total Initial Investment	█	█	█	█	█	█	█
Note:	<div style="background-color: black; height: 15px; margin-bottom: 5px;"></div> <div style="background-color: black; height: 15px; margin-bottom: 5px;"></div> <div style="background-color: black; height: 15px;"></div>						
<p><i>This initial investment will enable the Establishment unit to:</i></p> <ul style="list-style-type: none"> i. <i>design and implement an operating model (including new capability build), policies and procedures for the Institute (including developing an overall capital investment and asset management strategy), a human resources strategy, and other corporate documents and systems</i> ii. <i>lead a change management programme across the existing ITP campuses to support an effective transition to the Institute</i> iii. <i>commence work to integrate IT systems across its network of campuses, such as financial, student and learning management systems.</i> 							

Ongoing funding of the Institute

19. Currently, the Crown's contribution to ITPs' core overhead costs comes mainly through tuition and training subsidies. As such, the Crown's contribution to the Institute's ongoing core costs may be able to be managed through this revenue stream. As work on the design of the unified funding system for vocational education progresses (discussed in the accompanying Cabinet paper and later in this paper), consideration will be given to whether the Institute's core overhead costs should continue to be managed in this way, or whether an alternative is appropriate.

Establishing new Workforce Development Councils (WDCs)

20. My initial estimate of the cost of establishing WDCs is set out in Table 2. However, I propose that officials carry out further work with industry groups on the number, coverage and details of the roles of WDCs in the second half of 2019 before these figures are finalised.
21. A Cabinet report-back by December 2019 will address future funding arrangements as part of the design of WDCs. I expect to propose a draw-down from the Reform of Vocational Education contingency and other funding arrangements at that time to provide funding to establish a small number of WDCs (e.g. four to seven).
22. Ensuring the effectiveness of WDCs will require on-going investment by Government. Officials have provided a provisional estimate of around [REDACTED] to [REDACTED] million per annum as the potential scale of the necessary Crown investment in WDCs, based on the current costs of similar functions in Industry Training Organisations (ITOs) and the required expansion of activities in WDCs.
23. [REDACTED]
24. I propose to draw down an initial \$1.7 million in funding from the Reform of Vocational Education contingency to provide for the initial establishment of WDCs in 2019/20. [REDACTED]

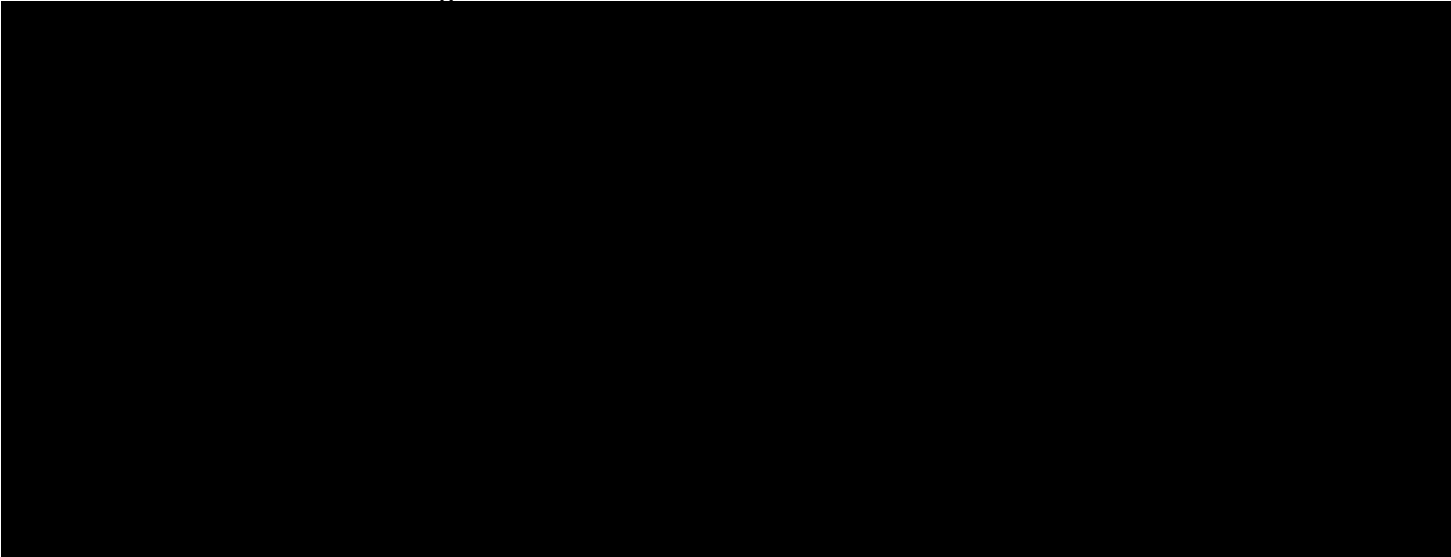
Table 2: Indicative WDC establishment and operating costs

\$m	2019/20	2020/21	2021/22	2022/23	2023/24	Ongoing	4-year TOTAL
WDC Establishment	1.7	2.0	0.9	0.4	0.4	-	5.0
WDC Operating – low	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
WDC Operating – high	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Proposed Initial Investment	1.7	-	-	-	-	-	1.7
<i>This initial funding is for the initial establishment of WDCs in 2020 following further engagement and detailed design work in the second half of 2019. The 4-year total refers to 2019/20 to 2022/23.</i>							

Transferring the role of supporting work-based learning to providers

25. The other core feature of redefining roles in the vocational education system is to shift responsibility for the role of supporting work-based learning from ITOs to providers. This will require careful planning for the shift between ITOs and providers, and clear communication with employers. Providers will also have to invest in building their

capability, especially the Institute as it seeks to build a new kind of organisation with work-based learning at its core.



Regional Leadership Groups (RLGs)

27. RLGs will be an important component of the reforms because they will represent regional employer, iwi and other interests to the consolidated Institute, other regional providers, WDCs and to the TEC. In May, Labour Market Ministers discussed the establishment of RLGs and agreed they would be most appropriately funded and managed from Vote Labour Market, as this positions their functions outside, but directly connected with, the three large government systems (education, social development, immigration) where the RLGs are expected to have impact.
28. As Vote Labour Market has a relatively low baseline, it is unlikely that funding can be made available to commence the establishment of RLGs until 2020/21. I therefore suggest that the Reform of Vocational Education contingency funds establishment costs in 2019/20, and that full operating funding for RLGs will be considered as part of the Minister of Employment's Budget 2020 package. This, however, will be proposed in a Cabinet report back on regional labour market and immigration issues, which is due by August.

Centres of Vocational Excellence (CoVEs)

29. s18(d) [Redacted text block]
30. s18(d) [Redacted text block]

s18(d)

s18(d)

31. s18(d)
32. s18(d)
33. s18(d)

Expertise to ensure the success of the implementation and transition period

34. The Reform of Vocational Education proposes the largest changes to New Zealand's tertiary education and training system in a generation. It will require a significant change management programme in order to manage the risks of the changes. As such, the resources and capabilities necessary to ensure its success, and to implement change at pace, are considerable, and will be required for multiple years.
35. Both the TEC and Ministry of Education have reprioritised resources to develop the proposed reforms, and will continue to do so. Over the 2018/19 year, between half of the Ministry's permanent tertiary policy FTEs have been diverted to support RoVE, supplemented by an additional 8 contract FTEs, all funded out of baselines.
36. However, the scale and complexity of the reforms means that the expertise and workload is unable to be managed within existing baseline funding whilst also delivering on broader Government priorities and 'business as usual' requirements. In addition, the TEC will need to significantly adapt the latter as a result of the reforms.
37. Table 5 outlines the estimates of the funding needed for the TEC and the Ministry to deliver the extensive reform programme. The estimates recognise that the implementation workload will fall mostly on the TEC: it will need to oversee the integration of the current 16 ITPs into the Institute, the transition of the role of supporting work-based learning from ITOs to providers, and the transition from ITOs to WDCs,

whilst also making major changes to its existing business as usual systems to adapt to a fundamentally different tertiary education system.

Table 5: Estimated Programme Costs (excluding inflation)

\$m	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	TOTAL
TEC (low)	9.9	11.2	9.2	8.4	2.8	0.2	41.7
TEC (high)	11.6	12.9	10.9	10.1	4.1	0.3	49.9
Ministry of Education	1.2	1.2	1.2	1.2	-	-	4.8
Proposed Initial Investment							
TEC	8.10	9.20	-	-	-	-	17.3
Ministry of Education	0.85	0.85	-	-	-	-	1.7
Total proposed Initial Investment	8.95	10.05					19.0
<p><i>The proposed initial investment of \$19.0 million for programme costs will support the following activities:</i></p> <ul style="list-style-type: none"> i. <i>programme governance, management and support</i> ii. <i>technical and subject-matter expertise</i> iii. <i>stakeholder engagement, advisory groups, communications and Ministerial servicing</i> iv. <i>independent quality assurance.</i> <p>Note: Agencies' allocations of the \$19.0 million are a pro-rata allocation of the TEC (low) and Ministry cost estimates.</p>							

38. I am recommending that the amount of the first two years of the low profile for the TEC and the amount for the Ministry of Education identified above (\$19.0 million) is drawn down from the Reform of Vocational Education contingency to ensure agencies are able to begin implementing the reforms. Officials will continue to assess and refine the costs of the programme as part of further work in 2019, including the interaction of activities across the programme and the Institute's Establishment unit.

Managing the viability of ITPs prior to the establishment of the Institute

39. [REDACTED]
40. This decline was felt most acutely by ITPs, and is one of the core drivers of the need for these reforms. Cabinet is aware of the financial situation of ITPs, given recent decisions to provide funding injections for Unitec, Tai Poutini Polytechnic (TPP) and Whitireia Community Polytechnic. Such injections are not a solution to underlying sustainability challenges. Although these ITPs have made progress to improve their financial position, additional funding will be needed for TPP and Whitireia in 2019.
41. Earlier in 2019, I was advised that up to \$40 million may be needed in 2019/20 to support the viability of struggling ITPs. The key risk factor for this is enrolments in 2019 and 2020.

42. The April 2019 Single Data Return (SDR) has indicated that enrolments across the ITP sector are around 6 percent lower than at the same time in 2018, which is a decrease of around 2,000 equivalent full-time students (EFTS). Given past enrolment patterns at ITPs, I expect their enrolments will increase over the remainder of 2019, though current enrolment levels indicate there will be under-delivery across ITPs. University EFTS are up around 0.7 percent (770 EFTS) compared to the same time in 2018.
43. This indicates that the long-term, post-GFC decline in demand has not yet been stabilised. The Treasury's recent forecasts of unemployment indicate that the ongoing strength of the labour market – with unemployment forecast to remain around 4 percent – will continue to make an increase in demand challenging to achieve.
44. It is also likely that there will be a short-to-medium term further softening of demand as learners and employers defer engaging in vocational educational until the reforms are embedded. I intend to mitigate this risk by prioritising the needs of learners and employers during transition and implementation and focusing on setting up new capability in critical industries first. A softening of demand will likely result in additional underspends that could further offset the costs of the necessary reforms.
45. At this stage, I have been advised that TPP will need an additional [REDACTED] and Whitireia an additional [REDACTED] in 2019 to support their viability, as shown below. In the case of TPP, the [REDACTED] would be to ensure viability through to the end of 2019. Further support funding may be needed in 2020.

Table 6: Short-term ITP viability funding

[REDACTED]	
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46. [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

Increasing the Reform of Vocational Education contingency with underspends due to soft enrolments

47. Because calendar years are split across fiscal years, fiscal year expenditure is a combination of the last six months of one calendar year and the first six months of the next. This means it is inherently difficult to confidently estimate fiscal year underspends at the end of a calendar year, or early in the following year, particularly given the current instability in the sector. However, based on data available at the end of 2018 and in early 2019, \$60 million of unspent 2018/19 tertiary tuition and training funding was made available for reprioritisation in Budget 2019.

48. As noted above, the April SDR is indicating that demand for tertiary education in 2019 may be lower than in 2018 – particularly across ITPs. While it is too early to draw conclusions about likely full-year enrolments, this does mean that final 2018/19 underspends across Vote Tertiary Education – including for Fees-Free – may be higher than those made available for reprioritisation in Budget 2019 earlier this year.
49. The soft enrolments may also exacerbate the problems and costs that the proposed reforms will address. For that reason, and because the Reform of Vocational Education contingency will not be sufficient to implement the necessary solutions to those problems, I am seeking Cabinet's agreement to direct the additional 2018/19 underspends to the Reform of Vocational Education contingency.
50. Officials have estimated that additional 2018/19 underspends of [REDACTED] to [REDACTED] will become available primarily due to lower-than-expected enrolments in 2019. The full amount will be confirmed later in 2019 following auditing of financial statements for the Vote. The amount to be transferred to the Reform of Vocational Education contingency will therefore be confirmed through the October Baseline Update process.
51. However, because the combination of the Budget 2019 Reform of Vocational Education contingency and additional 2018/19 underspends are likely to be insufficient to meet the costs of implementing reforms to create a strong and sustainable vocational education system, I intend to seek Cabinet's agreement to retain underspends in Vote Tertiary Education over the 2019/20 to 2022/23 period to manage the cost of implementing these reforms.

Summary of proposed investments

52. Table 7 provides a summary of the investments proposed in this paper. The proposed initial investments for implementation total \$69.7 million over four years funded by drawing down an initial \$59.7 million from the Reform of Vocational Education contingency and reprioritising \$5 million per annum of tuition and training funding from Vote Tertiary Education from 2021/22 onwards.
53. If approved, these investments would leave a balance of \$137.432 million in the Reform of Vocational Education contingency, prior to it being replenished through the transfer of the additional 2018/19 underspends proposed above. I expect this balance and the additional underspends will be required.
54. I expect to draw down additional funds from the Reform of Vocational Education contingency, following further work by officials and the establishment bodies in the second half of this year. The approach in this paper leaves operational costs and the remaining fixed term costs to be met through reprioritisation and future Budgets (including the costs of operating the Institute, WDCs, RLGs, [REDACTED])
- [REDACTED]
- [REDACTED]

Table 7: Summary of proposed investments

\$m	2019/20	2020/21	2021/22	2022/23 & ongoing	TOTAL
Investment					
Establishment of the Institute	9.70	13.90	-	-	23.60
Institute IT costs	█	-	-	-	█
Establishment of WDCs	1.70	-	-	-	1.70
Establishment of CoVEs	2.50	5.50	5.00	5.00	18.00
Ministry and TEC Programme costs	8.95	10.05	-	-	19.00
TOTAL	█	█	█	█	█
Funding Source					
Contingency	(30.25)	(29.45)	-	-	(59.70)
Transfer from Student Achievement Component (SAC)	-	-	(5.0)	(5.0)	(10.00)
TOTAL	█	█	█	█	█

55.

Risks, Consultation, Legislative Implications, Impact Analysis, Human Rights, Gender Implications, Disability Perspective, Publicity, Proactive Release

56. For information on these matters, refer to Paper 1, “Reform of Vocational Education – Key Decisions”.

Recommendations

The Minister of Education recommends that the Committee:

1. **note** that the companion paper, “Reform of Vocational Education – Key decisions”, recommends changes to:
 - 1.1. *Create a New Zealand Institute of Skills & Technology (the Institute):* A unified, sustainable, public network of regionally accessible vocational education, bringing together the existing 16 Institutes of Technology and Polytechnics (ITPs)
 - 1.2. *Establish Regional Leadership Groups (RLGs):* RLGs will provide advice about the skills needs of their regions to the Tertiary Education Commission (TEC), Workforce Development Councils, and local vocational education providers; the TEC would take their advice into account when making investment decisions
 - 1.3. *Create Workforce Development Councils (WDCs) with leadership across the whole vocational education system:* These would be industry-governed bodies, which would ensure vocational education meets the needs of industry and employers
 - 1.4. *Shift the role of supporting workplace learning from Industry Training Organisations (ITOs) to providers:* The Institute and other providers would deliver education and training in both provider-based and work-based settings to

achieve seamless integration between the settings and to be well connected with the needs of industry

- 1.5. *Establish Centres of Vocational Excellence (CoVEs)*: CoVEs would drive innovation and excellence in teaching and learning and improve links to industry and communities; they would be established in areas of study of particular importance to New Zealand
- 1.6. *Unifying the vocational education funding system*: A unified funding system would apply to all provider-based and work-integrated education at certificate and diploma qualification levels 3-7 (excluding degree study) and all industry training

Fiscal implications – general recommendations

2. **note** that the full fiscal implications of the Reform of Vocational Education cannot be accurately quantified at this time and will depend on:
 - 2.1. future Cabinet decisions about WDCs, RLGs and CoVES
 - 2.2. future Cabinet decisions on funding that may be sought by the Institute to build new systems and capabilities
 - 2.3. decisions on the design of a unified vocational education funding system
 - 2.4. exogenous factors such as demand for vocational education
3. **note** that the Programme Business Case enclosed as part of this Cabinet package includes indicative costs of between \$285 million and \$395 million (excluding inflation) over seven years for the establishment of the Institute and the reform work programme, although this excludes estimates of the operating costs of WDCs, RLGs and CoVES
4. **note** that in the absence of comprehensive reform, Government will face significant costs to maintain the viability of the current vocational education system through 'bail-out' investments across the current network of ITPs
5. **invite** the Minister of Education to report back to Cabinet by December 2019 with a more detailed strategy for managing the fiscal implications of the Reform of Vocational Education, including managing costs through reprioritisation of existing funding for similar functions
6. **note** that, as part of Budget 2019 [CAB-19-MIN-0174.40 refers], Cabinet:
 - 6.1. agreed to place funding with the profile identified in the following table in contingency to implement the Reform of Vocational Education:

Operating Contingency \$m	2019/20	2020/21	2021/22	2022/23	TOTAL
Reform of Vocational Education	63.532	62.500	41.700	29.400	\$197.132

- 6.2. noted that additional funding will likely be sought at Budget 2020, and that the amount in contingency was not a reflection of the total costs of reforming vocational education

Initial funding for reform proposals

Establishment of New Zealand Institute of Skills & Technology (the Institute)

7. **agree** to create an Establishment business unit within the Ministry of Education for the Institute, and provide it with initial funding of [REDACTED] in 2019/20 and \$13.9 million in 2020/21:

\$m	2019/20	2020/21	2021/22	2022/23	TOTAL
Funding to establish the Institute	9.700	13.900	-	-	23.600
Institute IT costs	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

8. **note** that the amount of the funding referred to in recommendation 7 that is unspent when the Institute is established will be transferred to the Institute upon its establishment
9. **note** that the Treasury is currently assessing how the Institute will be treated for Government financial reporting purposes which could impact the fiscal implications
10. **agree** to delegate authority to the Minister of Finance and the Minister of Education to jointly agree any technical changes to appropriations required for the Establishment unit to transition from being a business unit within the Ministry of Education to the Institute
11. **invite** the Minister of Education to report back to Cabinet on an Implementation Business Case by December 2019 seeking approval for a further draw-down from the Reform of Vocational Education contingency to progress the establishment of the Institute
12. **note** that the Implementation Business Case referred to in recommendation 11 is to progress building the Institute's capability and systems to manage its network of campuses, as part of presenting the detailed strategy for managing the fiscal implications of the Reform of Vocational Education noted in recommendation 5

Establishment of Workforce Development Councils (WDCs)

13. **note** that officials estimate that Crown funding of [REDACTED] to [REDACTED] per annum may be needed for WDCs, though the costs will depend on further design work with employers and industries to better define the scale and scope of their functions and activities
14. **note** that the Minister of Education will report back to Cabinet by December 2019 seeking decisions on funding arrangements for WDCs, including potential draw-downs from the Reform of Vocational Education contingency for 2020/21, [REDACTED]
[REDACTED]
[REDACTED]
15. **agree** that the Government signal its commitment to WDCs by drawing down and announcing the initial funding of \$1.7 million for 2019/20 from the Reform of Vocational Education contingency:

\$m	2019/20	2020/21	2021/22	2022/23	TOTAL
Establishment of WDCs	1.700	-	-	-	1.700

16. **note** [REDACTED]
[REDACTED]

Establishment of Regional Leadership Groups (RLGs)

17. **note** that the Minister of Employment will report to Cabinet in August 2019 with further detail and proposals for the establishment and funding of RLGs

Centres of Vocational Excellence

18. **note** s18(d) [REDACTED]
[REDACTED]

19. **agree** s18(d) [REDACTED]
[REDACTED]

s18(d) [REDACTED]

20. **agree** that:

- 20.1. s18(d) [REDACTED]
[REDACTED]
- 20.2. s18(d) [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

21. **note** s18(d) [REDACTED]
[REDACTED]

Supporting the success of the reforms

22. **note** that the successful implementation of the reforms needs change management, information technology, commercial and legal expertise, particularly to support the integration of 16 ITPs into the Institute and to transition responsibility for industry training from ITOs to providers
23. **note** that both the TEC and the Ministry of Education have reprioritised resources to develop the reforms, and will continue to do so
24. **note** that the TEC will lead the bulk of the implementation alongside needing to implement major changes to its business-as-usual operations as a result of the reforms

25. **agree** to draw down \$19.0 million from the Reform of Vocational Education contingency to resource the work programme over 2019/20 and 2020/21:

\$m	2019/20	2020/21	2021/22	2022/23 & out-years	TOTAL
TEC Programme Costs	8.100	9.200	-	-	17.300
Ministry of Education Programme Costs	0.850	0.850	-	-	1.700
Funding for Rove work programme	8.950	10.050	-	-	19.000

26. **note** that officials will continue to assess and refine the costs of the programme as part of further work in 2019, including the interaction of activities across the programme and the Institute's Establishment business unit

27. **note** [REDACTED]

Changes to Appropriations

28. **agree** to establish the following new appropriation:

Vote	Appropriation Minister	Title	Type	Scope
Tertiary Education	Minister of Education	Establishing a Single National Vocational Education Institution	Departmental Output Expense	This appropriation is limited to expenses incurred in establishing a single national vocational education institution

29. **approve** the following changes to appropriations for initial implementation of the Reform of Vocational Education, with a corresponding impact on the operating balance:

	\$m - increase / (decrease)				
Vote Tertiary Education Minister of Education	2019/20	2020/21	2021/22	2022/23	2023/24 & outyears
Departmental Output Expense: Establishing a Single National Vocational Education Institution (funded by revenue Crown)	17.100	13.900	-	-	-
Multi-Category Expenses and Capital Expenditure: Stewardship of the Tertiary Education System MCA Departmental Output Expense: Policy Advice (funded by revenue Crown)	0.850	0.850	-	-	-
Tertiary Tuition and Training MCA Non-departmental Output Expense: Tertiary Education: Student Achievement Component	-	-	(5.000)	(5.000)	(5.000)

	\$m - increase / (decrease)				
Vote Tertiary Education Minister of Education	2019/20	2020/21	2021/22	2022/23	2023/24 & outyears
Non-departmental Output Expenses:					
Administration of and Support for the Tertiary Education and Careers Systems	8.600	9.700	-	-	-
Tertiary Sector / Industry Collaboration Projects	3.700	5.000	5.000	5.000	5.000
Total Operating	30.250	29.450	-	-	-

30. **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
31. **note** that the changes to appropriations in recommendation 29 in 2019/20 and 2020/21 will have the following impact on the Reform of Vocational Education contingency set aside at Budget 2019:

	\$m increase/(decrease)					
Contingency – Reform of Vocational Education	2019/20	2020/21	2021/22	2022/23	2023/24	TOTAL
Budget 2019 balance	63.532	62.500	41.700	29.400	-	197.132
Appropriations above:						
Establishment of the New Zealand Institute of Skills and Technology	(17.100)	(13.900)	-	-	-	(31.000)
Establishment of Workforce Development Councils	(1.700)	-	-	-	-	(1.700)
s18(d)						
Ministry and TEC Programme Costs	(8.950)	(10.050)	-	-	-	(19.000)
Balance	s18(d)					

Managing near-term costs and risks

Supporting the viability of unsustainable ITPs

32. **note** that officials have previously advised that up to \$40 million may be needed in 2019/20 to support the viability of high-risk ITPs
33. **authorise** the Minister of Finance and Minister of Education to jointly agree draw-downs from the Reform of Vocational Education contingency of up to [REDACTED] for Tai Poutini Polytechnic (TPP) and [REDACTED] to Whitireia Community Polytechnic (Whitireia) to support the viability of these institutions
34. **invite** [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

Increasing the Reform of Vocational Education contingency through a transfer of final 2018/19 underspends

35. **note** that because calendar years are split across fiscal years, fiscal year expenditure is a combination of the last six months of one calendar year and the first six months of the next, making it difficult to accurately estimate fiscal year underspends at the end of or early in a calendar year
36. **note** that \$60 million of unspent 2018/19 tertiary tuition and training funding was reprioritised as part of Budget 2019, which was the best estimate of available underspends when Budget 2019 was finalised
37. **note** that additional underspends across funding administered by the Tertiary Education Commission of between [REDACTED] and [REDACTED] in the 2018/19 year are now expected
38. **note** that these additional underspends arise from the following appropriations: Tertiary Scholarships and Awards; Tertiary Sector / Industry Collaboration Projects; University-led Innovation; and the Tertiary Tuition and Training Multi-Category Appropriation (MCA)
39. **agree-in-principle** to increase the Reform of Vocational Education Contingency by an amount up to [REDACTED], equal to the level of underspent funding across the appropriations in recommendation 38, subject to confirmation of the amounts in the final audited 2018/19 financial accounts
40. **note** that the fiscal impact from recommendation 39 will result in a reduction in the operating balance before gains and losses in 2019/20 but is fiscally neutral on net debt
41. **authorise** the Minister of Finance and Minister of Education to confirm the final amount of the increase to the Reform of Vocational Education contingency proposed by recommendation 39 through the October Baseline Update (OBU)

Increasing the Reform of Vocational Education contingency through future underspends

42. **note** that, following the draw-downs proposed in recommendation 29, and with the addition of 2018/19 underspends proposed by recommendation 39, the balance of the Reform of Vocational Education contingency is expected to be up to [REDACTED] following OBU
43. **note** that this leaves an estimated funding shortfall of [REDACTED] to [REDACTED] to meet the establishment and transition costs set out in the Programme Business Case, excluding funding to support short-to-medium term ITP viability
44. **note** that I intend to seek Cabinet's agreement on an annual basis to retain underspends resulting from demand for tertiary tuition and training being lower than the level able to be funded by the Tertiary Tuition and Training MCA to help manage the cost of implementing the Reform of Vocational Education across the 2019/20 to 2022/23.

Authorised for lodgement

Hon Chris Hipkins

Minister of Education



Cabinet Social Wellbeing Committee

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.

Reform of Vocational Education - Fiscal Implications

Portfolio **Education**

On 26 June 2019, the Cabinet Social Wellbeing Committee **referred** the submission under SWC-19-SUB-0081 to Cabinet on 22 July 2019 for further consideration.

Gerrard Carter
Committee Secretary

Present:

Rt Hon Jacinda Ardern
Rt Hon Winston Peters
Hon Phil Twyford
Hon Chris Hipkins
Hon Andrew Little
Hon Dr David Clark
Hon Nanaia Mahuta
Hon Stuart Nash
Hon Tracey Martin (Chair)
Hon Peeni Henare
Jan Logie, MP

Officials present from:

Office of the Prime Minister
Office of the Chair
Office of the Deputy Chair
Officials Committee for SWC

Hard-copy distribution:

Minister of Education



Cabinet

Minute of Decision

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Report of the Cabinet Social Wellbeing Committee: Period Ended 28 June 2019

On 1 July 2019, Cabinet made the following decisions on the work of the Cabinet Social Wellbeing Committee for the period ended 28 June 2019:

[REDACTED]	[REDACTED]	[REDACTED]
	[REDACTED]	
	[REDACTED]	
[REDACTED]	[REDACTED]	[REDACTED]
	[REDACTED]	
	[REDACTED]	
[REDACTED]	[REDACTED]	[REDACTED]
	[REDACTED]	
	[REDACTED]	
[REDACTED]	[REDACTED]	[REDACTED]
	[REDACTED]	
	[REDACTED]	
SWC-19-MIN-0081	Reform of Vocational Education – Fiscal Implications	CONFIRMED
	Portfolio: Education	<i>[Referred to Cabinet on 22 July 2019]</i>
[REDACTED]	[REDACTED]	[REDACTED]
	[REDACTED]	
[REDACTED]	[REDACTED]	[REDACTED]
	[REDACTED]	
	[REDACTED]	
[REDACTED]	[REDACTED]	[REDACTED]
	[REDACTED]	
	[REDACTED]	

Redactions made as content outside of scope of Minister's portfolio responsibility

[REDACTED]	[REDACTED]	[REDACTED]
	[REDACTED]	
	[REDACTED]	
[REDACTED]	[REDACTED]	[REDACTED]
	[REDACTED]	
	[REDACTED]	
[REDACTED]	[REDACTED]	[REDACTED]
	[REDACTED]	[REDACTED]
	[REDACTED]	
[REDACTED]	[REDACTED]	[REDACTED]
	[REDACTED]	
	[REDACTED]	
[REDACTED]	[REDACTED]	[REDACTED]
	[REDACTED]	
	[REDACTED]	
[REDACTED]	[REDACTED]	[REDACTED]
	[REDACTED]	
	[REDACTED]	

Redactions made as content outside of scope of Minister's portfolio responsibility

Michael Webster
Secretary of the Cabinet

Hard-copy distribution:
Cabinet Social Wellbeing Committee
Minister of Housing



Cabinet

Minute of Decision

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Reform of Vocational Education - Fiscal Implications

Portfolio **Education**

On 22 July 2019, following reference from the Cabinet Social Wellbeing Committee, Cabinet:

- 1 **noted** that on 22 July 2019, Cabinet agreed to proposals on the reform of vocational education, including:
 - 1.1 creating a New Zealand Institute of Skills and Technology (the Institute): a unified, sustainable, public network of regionally accessible vocational education, bringing together the existing 16 Institutes of Technology and Polytechnics (ITPs);
 - 1.2 establishing Regional Leadership Groups (RLGs): RLGs will provide advice about the skills needs of their regions to the Tertiary Education Commission (TEC), Workforce Development Councils, and local vocational education providers; the TEC would take their advice into account when making investment decisions;
 - 1.3 creating Workforce Development Councils (WDCs) with leadership across the whole vocational education system: these would be industry-governed bodies, which would ensure vocational education meets the needs of industry and employers;
 - 1.4 shifting the role of supporting workplace learning from Industry Training Organisations (ITOs) to providers: the Institute and other providers would deliver education and training in both provider-based and work-based settings to achieve seamless integration between the settings and to be well connected with the needs of industry;
 - 1.5 establishing Centres of Vocational Excellence (CoVEs): CoVEs would drive innovation and excellence in teaching and learning and improve links to industry and communities; they would be established in areas of study of particular importance to New Zealand;
 - 1.6 unifying the vocational education funding system: a unified funding system would apply to all provider-based and work-integrated education at certificate and diploma qualification levels 3-7 (excluding degree study) and all industry training;

[CAB-19-MIN-0354]

Note: unless otherwise stated, all redactions in this Cabinet minute are made in accordance with s9(2)(f)(iv) of the Official Information Act 1982.

Fiscal implications – general decisions

- 2 **noted** that the full fiscal implications of the Reform of Vocational Education cannot be accurately quantified at this time and will depend on:
- 2.1 future Cabinet decisions about WDCs, RLGs and CoVES;
 - 2.2 future Cabinet decisions on funding that may be sought by the Institute to build new systems and capabilities;
 - 2.3 decisions on the design of a unified vocational education funding system;
 - 2.4 exogenous factors such as demand for vocational education;
- 3 **noted** that the Programme Business Case enclosed as part of this Cabinet package includes indicative costs of between \$285 million and \$395 million (excluding inflation) over seven years for the establishment of the Institute and the reform work programme, although this excludes estimates of the operating costs of WDCs, RLGs and CoVES;
- 4 **noted** that in the absence of comprehensive reform, the government will face significant costs to maintain the viability of the current vocational education system through ‘bail-out’ investments across the current network of ITPs;
- 5 **invited** the Minister of Education to report to Cabinet by December 2019 with a more detailed strategy for managing the fiscal implications of the Reform of Vocational Education, including managing costs through reprioritisation of existing funding for similar functions;
- 6 **noted** that, as part of Budget 2019, Cabinet:
- 6.1 agreed to place funding with the profile identified in the following table, in a contingency to implement the Reform of Vocational Education:

Operating Contingency \$m	2019/20	2020/21	2021/22	2022/23	TOTAL
Reform of Vocational Education	63.532	62.500	41.700	29.400	\$197.132

- 6.2 noted that additional funding will likely be sought at Budget 2020, and that the amount in contingency was not a reflection of the total costs of reforming vocational education;

[CAB-19-MIN-0174.40]

Initial funding for reform proposals**Establishment of New Zealand Institute of Skills & Technology (the Institute)**

- 7 **agreed** to create an Establishment business unit within the Ministry of Education for the Institute, and provide it with initial funding of \$17.1 million in 2019/20 and \$13.9 million in 2020/21:

\$m	2019/20	2020/21	2021/22	2022/23	TOTAL
Funding to establish the Institute	9.700	13.900	-	-	23.600
Total					

- 8 **noted** that the amount of the funding referred to in paragraph 7 that is unspent when the Institute is established will be transferred to the Institute upon its establishment;
- 9 **noted** that the Treasury is currently assessing how the Institute will be treated for government financial reporting purposes which could impact the fiscal implications;
- 10 **authorised** the Minister of Finance and the Minister of Education to jointly agree any technical changes to appropriations required for the Establishment unit to transition from being a business unit within the Ministry of Education to the Institute;
- 11 **invited** the Minister of Education to report back to Cabinet on an Implementation Business Case by December 2019 seeking approval for a further draw-down from the Reform of Vocational Education contingency to progress the establishment of the Institute;
- 12 **noted** that the Implementation Business Case referred to in paragraph 11 is to progress building the Institute's capability and systems to manage its network of campuses, as part of presenting the detailed strategy for managing the fiscal implications of the Reform of Vocational Education noted in paragraph 5;

Establishment of Workforce Development Councils

- 13 **noted** that officials estimate that Crown funding of [REDACTED] to [REDACTED] per annum may be needed for WDCs, though the costs will depend on further design work with employers and industries to better define the scale and scope of their functions and activities;
- 14 **noted** that the Minister of Education will report back to Cabinet by December 2019 seeking decisions on funding arrangements for WDCs, including potential draw-downs from the Reform of Vocational Education contingency for 2020/21, [REDACTED]
- 15 **agreed** that the government signal its commitment to WDCs by drawing down and announcing the initial funding of \$1.7 million for 2019/20 from the Reform of Vocational Education contingency:

\$m	2019/20	2020/21	2021/22	2022/23	TOTAL
Establishment of WDCs	1.700	-	-	-	1.700

- 16 **noted** [REDACTED]

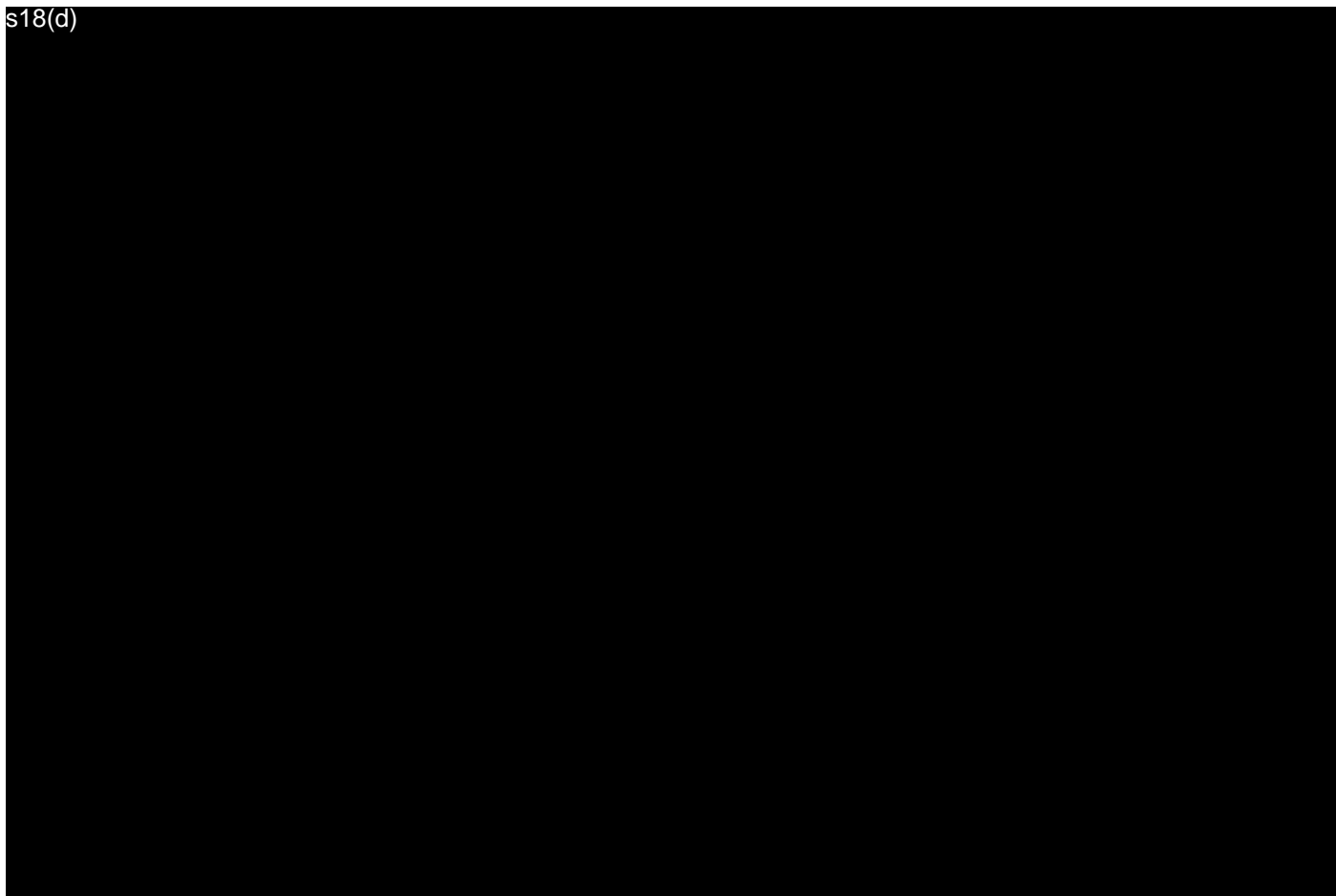
Establishment of Regional Leadership Groups

- 17 **noted** that a paper on the establishment and funding of RLGs will be considered by the SWC at its meeting on 24 July 2019 [SWC-19-SUB-0087];

Centres of Vocational Excellence

s18(d)

s18(d)



Supporting the success of the reforms

- 22 **noted** that the successful implementation of the reforms needs change management, information technology, commercial and legal expertise, particularly to support the integration of 16 ITPs into the Institute and to transition responsibility for industry training from ITOs to providers;
- 23 **noted** that both the TEC and the Ministry of Education have reprioritised resources to develop the reforms, and will continue to do so;
- 24 **noted** that the TEC will lead the bulk of the implementation alongside needing to implement major changes to its business-as-usual operations as a result of the reforms;
- 25 **agreed** to draw down \$19.0 million from the Reform of Vocational Education contingency to resource the work programme over 2019/20 and 2020/21:

\$m	2019/20	2020/21	2021/22	2022/23 & out-years	TOTAL
TEC Programme Costs	8.100	9.200	-	-	17.300
Ministry of Education Programme Costs	0.850	0.850	-	-	1.700
Funding for Rove work programme	8.950	10.050	-	-	19.000

- 26 **noted** that officials will continue to assess and refine the costs of the programme as part of further work in 2019, including the interaction of activities across the programme and the Institute's Establishment business unit;

27

noted

Changes to Appropriations28 **agreed** to establish the following new appropriation:

Vote	Appropriation Minister	Title	Type	Scope
Tertiary Education	Minister of Education	Establishing a Single National Vocational Education Institution	Departmental Output Expense	This appropriation is limited to expenses incurred in establishing a single national vocational education institution

29 **approved** the following changes to appropriations for initial implementation of the Reform of Vocational Education, with a corresponding impact on the operating balance:

Vote Tertiary Education Minister of Education	\$m - increase / (decrease)				
	2019/20	2020/21	2021/22	2022/23	2023/24 & outyears
Departmental Output Expense: Establishing a Single National Vocational Education Institution (funded by revenue Crown)	17.100	13.900	-	-	-
Multi-Category Expenses and Capital Expenditure: Stewardship of the Tertiary Education System MCA Departmental Output Expense: Policy Advice (funded by revenue Crown)	0.850	0.850	-	-	-
Tertiary Tution and Training MCA Non-departmental Output Expense: Tertiary Education: Student Achievement Component	-	-	(5.000)	(5.000)	(5.000)

Vote Tertiary Education Minister of Education	\$m - increase / (decrease)				
	2019/20	2020/21	2021/22	2022/23	2023/24 & outyears
Non-departmental Output Expenses: Administration of and Support for the Tertiary Education and Careers Systems	8.600	9.700	-	-	-
Tertiary Sector / Industry Collaboration Projects	3.700	5.000	5.000	5.000	5.000
Total Operating	30.250	29.450	-	-	-

- 30 **agreed** that the 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;
- 31 **noted** that the changes to appropriations in paragraph 29 in 2019/20 and 2020/21 will have the following impact on the Reform of Vocational Education contingency set aside at Budget 2019:

Contingency – Reform of Vocational Education	\$m increase/(decrease)					TOTAL
	2019/20	2020/21	2021/22	2022/23	2023/24	
Budget 2019 balance	63.532	62.500	41.700	29.400	-	197.132
Appropriations above:						
Establishment of the New Zealand Institute of Skills and Technology:						
Establishment of Workforce Development Councils	(1.700)	-	-	-	-	(1.700)
s18(d)	s18(d)	s18(d)	-	-	-	s18(d)
Ministry and TEC Programme Costs	(8.950)	(10.050)	-	-	-	(19.000)
Balance	s18(d)		41.700	29.400	-	s18(d)

Managing near-term costs and risks

Supporting the viability of unsustainable ITPs

- 32 **noted** that officials have previously advised that up to \$40 million may be needed in 2019/20 to support the viability of high-risk ITPs;
- 33 **authorised** the Minister of Finance and Minister of Education to jointly agree draw-downs from the Reform of Vocational Education contingency of up to [REDACTED] for Tai Poutini Polytechnic (TPP) and [REDACTED] to Whitireia Community Polytechnic (Whitireia) to support the viability of these institutions;

- 34 **invited** [REDACTED]

Increasing the Reform of Vocational Education contingency through a transfer of final 2018/19 underspends

- 35 **noted** that because calendar years are split across fiscal years, fiscal year expenditure is a combination of the last six months of one calendar year and the first six months of the next, making it difficult to accurately estimate fiscal year underspends at the end of or early in a calendar year;
- 36 **noted** that \$60 million of unspent 2018/19 tertiary tuition and training funding was reprioritised as part of Budget 2019, which was the best estimate of available underspends when Budget 2019 was finalised;
- 37 **noted** that additional underspends across funding administered by the Tertiary Education Commission of between [REDACTED] and [REDACTED] in the 2018/19 year are now expected;

- 38 **noted** that these additional underspends arise from the following appropriations: Tertiary Scholarships and Awards; Tertiary Sector / Industry Collaboration Projects; University-led Innovation; and the Tertiary Tuition and Training Multi-Category Appropriation (MCA);
- 39 **agreed-in-principle** to increase the Reform of Vocational Education Contingency by an amount up to [REDACTED], equal to the level of underspent funding across the appropriations in paragraph 38, subject to confirmation of the amounts in the final audited 2018/19 financial accounts;
- 40 **noted** that the fiscal impact from paragraph 39 will result in a reduction in the operating balance before gains and losses in 2019/20 but is fiscally neutral on net debt;
- 41 **authorised** the Minister of Finance and the Minister of Education to confirm the final amount of the increase to the Reform of Vocational Education contingency proposed by paragraph 39 through the October Baseline Update (OBU);

Increasing the Reform of Vocational Education contingency through future underspends

- 42 **noted** that, following the draw-downs proposed in paragraph 29, and with the addition of 2018/19 underspends proposed by paragraph 39, the balance of the Reform of Vocational Education contingency is expected to be up to [REDACTED] following the OBU;
- 43 **noted** that this leaves an estimated funding shortfall of [REDACTED] to [REDACTED] to meet the establishment and transition costs set out in the Programme Business Case, excluding funding to support short-to-medium term ITP viability;
- 44 **noted** that the Minister of Education intends to seek Cabinet's agreement on an annual basis to retain underspends resulting from demand for tertiary tuition and training being lower than the level able to be funded by the Tertiary Tuition and Training MCA to help manage the cost of implementing the Reform of Vocational Education across the 2019/20 to 2022/23.

Martin Bell
for Secretary of the Cabinet

Secretary's note: *This minute has been revised to correct the financial table in paragraph 31.*

Hard-copy distribution:

Prime Minister
Deputy Prime Minister
Minister of Education