



# Report: Draft Cabinet papers - Vocational Education and Training funding

To:	Hon Penny Simmonds, Minister for Vocational Education		
Cc:	Hon Dr Shane Reti - Minister for Universities Hon Erica Stanford, Minister of Education		
Date:	27/02/2025	Deadline:	6/03/2025
Security Level:	Budget Sensitive	Priority:	High
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## Why are we sending this to you?

- This report seeks your feedback on two draft Cabinet papers:
  - A redesigned vocational education and training system – funding settings (Annex A)
  - Funding reprioritisation to support strategically important vocational education and training (Annex B)
- Your prompt feedback on these papers is critical to meeting the timeframe for these papers to be considered by the Cabinet Economic Policy Committee (ECO) on Wednesday 26 March 2025.

## What action do we need, by when?

- We are seeking to discuss the content of this report and the attached Cabinet papers at your meeting with officials on Tuesday 4 March 2025.
- We require your feedback on both papers by Thursday 6 March 2025. This will enable us to update them ahead of agency and ministerial consultation which begins on Monday 10 March 2025.
- We also strongly recommend providing the draft savings paper to the Minister of Finance for feedback before progressing to broader Ministerial consultation.

## Key facts, issues and questions

- Our high-level analysis has identified a number of risks related to the removal of Tūwhitia, Te Tahua o te Reo Kairangi, and Ako Aotearoa.
- There are a number of interdependencies between the proposals outlined in these papers and your Tertiary Budget 2025 package. Feedback from the Minister of Finance on the proposals is needed before progressing them to Ministerial consultation.
- We would appreciate your feedback on the kinds of investments you anticipate section 556 grants being used for.

## Alignment with Government priorities

1. This report supports the Government's commitment to disestablish Te Pūkenga and replace it with a more agile, regionally responsive network of vocational educational institutions.

## Background

2. In December 2024, the Social Outcomes Cabinet committee (SOU), with power to act, took decisions on the future direction of the Vocational Education and Training (VET) system, including authorising you to issue drafting instructions to the Parliamentary Counsel Office (PCO) for a bill to amend the Education and Training Act 2020 (the Act), to give effect to those decisions [SOU-24-MIN-0174 refers].
3. Cabinet also invited you to report back, in consultation with the Minister of Social Development and Employment, in March of this year on options to support strategically important provision, including transitional funding reprioritised from within existing baselines [SOU-24-MIN-0174 refers].

## Draft Cabinet papers

4. You have indicated your intention to use savings of approximately \$15 million to support strategically important provision. The \$15 million savings are being drawn from agency operating baselines and administered funding.
5. To manage the complexity of the funding proposals you are asking Cabinet to agree to, we have separated them into two papers:
  - 5.1. Cabinet paper A (Annex A) – A redesigned vocational education and training system – funding settings; and
  - 5.2. Cabinet paper B (Annex B) – Funding reprioritisation to support strategically important vocational education and training.
6. Both papers will progress through Ministerial consultation together, with the intention that you present both of them to ECO on 26 March 2025. Treasury set the expectation for two separate Cabinet papers to provide greater transparency of decision-making for agency savings and their use.
7. **Draft cabinet paper A** seeks agreement to a number of modest, fiscally neutral changes to the way VET is currently funded. These changes are intended to support the stability of the system as it transitions, and the sustainability of the future system. The paper also sets out an approach to supporting strategically important provision.
8. **Draft Cabinet paper B** seeks Cabinet's agreement to implement savings from agencies funded by Vote Tertiary Education, amounting to \$15 million per annum.
9. There are drafting notes in Cabinet paper B where decisions are outstanding. Timeframes for progressing this work are tight, and therefore we are providing this paper to you now to allow you to consult with your colleagues to finalise decisions before broader Ministerial consultation.
10. We will conduct agency consultation in parallel with Ministerial consultation. Both consultations are intended to occur from Monday 10 to Wednesday 19 March 2025. Draft Cabinet paper B will undergo targeted consultation only with Central Agencies due to the sensitive nature of the proposals. Impacted agencies are aware of the recommendations.

## Early engagement with the Minister of Finance

11. On 27 February, you sent the Minister of Finance a letter seeking early approval to progress the TEC's operating baseline savings [METIS 1343140 refers]. This is to ensure that the TEC is able to progress organisational change proposals in order to realise

savings by the beginning of 2025/26. The letter also drew attention to wider savings interactions with Budget.

12. As noted in that letter, there will not be a Vote Tertiary Education bilateral meeting. anticipated that the bilateral would provide an opportunity to discuss the interaction between the Budget package and the VET funding work. Our view is that this amplifies the need to test an initial draft of the Cabinet paper seeking agreement to savings and its interaction with the Budget process.
13. Given the interdependencies between Cabinet paper B and your wider VET change programme, we strongly advise you test your draft proposals with the Minister of Finance. We recommend you share the attached draft with the Minister of Finance as soon as possible. We note that if the savings proposal is not supported, we would need to explore alternative funding sources, such as an additional Budget initiative or using funding from the Te Pūkenga contingency.

## **A balanced approach to funding changes for the VET system (draft Cabinet paper A)**

14. We have met with Treasury officials to discuss the proposed package of changes to the VET system. Treasury emphasised the importance of having a clear rationale for short term/transitional support, balanced with a view of how long-term funding settings will support a sustainable and financially viable VET system.
15. To address this, draft Cabinet paper A clearly differentiates between transitional support (section 556 grants for institutes of technology and polytechnics [ITPs] and transitional support for strategically important provision) and longer-term funding settings (changes to funding rates and ongoing funding for standards-setting).
16. The draft Cabinet paper notes that the ITP sector is undergoing significant change, and the final composition of the future ITP network is not yet clear. The focus for the transition is on preserving important provision, while future work will consider which organisations are best placed to deliver that provision and funding settings for incentivising and supporting it.
17. We would like your feedback on some text we have drafted (paragraph 35 of Cabinet paper A) noting that you plan to review how strategically important provision is supported in the second half of 2026. We think this will help address potential concerns that funding proposals are disproportionately focused on supporting ITPs. By the second half of 2026 the future state of the ITP network and work-based learning arrangements will be clearer, and ITPs will have begun engaging with their communities on the core provision needed in their region. A review at this time could consider the network of provision as a whole, including long-term options to support private and public providers to deliver on the core provision needs of communities.
18. We have included your preferred option of a \$15 million criteria-based fund to support strategically important provision combined with \$5 million reprioritised from volume funding for grants under section 556 where special circumstances arise that you consider are in the national interest.
19. We would appreciate your feedback on the kinds of investments you anticipate section 556 grants being used for. We can then note some examples in the Cabinet paper to help Cabinet understand the purpose of the different funding streams in supporting the transition (i.e. the \$15 million criteria-based fund, the \$5 million reprioritised from volume, and the VET redesign Budget contingency). We would like to discuss this with you as part of your meeting with agency officials on Tuesday 4 March.
20. We have not included any proposals on changes to eligibility for domestic subsidies of non-domestic learners, following your agreement to retain current eligibility settings [METIS 1341652 refers].
21. 9(2)(f)(iv)

## Connections with other VET work

22. Draft Cabinet paper A also provides an update on the work underway in the ITP sector to achieve financial viability (the implementation of ITP financial improvement plans). This is intended to reassure Cabinet that progress is being made, in preparation for decisions on the future of independent ITPs to be taken in June.
23. The Ministry for Pacific Peoples, Te Puni Kokiri, Whaikaha and the Ministry of Social Development (MSD) also have an interest in the funding work. We have updated officials with your decision to only reprioritise Learner Component funding linked to Māori and Pacific learner enrolments [METIS 1343207 refers]. We will continue to work with these agencies, particularly MSD, as we prepare for the Joint Ministers' June report back to Cabinet on the impact of the VET redesign on disadvantaged learners and the Government's job-seeker targets.

## Understanding the cumulative impact of the changes

24. You are proposing a number of changes to VET funding that may be complex for your Cabinet colleagues less familiar with the VET system to understand. To support an understanding of the overall impact of the changes, we have developed an annex summarising the proposals (Annex A1).
25. Due to the pace at which decisions have been made, we have not yet had time to model the cumulative impact of the changes on individual providers or subsectors. However, we have provided a summary of the impact on work-based learning and provider-based learning for each of the funding categories (Annex A2), and noted the overall change in delivery funding for work-based and provider-based delivery rates.
26. We will provide you with additional material, including an overview of the trade-offs associated with funding proposals, to support ministerial consultation.

## Funding reprioritisation to support strategically important vocational education and training (draft Cabinet paper B)

27. At the end of 2024, you set indicative savings expectations for the Ministry, the Tertiary Education Commission (TEC) and Education New Zealand (ENZ). On 11 February 2025, we provided you with initial advice on potential sources for savings, including reprioritisation of funds established by the previous government that are administered by the TEC to meet the full \$15 million savings target [METIS 1342160 refers]. These included funds for:
  - project development (the Tūwhitia – Accelerating Learner Success fund); and
  - supporting higher-level te reo Māori programmes (the Te Tahua o te reo Kairangi fund).
28. You also agreed that the TEC should progress concluding its contracts with Ako Aotearoa.
29. We have included the savings proposals in the attached Cabinet paper B.
30. We have now undertaken further, albeit non-comprehensive, analysis, and are providing you with high-level advice on potential impacts associated with the disestablishment of these funds. This advice ensures you are briefed on potential risks and our assessment of them to support you in your conversations with your colleagues – and stakeholders more generally – as it is likely you will receive questions and/or comments.
31. 9(2)(g)(i)

32. This work has been undertaken at a rapid pace and, as a result, we have not had the opportunity to do a comprehensive analysis of policy implications, meaning we have not conducted sector consultation or a comparison with previous examples of similar funding being cut either in New Zealand or overseas. This means we do not have a full understanding of the possible impacts. To manage this and ensure you have sufficient visibility to support your decision-making, we have outlined the key risks and trade-offs associated with reprioritising funding away from each of these three funds. The risks primarily centre on the lack of consultation leading to legal risk and heightened risk of judicial review. These are detailed in the sections below. A brief analysis of the funding changes in relation to the Treaty of Waitangi is also covered in paragraphs 48 to 51 below.
33. Analysis over the risks and impacts of reductions to agency operating baselines have been covered in detail in previous reports [METIS 1341368 and 1341600 refer].

### **The Accelerating Learner Success Fund (Tūwhitia)**

34. The contestable Tūwhitia fund was established by Cabinet in 2023 [CAB-23-MIN-0296 refers] to assist TEOs who are developing promising learner success initiatives to get the initiatives off the ground and achieve results more quickly. The TEC is seeing positive shifts in performance through the learner success approach, such as increased retention and course completion rates for Māori and Pacific learners. Tūwhitia was intended to improve upon and accelerate these existing learner success approaches.
35. Your colleagues may query the impacts of stopping funding for these learner success initiatives. If the Tūwhitia fund is disestablished, the three existing contracts would likely not be able to run through to the end of their term, and the intended benefits of investment to date may not be realised.
36. You have made clear your expectation that tertiary education and training providers be responsible for ensuring the success of learners as part of their general operations from their core tuition subsidy funding. You have indicated that the TEC should set stronger expectations for providers to use their core tuition subsidy funding to drive improvements in achievement, rather than expecting additional funding to support this.
37. On 28 February, we provided a draft Letter of Expectations for you and the Minister for Universities to send to the TEC to emphasise this expectation [METIS 1342642 refers].

### **The Te Tahua o te Reo Kairangi fund (Te Tahua)**

38. Te Tahua was introduced in Budget 2022 [CAB-22-MIN-0129 refers] to support new or expanded delivery that results in highly proficient te reo Māori speakers, either by teaching te reo Māori directly or by delivering education in immersion settings. It was established to address perceived shortfalls in the Government's fulfilment of its obligations to protect te reo Māori as a taonga under the Treaty of Waitangi | Te Tiriti o Waitangi (the Treaty).
39. The TEC has advised that the quality of recent applications does not support the continuation of Te Tahua. However, disestablishing this fund may be perceived as the Government not prioritising te reo Māori provision at higher levels, and could be interpreted as not meeting Treaty obligations (see Treaty analysis below). However, This fund therefore may not be an effective way to support te reo Māori learning and delivery. Moreover, tuition subsidies for te reo courses have risen by greater amounts than other courses over the past few years (also introduced as recognition of te reo Māori as a taonga), providing additional support for these courses.

### **Ako Aotearoa (Ako)**

40. The TEC currently has two contracts with Ako, both funded through 30 June 2026:



- the National Centre for Tertiary Teaching Excellence (NCTTE; its purpose is to lift the capability of tertiary teaching), funded through grants; and
- the Adult Literacy, Numeracy and Cultural Capability (ALNACC) programme (designed to build a language, literacy, numeracy, and cultural capability programme for educators who work with adult learners), funded through the TEC's operational budget.

41. These are the contracts mentioned in previous advice [METIS 1342160 refers] which, if ceased, would provide savings of \$4.706 million per annum. 9(2)(g)(i)

### *System-level implications*

42. At a system level, disestablishing Ako will mean less support and visibility for tertiary teaching training and professional development. While Ako services are not used by the whole sector, ending the contracts with Ako may be seen as a lack of recognition of the importance of teacher capability, particularly for foundation education and teaching of disadvantaged learners. The ALNACC contract is currently well regarded by the sector.
43. The impact on specific TEOs will depend on the extent to which they use and value Ako's services. Uptake of professional development may reduce if affected TEOs cannot find affordable alternatives. The range of professional development available, particularly for literacy, numeracy, and cultural capability, may also decrease.
44. Disestablishing Ako also removes the option of government refocusing the centre to support specific sector objectives; however, we note that TEC efforts to improve Ako's reach and performance have had limited success.

### *Practical considerations for disestablishing Ako*

45. The NCTTE is funded through a grant administered under a Ministerial funding determination. Following Cabinet decisions, you will need to write to the TEC to formally revoke the funding determination. 9(2)(g)(i)
46. ALNACC is a contracted service from the TEC's operational budget. Under the terms of the contract, the TEC can give 20 days' notice to terminate.
47. Ako also has two functions that would need further consideration if it was disestablished:
- 47.1. Ako runs the Te Whatu Kairangi - National Tertiary Teaching Excellence Awards, which cover the whole tertiary sector, including universities. These awards are designed to promote quality tertiary education teaching across the tertiary education sector. 9(2)(f)(iv)
- 47.2. Ako has a role in developing and maintaining qualifications for teaching *adult* learners, though does not teach the qualifications or approve other organisations to do so. If Ako is disestablished, this responsibility would need to be transitioned to another organisation.

## **Te Tiriti o Waitangi | Treaty of Waitangi analysis**

48. Because this work has progressed quickly, we have not had the opportunity to do a full analysis for Treaty implications. We have thus not had time to review relevant relationship commitments, including deeds of settlement, Crown-Māori relationship agreements, Memoranda of Understanding and protocols, and there is a risk that we will be in breach of obligations contained in these. However, at a high level, we consider that this proposal does not fulfil the Crown's obligations under the Treaty.

49. A major constraint was the limited time for analysis, leading to a lack of consultation with stakeholders, including ngā Wānanga, Te Wānanga Takiura o Ngā Kura Kaupapa Māori o Aotearoa (a kaupapa Māori private training establishment), and Māori learners in tertiary education. This means that we do not have a clear view of Māori interests, or any impacts on Māori stakeholders associated with the removal of Te Tahua, Tūwhitia and Ako funding, and therefore cannot respond to these. This does not reflect the Crown's obligations under Article 1 in terms of informed decision-making and Treaty due diligence.
50. Te Reo Māori is recognised in law as a taonga which the Crown has a duty to actively protect.<sup>1</sup> Our understanding of the Crown's active protection obligations under Articles 1 and 2 has led us to conclude that the disestablishment of Te Tahua (or its replacement with another policy), without adequate consultation and partnership with Māori, has poor alignment with these Articles, the performance/merits/outcomes of the fund so far notwithstanding.
51. While the three funds in question may not be the most effective way to achieve their outcomes, there is a significant risk that (in the absence of these funds) activities to achieve equitable provision of education and reduce barriers to learner success will decrease (in the case of Tūwhitia) or altogether cease (in the case of Te Tahua and Ako). This would result in the Crown not fulfilling its obligations under Article 3. The absence of mitigations to reduce the likelihood and/or impact of this risk means that the proposed approach has poor alignment with Article 3.

### Ministry of Education savings

52. You recently received further advice in relation to the proposed Ministry of Education saving of \$0.92 million [METIS 1343297 refers]. We understand you have agreed to a stepped contribution from the Ministry over the coming years, with a decision at a later date on the out-year amount. This approach will need to be jointly agreed with Ministers Stanford and Reti before the Cabinet paper is finalised.
53. For now, we recommend the differences between the stepped amounts and \$0.92 million be met by using more of the unallocated Tūwhitia funding. The draft Cabinet paper has been updated to reflect this.

### Education New Zealand savings

54. With the changes in portfolios since the initial savings expectations were set, responsibility for ENZ has shifted to the Minister of Education. The draft Cabinet paper includes a placeholder section reflecting this. Our understanding is that a discussion with the Minister of Education to agree the proposed savings (\$1.35m in 2025/26 and \$2.7m from 2026/27) has not yet occurred and we recommend that this occurs as a priority.

### Next Steps

55. We note that the proposals outlined in this paper are interdependent with Budget 2025 decisions and subject to agreement from the Minister of Finance. We recommend providing the attached draft to the Minister of Finance as soon as possible as a follow-up to the letter you have recently sent. Subject to feedback from the Minister of Finance, we will work with your office on updating key next steps.
56. Once we have received feedback by Thursday 6 March 2025, we will provide you with a revised draft Cabinet paper for Ministerial consultation. The table below outlines key dates.

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<sup>1</sup> Sections 4 and 6 of Te Ture mō te reo Māori 2016, The Māori Language Act 2016; Waitangi Tribunal, 2011, *Ko Aotearoa Tēnei: A Report into Claims concerning New Zealand Law and Policy Affecting Māori Culture and Identity* (WAI 262), p.154.

Key milestone	Date
Discuss early feedback at agency meeting (both papers)	Tuesday 4 March
Seek feedback from: <ul style="list-style-type: none"> <li>the Minister of Finance on early draft of both Cabinet papers, and</li> <li>Ministers Upston and Stanford on early draft of Cabinet paper A</li> </ul>	Tuesday 4 March - Wednesday 5 March 2025
Provide your feedback to the Ministry on draft Cabinet papers	Thursday 6 March 2025
Revised drafts ready for Ministerial consultation	Friday 7 March 2025
Ministerial consultation complete	Wednesday 19 March 2025
Cabinet papers lodged	Thursday 20 March 2025
Cabinet Economic Policy Committee (ECO)	Wednesday 26 March 2025
Cabinet	Monday 31 March 2025

57. We consider it important to have the agreement of Ministers Stanford and Reti on the proposed agency savings. Our understanding is that Minister Reti has agreed to progress the TEC savings, and that both Ministers have received the further advice on the Ministry savings [METIS 1343297 refers]. As noted above, if your office has not yet discussed the proposed ENZ savings with Minister Stanford's office, we recommend doing so as a priority.
58. We will progress agency consultation during Ministerial consultation, noting that draft Cabinet paper B will undergo targeted consultation.

## Annexes

The following are annexed to this paper:

- Annex A: Draft Cabinet paper - *A redesigned vocational education and training system – funding settings* (attached separately)
- Annex B: Draft Cabinet paper - *Funding reprioritisation to support strategically important vocational education and training* (attached separately)

## Recommended Actions

The Ministry of Education recommends you:

- a. **note** that we would like to discuss the content of this report and draft Cabinet papers at your meeting with officials on 4 March 2025
- b. **note** that we have not included a proposal seeking Cabinet's approval to submit an initiative in Budget 2026 to reinstate eligibility for domestic tuition subsidies to non-domestic workers, instead focusing Cabinet paper A on the funding decisions needed to support the transition to a new vocational education and training system
- c. **note** that the savings proposal relating to the Ministry of Education and the Tertiary Education Commission need the agreement of the Minister of Education and the Minister for Universities, and that the savings proposal relating to Education New Zealand needs the agreement of the Minister of Education. We understand that your office is progressing this engagement and will provide feedback to us directly

**Noted**

**Noted**

**Noted**



## Early consultation

- d. **note** that Cabinet invited you to report back in consultation with the Minister of Social Development and Employment in March 2025 on options to support strategically important provision, including transitional funding reprioritised from within existing baselines [SOU-24-MIN-0174 refers]

**Noted**

- e. **agree** to forward both draft Cabinet papers to the Minister of Social Development and Employment for feedback ahead of formal Ministerial consultation

**Agree** Disagree

- f. **note** that due to the interdependencies between both Cabinet papers, we strongly recommend testing your savings proposals with the Minister of Finance early

**Noted**

- g. **agree** to forward both draft Cabinet papers to the Minister of Finance

**Agree** Disagree

## Feedback on drafts and Ministerial consultation

- h. **agree** to provide feedback on the attached draft Cabinet papers by Thursday 6 March 2025 and we will amend the papers and return it to you for Ministerial consultation to start on Friday 7 March 2025

**Agree** Disagree

- i. **note** that Ministerial consultation needs to commence no later than the end of Friday 7 March 2025 to provide for 10 days for consultation prior to lodging the papers with Cabinet Office on Thursday 20 March for consideration by the Economic Policy Committee on Wednesday 26 March

**Noted**

- j. **note** that draft Cabinet paper B contains some content that is subject to further discussion, testing and quality assurance, and may change during Ministerial consultation, as a result of Treasury review

**Noted**

## Proactive Release:

- k. **agree** that the Ministry of Education release this paper once Cabinet has taken decisions, with any information needing to be withheld done so in line with the provisions of the Official Information Act 1982.

**Agree** Disagree

Katrina Sutich

**General Manager, Tertiary Policy  
Te Pou Kaupapahere**

27/02/2025



Hon Penny Simmonds

**Minister for Vocational Education**

2/03/25