nzist new zealand institute of skills and technology

28 July 2020

Fact sheet: NZIST Ring-Fencing Policy

Background

In early 2019, during consultation on the Reform of Vocational Education, feedback was received about the ability to retain access to cash reserves held by several Institutes of Technology and Polytechnics (ITPs). The feedback highlighted that for several of the 16 ITPs, cash reserves had been built up over time and had involved the cooperation of the wider community in the accumulation. Feedback suggested such funds should be protected or 'ring-fenced' to ensure these funds would not be centralised and that the funds would remain for the benefit of the region in which they had originally been built up.

In late July 2019, Cabinet approved the establishment of the NZIST, announced publicly by Education Minister Chris Hipkins in early August 2019. The Cabinet paper outlined the Government's intention to ensure existing cash reserves, accumulated by several of the 16 ITPs, are in the future invested in the regions in which they have been built up. Cabinet's decision document provided a high-level illustration of the likely methodology for determining what would be ring-fenced.

During the establishment phase of NZIST, a preliminary 'ring-fencing' policy was developed to implement the Government's intention.

On 1 April 2020, NZIST was created, and the 16 ITPs became subsidiaries of NZIST. As part of the transition process, NZIST's Council adopted the Ring-Fencing Policy previously developed during the establishment phase and NZIST staff, accounting specialists and relevant subsidiary (formerly ITP) financial staff worked together to calculate the amount of funds to be 'ring-fenced' in accordance with the Policy.

It became obvious that once applied, the accounting methodology in the Ring-Fencing Policy did not give effect to the Government's intention of ensuring funds built up by several ITPs be retained for use in the regions in which they were accumulated. In some cases, the initial calculations resulted in negative balances. NZIST, alongside accounting specialists, realised the methodology needed adjustment in order to reflect the Government's intention.

In July 2020, NZIST's Council amended the Ring-Fencing Policy settings. NZIST has collaborated with relevant subsidiary financial staff to recalculate ring-fenced amounts. NZIST recognises and acknowledges the significant value those subsidiaries with cash assets place on their ability to retain ring-fenced funds and to have a say on how the funds are to be invested in their regions. NZIST is confident the new accounting methodology better meets the Government's original intent.

1. What is the NZIST Ring-Fencing Policy?

The Ring-Fencing Policy applies to existing qualifying cash reserves held by several of the 16 NZIST subsidiaries (formerly ITPs). The cash reserves must meet the specified criteria in the Ring-Fencing Policy in order to be ring-fenced.

The Policy ensures ring-fenced amounts will only be spent in the "relevant region" where the subsidiary was located and operated when they were brought into the NZIST group on 1 April 2020.

Ring-fenced amounts can be used for projects and capital expenditure, approved by NZIST, in the relevant region.

The Policy ensures that ring-fenced amounts remain designated for use, once approved by NZIST, within the region they were accumulated. Ring-fenced amounts cannot be moved around the NZIST network.

2. Who does the Ring-Fencing Policy apply to?

The Ring-Fencing Policy applies to NZIST and each of the 16 NZIST Subsidiaries, noting that not all the subsidiaries have ring-fenced amounts.

3. How can ring-fenced amounts be used?

Ring-fenced amounts can be spent on a range of capital and operational expenditure. Any use of ring-fenced amounts must first be approved by NZIST.

4. How are ring-fenced amounts calculated?

Broadly, the ring-fenced amount:

- **Includes:** cash, cash equivalents, derivatives and other financial instruments and liquid investments, measured on a net basis and net of any debt; and
- **Excludes:** restricted funds (e.g., bequests), an allowance for working capital liquidity, refunds due to students and not yet paid, Crown clawback amounts not yet paid, any other wash-ups on SAC and other Crown funding, capital expenditure commitments and other ad hoc commitments not included in this list.

5. How does the Ring-Fencing Policy work in practice?

These are the key steps:

(a) Calculation of initial ring-fenced amount: Each NZIST subsidiary calculates its initial ring-fenced amount (if any) using the accounting methodology set out in the Ring-Fencing Policy. Once calculated and confirmed, NZIST will notify each relevant NZIST subsidiary of the agreed ring-fenced amount

(b) Management of ring-fenced amount: NZIST will work with relevant subsidiaries to determine where ring-fenced amounts will be held – either in a separate bank account, or as separately identifiable deposits or liquid investments. Generally, subsidiaries can retain the ring-fenced amount in their own bank accounts

(c) Reporting of use of ring-fenced amount: NZIST subsidiaries must be able to identify and report on a day-to-day basis on their ring-fenced amount

6. Can the ring-fenced amount change over time?

The ring-fenced amount is established as a one-off reserve. Any interest earned will not be added to the ring-fenced amount, but it will be available to the relevant subsidiary as part of their unrestricted/non ring-fenced funds.

Once ring-fenced amounts are drawn from the ring-fence, they cannot be repaid. The ring-fencing mechanism will continue until the ring-fenced amount is reduced to zero.

7. What can the ring-fenced amounts be used for?

Some examples include:

- Routine capital expenditure e.g. ICT hardware and software, buildings, equipment (teaching and other), programme and materials development
- Any local component of a wider NZIST investment project (for instance, a major systems replacement that provides a capability needed by the regional operation)
- Major capital projects
- Investment in building or maintaining capability
- Operating losses and/or change and restructuring costs

8. What are “relevant regions”?

Ring-fenced amounts can only be spent in the “relevant region”. This will be the home or core regions in which the subsidiary (legacy ITP) operated in prior to 1 April 2020. For example:

Legacy ITP with ring-fenced funds	Relevant Region
Southern Institute of Technology	Southland
Ara Institute of Canterbury	Christchurch, Timaru and the whole of Canterbury
Toi Ohomai Institute of Technology	Bay of Plenty, Rotorua and Taupō
Eastern Institute of Technology	Hawkes Bay and Eastland
The Open Polytechnic of New Zealand	All New Zealand
Nelson Marlborough Institute of Technology	Nelson and Marlborough
Northland Polytechnic	Northland

9. Further questions?

If you have any further questions, please contact NZIST’s Communication Manager, Denise Mackay, at denise.mackay@vocationaleducation.ac.nz