

Report: VET funding – next steps for implementation

To:	Hon Penny Simmonds, Minister for Vocational Education		
Cc:	Hon Dr Shane Reti, Minister for Universities		
Date:	17/07/2025	Deadline:	25/07/2025
Security Level:	In-Confidence	Priority:	Medium
From:	Rachel Dillion, Programme Manager	Phone:	9(2)(a)
Drafter:	Liz Haynes, Senior Policy Analyst	METIS No:	1350088

Why are we sending this to you?

- This report provides next steps for implementing funding to support strategically important provision in polytechnics, and planning for a Cabinet paper to seek agreement on minor funding issues as the VET redesign moves toward implementation.

What action do we need, by when?

- We are seeking your agreement to a funding delegation for the Tertiary Education Commission (TEC) to administer a fund to support strategically important provision.
- Please return the signed paper by 25 July 2025.

Key facts, issues and questions

- We have drafted a funding delegation to implement a Transitional Support for Strategically Important Provision Fund, attached for your approval (**Annex 1**).
- The Ministry and the TEC expect to be able to provide advice in August on the distribution of funding via section 556 grants, once the TEC can consider the impact of allocations from the Fund.
- We are proposing a 'mop-up' Cabinet paper in August to capture some minor residual funding decisions which need Cabinet agreement.

Alignment with Government priorities

1. This report aligns with Government priorities as part of the work programme to disestablish Te Pūkenga and confirm new funding settings to come into effect from 1 January 2026.

Background

2. On 31 March 2025 Cabinet agreed to funding settings for the redesigned vocational education and training (VET) system. This included fiscally neutral changes to funding rates and funding to support strategically important provision for a two-year transition period, with a long-term approach to be developed [CAB-25-MIN-0085.01 refers].
3. Subsequent Cabinet decisions have agreed the structure of the new system. Cabinet has agreed (in principle pending the passing of legislation) to stand up eight Industry Skills Boards and ten polytechnics for 1 January 2026. Four other polytechnics will remain within the New Zealand Institute of Skills and Technology (NZIST) while further financial improvement work is undertaken. Decisions on the future of these polytechnics are to be taken in July 2026 [SOU-25-MIN-0076 and SOU-25-MIN-0068 refer].
4. You have indicated that you would like future polytechnics to know as soon as possible what additional funding they will receive to support strategically important provision, so that this can inform their financial improvement and planning decisions for 2026. This report outlines steps to confirm how this funding will be allocated across institutions.

Allocating funding for strategically important provision

The Transitional Support for Strategically Important Provision Fund

5. We have drafted a funding delegation for a time-limited Transitional Support for Strategically Important Provision Fund (the Fund, **Annex 1**). It directs the TEC to develop a process to allocate \$10 million total per year, for two years, to polytechnics the TEC determines are at risk of non-viability and that deliver strategically important provision. This implements Cabinet's decision to allocate this amount through a criteria-based fund [CAB-25-MIN-0085.01 refers].
6. If you approve and sign the annexed draft delegation, your office can send it to the TEC to formally initiate the administration of this funding. Informally, the TEC have been involved with the development of the eligibility criteria and are preparing to implement it swiftly.
7. The TEC has requested information on polytechnics' mix of provision from Te Pūkenga to assist in allocating this funding, including provision that will be ceased between 2025 and 2026. This information will give the TEC greater insight into the qualifications being delivered so that it can determine how to allocate the Fund toward strategically important provision.

Allocations from the Fund will influence our recommendations for other funding

8. In March, Cabinet agreed that an additional \$10 million per year would be allocated to polytechnics through grants under section 556 of the Education and Training Act 2020 (the Act) in 2026 and 2027. This mechanism allows you to exercise more discretion over the basis for allocation, recognising factors which may not be well captured by the TEC's Fund criteria.
9. Grant funding would be in addition to allocations from the Fund, which will be based on provision. To make the most effective use of available funding in supporting polytechnics to stand alone, we recommend waiting for the TEC to determine allocations from the Fund

before deciding how funding will be distributed through grants under section 556. This will provide the clearest picture of what additional support is needed across the sector.

10. We understand that you wish to inform future polytechnics of the funding they can expect as soon as possible. We expect to be able to provide further advice on the distribution of grant funding by the end of August, with the assistance of the TEC.
11. The next steps to implement funding for strategically important provision are therefore:

Action	Estimated timeframe
Delegate to the TEC to implement the Transitional Support for Strategically Important Provision Fund	Mid-July (this report)
Joint Ministry/TEC advice on the distribution of funding via s556 grants to support important provision and maintain polytechnic operations	End of August
Te Pūkenga informed of s556 grant funding for polytechnics and any expectations as part of these grants Funding determinations for 2026 confirmed for publication (including new settings for Learner Component and VET funding)	September

A further Cabinet paper can round off funding settings

12. Major funding, legislative and structural decisions for the VET redesign have now been agreed. We propose to use one further Cabinet paper to 'mop up' outstanding issues and technical matters which arise as we move toward implementation.
13. There are two funding decisions which you have agreed to [METIS 1341652 refers] which require further Cabinet agreement before they can be fully implemented:
 - a. removing performance expectations from the Learner Component; and
 - b. removing the 'work-based: pathway to work' mode of delivery from the funding system.
14. These were overlooked as they are policy decisions which would not necessarily meet the threshold for Cabinet involvement. However, as both were agreed by Cabinet as part of the original decisions to implement the Unified Funding System, Cabinet agreement should be sought to deviate from those settings.
15. You have recently approved draft funding determinations for consultation with the sector on proposed changes for 2026, including the determination through which these changes would be implemented¹ [METIS 1346950 refers]. This consultation will meet your obligations under section 423 of the Act and allow changes to be confirmed shortly after Cabinet agreement.

¹ *Delivery at Levels 3 to 7 (non-degree) on the New Zealand Qualifications and Credentials Framework and all industry training*; see Annex 2 of the cited report.

16. We propose to target a simple residual issues paper for Cabinet in August 2025, with the following proposed timeline:

Date	Milestone
24 July	Initial draft
1 – 8 August	Agency and Ministerial consultation
14 August	Final paper lodged
20 August	Cabinet Social Outcomes Committee
25 August	Final Cabinet agreement

Next Steps

17. If you approve the attached funding delegation (**Annex 1**), you may sign it and send it to the TEC to immediately begin work on allocating additional funding for polytechnics via the Transitional Support for Strategically Important Provision Fund.
18. Once the TEC has determined how this funding will be allocated across polytechnics, further advice will be provided to you about how grants under section 556 can best supplement this to achieve your objectives.
19. We will provide a draft Cabinet paper for your feedback on 24 July.

Annexes

The following are annexed to this paper:

- Annex 1: Delegation to implement a Transitional Support for Strategically Important Provision Fund

Recommended Actions

The Ministry of Education recommends you:

- a. **sign and send** the proposed funding delegation attached as Annex 1, which instructs the Tertiary Education Commission to implement a Transitional Support for Strategically Important Provision Fund

☒ Agree ☐ Disagree

- a. **note** that the Ministry and the Tertiary Education Commission will jointly provide further advice on the distribution of funding via s556 grants once the Tertiary Education Commission has incorporated allocations from the Transitional Support for Strategically Important Provision Fund into its estimates

☒ Noted

- b. **agree** that officials prepare an additional Cabinet paper for September 2025 in which to round off residual funding system decisions to

- i. remove performance expectations from the Learner Component
ii. remove the 'work-based: pathway to work' mode of delivery from the funding system

☒ Agree ☐ Disagree

Proactive Release:

- c. **agree** that the Ministry of Education release this paper once Cabinet decisions on these matters are confirmed, with any information needing to be withheld done so in line with the provisions of the Official Information Act 1982.

☒ Agree ☐ Disagree



Rachel Dillion
Programme Manager
Te Pou Kaupapahere

17/07/2025



Hon Penny Simmonds
Minister for Vocational Education

20 / _7_ / _2025_



21 July 2025

PSO790

Dr Alan Bollard
Chair
Tertiary Education Commission
PO Box 27-048
Wellington 6141

Dear Alan,

Delegation to implement a Transitional Support for Strategically Important Provision Fund

I am writing to advise you of my delegation to the Tertiary Education Commission (TEC) to establish a fund for strategically important provision (the Fund) at polytechnics that are proposed to be established under the Education and Training (Vocational Education and Training System) Amendment Bill, when enacted.

The purpose of the Fund is to provide support for such polytechnics to maintain provision that is strategically important during the transition from Te Pūkenga to a network of regional polytechnics.

This is a transitional policy intended to minimise the loss of strategically important provision during a two-year transition period, from 1 January 2026 to 31 December 2027. I intend to consider approaches to foster and support strategically and/or regionally important provision across the vocational education and training sector in the long term for after the transition.

To be eligible for this funding, a Tertiary Education Organisation (TEO) must be:

- either a polytechnic proposed to be established under the Education and Training (Vocational Education and Training Systems) Amendment Bill, when enacted, or Te Pūkenga – New Zealand Institute of Skills and Technology; and
- at risk of non-viability, as determined by the TEC; and
- delivering strategically important provision or be proposed to assume delivery of such provision from Te Pūkenga – New Zealand Institute of Skills and Technology, or from another polytechnic.

For the purposes of this Fund provision is deemed 'strategically important' if:

- the provision is part of a programme which meets all of the following criteria:
 - it leads to a qualification or credential at Levels 3-7 (non-degree) on the New Zealand Qualifications and Credentials Framework; and
 - it is related to a priority industry, as determined by the TEC; and
 - the TEC determines that sufficient equivalent provision is not offered by another provider in that region; or

- the provision is a foundation education (Levels 1-2) programme, Youth Guarantee provision, or a secondary-tertiary programme as determined by the TEC.

The TEC must develop a process to allocate the available funding to eligible TEOs based on the proportion of the TEO's total provision that is deemed strategically important, using the definition above. This process must include a list of priority industries including areas such as science, engineering, trades, primary industries and some health fields (as determined by the TEC).

I delegate to the Tertiary Education Commission, under section 409(1)(j) of the Education and Training Act 2020, authority to pay funding:

- of up to \$10 million each year that the delegation is in effect; and
- to TEOs that meet the eligibility criteria.

I expect the TEC to develop and issue conditions for TEOs that receive this funding, including conditions to the effect that:

- a TEO must continue to deliver provision for which funding has been provided, at or above the level provided by the predecessor organisation, unless otherwise approved by the TEC; and
- funding may be recovered from a TEO if the TEO does not comply with funding conditions imposed by the TEC.

I expect the TEC to report on this Fund in its Annual Report.

This delegation takes effect from 1 January 2026 until 31 December 2027. The TEC may exercise any of its administrative functions as required to give effect to this delegation outside of those dates.

Yours sincerely,



Hon Penny Simmonds
Minister for Vocational Education