



Education Report: Tertiary Education Commission State of Play report to March 2024 and Board appointments advice

To:	Hon Penny Simmonds, Minister for Tertiary Education and Skills		
Date:	10 April 2024	Priority:	Medium
Security Level:	In-Confidence	METIS No:	1325085
Drafter:	Craig Press Monika Staven	DDI:	9(2)(a) 9(2)(a)
Key Contact	Fiona O'Leary	DDI:	9(2)(a)
Seen by the Communications Team:	No	Round Robin:	No

Purpose of Report

This report provides an overview of the Tertiary Education Commission's (TEC) performance for January 2024 to March 2024, and seeks your decision on a recommended approach for appointments to the TEC Board.

Summary

TEC's performance

- Given the high workload TEC is managing in order to implement and support the Government's priorities we have made a decision to do a light monitoring touch this quarter (January – March 2024). We focused on key areas including overall health of the organisation, risk, finance and audit, and monitoring. Next quarter we will do a more substantive monitoring report focusing on data and digital, the TEC's learner success programme, investment and careers.
- TEC's monitoring function continues to perform well. It is actively identifying and managing risks in the systems and is undertaking several performance enhancements to further respond to the high-risk environment. Priority improvements include: reviewing its Financial Management Framework, increasing and improving information collection, particularly for private training establishments; enhancing its reporting to the Board and further tailoring engagement and monitoring approaches based on risk.
- We engaged TEC on its key strategic risks including:
 - sustainability of TEC work programme,
 - delivery on government programmes and managing business-as-usual (BAU),
 - sustainability of the performance of the tertiary sector,
 - the impact of data and digital changes within the tertiary sector, and
 - trust and confidence in TEC and within the sector.

4. TEC is actively considering these risks and recently reported to its Board on its operating environment. We have agreed that from Quarter 3 we will report on the sustainability of TEC from a financial and business perspective.
5. For the period, 1 July 2023 to 31 December 2023 (YTD FY24), TEC's overall financial performance was ahead of budget and TEC had an overall net surplus of \$2.613m against a budgeted deficit of \$1.332m. It expects its full year operating performance to record a surplus of \$0.015m with an \$10.6m underspend in grants in FY24. TEC has updated its five-year strategic finance plan to reflect savings targets, which will involve a reduction of FTEs over the next four years.

Appointments

6. 9(2)(f)(iv) [Redacted]

7. 9(2)(f)(iv) [Redacted]

8. 9(2)(f)(iv) [Redacted]

Proactively released

Recommended Actions

The Ministry of Education recommends you:

Monitoring

- a. **note** our advice on TEC's performance in the period January – March 2024 **Noted**
- b. **sign and send** the attached letter to the Acting TEC Board Chair (Annex 1) to support this performance analysis **Yes / No**

Appointments

- c. 9(2)(f)(iv) [Redacted] **Agree / Disagree**
- d. 9(2)(f)(iv) [Redacted] **Agree / Disagree**
- e. 9(2)(f)(iv) [Redacted] **Agree / Disagree**
- [Redacted] 9(2)(f)(iv) [Redacted] **Agree / Disagree**
- [Redacted] 9(2)(f)(iv) [Redacted] **Agree / Disagree**

Proactive Release:

- g. **agree** that the Ministry of Education release this paper **in part** once it has been considered by you **Agree / Disagree**

John Brooker
**General Manager
Early Learning Policy,
Te Pou Kaupapahere**

Hon Penny Simmonds
Minister for Tertiary Education and Skills

10/04/2024

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Overview of monitoring advice

1. This report covers monitoring engagements for the January – March 2024. Given TEC's high workload we have minimised engagement and will cover further areas of TEC's business in the next report. Engagements for the current period included key the overall health of the organisation, risk, finance and audit, and monitoring.
2. In summary, TEC continues to perform well and had strong process and systems in place. It's monitoring function has a key role in the tertiary system through identifying risks. This is especially critical at the moment given the pressure the sector is under. TEC continues to strengthen this function. It is also ensuring that candidates for Ministerial appointments to tertiary education councils are seasoned and have strong financial and governance experience.
3. TEC continues to have a strong focus on meeting the Government's savings targets. It has updated its five-year strategic finance plan to reflect this including anticipated reductions in FTEs.
4. Further information on TEC's organisational health, financial performance, and core delivery functions can be found in the Annex.

Board appointments - Recommended appointment strategy

9(2)(f)(iv)

- [Redacted]
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¹ Section 404(2) Education and Training Act 2020
² Section 402(1) Education and Training Act 2020
³ See CO(24)2 paragraphs 28-29.

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Part 1 – Performance overview

Summary - Entity performance

Key challenges	Key monitoring actions	Trends
Moving with sufficient pace and certainty to meet government priorities while maintaining business-as-usual	We will focus on how TEC is managing key risks and the impacts of new projects associated with these commitments.	Watching brief 
Ensure value for money considerations drive TEC's decision making	TEC has had a proactive approach to managing its operations and baseline funding. We will continue to engage with TEC on the impact of any operational changes from these initiatives including approaches for managing related risks.	Watching brief 
Need for an increased understanding of the impact of TEC's actions to inform its performance framework, including its performance and impact measures	We will continue discussions on how TEC measures its impact of its actions on the sector, and opportunities for developing more focused impact measures.	
Need to further refine the use of investment levers to support priority shifts in Tertiary Education Organisation (TEO) performance	We will continue discussions on how TEC can further strengthen its use of its investment levers to increase TEO responsiveness, for example leveraging funding conditions and integrating learner success plans into investment plans.	

Summary – Financial performance

Financial performance operating summary

\$'000	YTD FY24 Actual	YTD FY24 Budget	YTD FY23 Actual	FY24 Forecast
Revenue	37,431	35,551	39,690	76,859
Expenditure	(34,818)	(36,883)	(41,915)	(76,844)
Net surplus/(deficit)	2,613	(1,332)	(2,225)	15

Financial position summary

\$'000	As at 31 Dec 2023 Actual	As at 31 Dec 2023 Budget	As at 31 Dec 2022 Actual	As at 30 June 2024 Forecast
Cash and investments	124,965	74,766	95,868	87,365
Equity	159,565	172,273	118,260	161,044
Working capital ratio	1.30	1.53	1.25	1.24

- TEC's overall financial performance was ahead of budget in the period 1 July 2023 to 31 December 2023 (YTD FY24) with an overall net surplus of \$2.613m against a budgeted deficit of \$1.332m.
- TEC expects its full year operating performance to record a surplus of \$0.015m, a \$2.5m improvement on its original budget for the 2023/24 financial year (FY24), as well as a \$10.6m underspend in grants in FY24.
- TEC has updated its five-year strategic finance plan to reflect the Government's savings targets. This will involve a reduction of FTEs over the next four years.

Part 2 – Health of the organisation

Health of the organisation

Corporate capability and capacity will be vital for the TEC to deliver on its change programme and is part of our monitoring focus. The TEC is in good corporate health with robust business processes and systems.

Workforce

TEC continues to have good internal reporting on its workforce. Due to the Government's new savings target, TEC has reported a need to reduce its workforce, which it intends to manage over a five-year period.

Staff turn-over is currently sits at 12.9%, which is keeping with its current trend and sits under TEC's target for 14%. TEC is continuing its considered approach on its use of contractors and consultants, using them for project-based work or to backfill FTE's that have been pulled in to do specialised project work.

Strategic risks

TEC has recently reviewed and reported to its Board on strategic risks which it does on a six-monthly basis or if the operating environment changes significantly. Of the entities we monitor, TEC has the most mature process and capability for assessing both operational and strategic risk. TEC also carries out quarterly review sessions to reflect on any changes to its risk profile. This is a key input into TEC's business planning and prioritisation process.

The following section includes commentary on key strategic risks we have identified. While the risks are aligned to TEC's strategic risks, they are independently derived from our broader view of the environmental and operating context that TEC is functioning in.

To reflect the risks in our monitoring programme we have agreed with TEC that from Quarter 3 we will report on the sustainability of TEC from a financial and business perspective. We will also have a focus on performance against TEC's Statement of Performance Expectations (SPE) and key organisational metrics to understand if the cost savings and high workload impact TEC's ability to deliver on its core services over time. This focus will also be applied to ENZ and NZQA.

Key strategic risks include:

- ***Sustainability of TEC work programme***

As mentioned, the fiscal environment has put cost pressure on TEC and as a result it will have to reduce its workforce to manage its savings target. TEC has updated its five-year strategic finance plan to manage this Planning for the future of vocational education will involve a transitional phase, which could mean a higher work programme for TEC.

A reduced workforce with a potentially higher workload could mean TEC has to make decisions around the quality or volume of BAU activities it can deliver on. To manage deliverables on the change programme and BAU, TEC will need the right resourcing and capabilities.

TEC will need to recruit externally for some change initiatives because it does not retain the specialist capabilities to manage significant change work after it has been transitioned into BAU. TEC recognises that the current recruitment market may mean it can recruit these skills sets differently and more cost effectively than previously. Loss of staff overall also make retention of institutional knowledge more challenging.

Part 2 – Health of the organisation

- ***Delivery on government programmes and managing BAU***

With the disestablishment of Te Pūkenga, TEC will have to manage a significant change programme and it is vital it has high performance in this area. TEC also has to continue to deliver on various BAU activities. Due to tight time frames, in the short-term it is likely TEC will need to reprioritise resources into the change programme.

TEC will have to carefully manage how it distributes its resources across different deliverables and will have to put careful thinking into what to prioritise while retaining sufficient capability and capacity.

- ***Sustainability of the performance of the tertiary sector***

Due to the current fiscal environment, many Tertiary Education Institutions (TEI) and tertiary education organisations (TEO) are financially vulnerable and may struggle to maintain healthy financial positions downstream. TEOs that are already facing significant financial risks will have varying abilities to absorb further changes. TEC has a key role in identifying risks and keeping decisions makers informed so that appropriate supports can be implemented as decisions on Fees Free, Te Pūkenga and the Unified Funding System (UFS) are made.

- ***The impact of data and digital changes within the tertiary sector***

Cyber security will remain an ongoing risk across the tertiary sector. TEC has a critical role as the system lead. With TEOs having varying levels of capability and protections in place and TEC having limited capacity to provide support and expertise, TEC will need to carefully manage how it supports providers to manage data and IT system risks.

Understanding how tools such as AI can be utilised as well as being aware of the possible risks is important. AI has the potential to significantly change the delivery of education and it will be important to continue to monitor this space.

As the use of digital data and insight platform continues and evolve, ensuring privacy (particularly of large volumes of student's personal information) remains a focus.

- ***Trust and confidence in TEC and within the sector***

The cumulative impact of uncertainty, change, and significant savings targets are likely to drive decreased performance in some areas for both TEC and across the sector. This will need to be carefully balanced and TEC will need to ensure it works alongside the sector to maintain trust and confidence.

Part 3 – Financial performance

Financial performance

TEC delivered an overall surplus of \$4.883m in the period 1 July 2023 to 31 December 2023 (YTD FY24). This was made up of an operating surplus of \$2.613m and a grant surplus of \$2.270m. Both operating performance and grants as at YTD FY24 were favourable to budget.

The operating performance was ahead of budget, largely due to savings from higher-than-expected staff vacancies (actual vacancies of 9% versus budget vacancies of 5%) and lower depreciation resulting from project delays.

TEC now anticipates its full year operating performance to record a surplus of \$0.015m, which is a \$2.5m improvement on its original budget for the 2023/24 financial year (FY24).

The YTD FY24 grant surplus was higher than budget, however both YTD revenue and expenses were lower, which sees the trend from FY23 continue and is reflective of softening demand.

TEC has updated its five-year strategic plan to reflect its plans to meet the new Government's savings targets. To meet these targets, TEC anticipates making total savings of \$27m over the next four years, which may involve a reduction of FTEs (i.e., 10% of TEC's workforce). While a restructure would result in long-term cost savings, TEC anticipates recording an operating deficit in FY25 due to the costs it expects to incur with the restructure process.

From a balance sheet perspective TEC remains in a stable financial position. Most of TEC's current assets and liabilities relate to grant receivables and payables, and the fluctuations in these were driven by movements in TEC's grants accounting adjustment.

As at YTD FY24, TEC held \$124.965m in cash and cash equivalents, made up of \$25.357m operating cash, \$89.415m grant cash and \$10.193m of Pre-purchases English Language Tuition cash. TEC expects cash to continue to stay above budget.

Table 1. Financial performance

\$'000	YTD FY24 Actual	YTD FY24 Budget	YTD FY23 Actual	FY24 Forecast
Operating				
Revenue				
Crown revenue	35,355	34,386	37,707	71,565
Other	2,076	1,165	1,983	5,294
	37,431	35,551	39,690	76,859
Expenditure				
Personnel expenses	(23,054)	(22,095)	(29,664)	(49,099)
Other operating expenses	(9,736)	(10,915)	(9,343)	(23,271)
Depreciation & amortisation	(2,028)	(3,873)	(2,908)	(4,474)
	(34,818)	(36,883)	(41,915)	(76,844)
Net surplus/(deficit)	2,613	(1,332)	(2,225)	15
Grants				
Revenue	1,498,668	1,529,566	1,496,421	3,861,240
Expenditure	(1,496,398)	(1,528,267)	(1,495,246)	(3,856,757)
Net surplus/(deficit)	2,270	1,299	1,175	4,483
Overall				
Net surplus/(deficit)	4,883	(33)	(1,050)	4,498

Table 2. Financial position

\$'000	As at 31 Dec 2023 Actual	As at 31 Dec 2023 Budget	As at 31 Dec 2022 Actual	As at 30 June 2024 Forecast
Assets				
Current assets	567,263	411,822	463,389	685,097
Non-current assets	28,928	30,973	26,625	30,161
	596,191	442,795	490,014	715,258
Liabilities				
Current liabilities	435,627	269,162	370,476	553,070
Non-current liabilities	999	1,360	1,278	1,144
Total liabilities	436,626	270,522	371,754	554,214
Equity	159,565	172,273	118,260	161,044

Part 4 – Performance of core delivery functions

Assessment of functions

TEC's monitoring function

Overall, TEC's monitoring function continues to perform well and is operating at an appropriate level to identify and manage key risks in the system. The workload for this function remains high and the risks continue to be elevated and complex. Given the high-risk environment, TEC continues to evolve and improve its monitoring practices and engagement approaches. Key process improvements that TEC has been undertaking include:

- Reviewing its Financial Management Framework which supports greater risk identification and transparency for TEIs on where the TEC considers key risks lie.
- Increasing and improving the extent to which information gained from monitoring activities is used to inform investment decisions, particularly for Private Training Establishments (PTE).
- Improving reporting to the TEC Board, and its Risk and Audit Committee, to reflect the increasing risks in the system.
- Tailoring engagement and monitoring approaches based on risk.

Given the scale of financial risks that are facing the sector, the TEC has also revisited its approach to council appointments. It is actively seeking seasoned candidates who have strong financial and governance experience, recognising that Ministerial appointments are one of few direct levers for improving the organisational performance of TEIs. The TEC has engaged an independent third party to help identify appropriate candidates. The TEC has also reviewed and strengthened its selection framework for council appointees and is working to improve the induction briefings provided to new members.

While the TEC monitoring function is well placed to continue to provide the currently heightened level of monitoring required, it may be challenging for TEC to continue at the pace it has been operating. It will be important for TEC to signal early and test changes with you, if the monitoring approach were to change so that it can ensure your information needs are met.

Te Pūkenga

Monitoring of Te Pūkenga's establishment and transformation work programme has been part of TEC core business since it was established. The proposed disestablishment of Te Pūkenga is complicated as it will involve transitioning from one organisation back to multiple organisations and potentially the reintroduction of a split between provider-based and work-based learning. The monitoring function will need to balance its monitoring role over Te Pūkenga along with being heavily involved in the operational transition of the entity as it is disestablished. It will also need to carefully identify and monitor key risks to the Vocational Education and Training (VET) system as part of the transition. The TEC has noted that while the monitoring role remains intensive, there has not been a need to increase its monitoring resource in the short-term as it has been closely monitoring Te Pūkenga since its establishment. The TEC will need to continue to assess whether additional resource is required, in particular once the new network is established. The TEC is continuing its strong oversight over the organisation, although there remains key person risk.

The TEC is likely to need to engage consultants with specific skill sets to support the disestablishment of Te Pūkenga and will need to carefully balance the pressures and demands that will fall on key TEC staff. The TEC is working closely with Policy at the Ministry on developing costed and financially viable options for the future of the vocational sector to be considered by Cabinet. As mentioned above, it will be important for TEC to continue to balance delivering on core

Part 4 – Performance of core delivery functions

functions, while monitoring the performance of Te Pūkenga as well as delivering on a complex transition programme under tight timeframes.

Universities and PTEs

Financial monitoring of the universities remains a high priority for TEC,
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The TEC has recently consulted with all TEIs on updating its financial monitoring framework. As part of this refresh, the TEC is introducing a new performance expectations document which aims to provide more transparency to TEIs in terms of the TEC's expectations and the qualitative and non-qualitative factors that are considered in determining an institution's overall risk rating. Initial feedback from the sector has been broadly positive.

PTEs that are funded by the TEC are not exempt to the pressures facing the university subsector. The TEC is responding to an increasing number of higher risk PTEs and utilising tailored information requests and more frequent engagement to understand financial risks.

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In response to the increased risk in the sector, TEC has reviewed its reporting to both its Risk and Assurance Committee and its Board to ensure they are receiving robust, consistent information to support good decision making and risk management.

The TEC has informed us it is continuing to improve the integration of information gained from monitoring with its investment plan decisions, and in particular where poor performance or financial issues pose financial risks and/or risks to learners. It will be important for TEC to continue to assess how to best use its levers to drive performance in the system.

Part 5 – Looking Forward

Focus for the next quarter (April-June 2024)

Engagement discussions with TEC on its:

- Careers function,
- Fees Free – work towards changes in 2025,
- audit and privacy programmes,
- digital and data services,
- learner success targets and related supports to students,
- support for quality research including the PBRF,
- use of investment levers, and
- development of its performance framework.

How we keep on top of performance

We continue using a variety of approaches and tools for monitoring TEC's performance in upcoming quarters:

- monitoring frameworks to guide our review of key areas of performance,
- engaging with officials at TEC and across the Ministry on key initiatives and projects,
- engaging with the Board Chair,
- reviewing TEC's quarterly reports and other accountability documents, and providing you with related advice,
- maintaining strong working relationships with key contacts at the Public Service Commission | Te Kawa Mataaho to ensure early visibility of shifts in priorities and requirements, and
- undertaking environmental scans to identify changes in TEC's operating environment.



Dr Wayne Ngata MNZM
Acting Chair
Tertiary Education Commission | Te Amorangi Mātauranga Matua
PO Box 27048
Wellington 6141

9(2)(a)

Dear Wayne

Ministry of Education monitoring report of performance in Quarter 2 2024/25

Thank you for the Tertiary Education Commission's (TEC) Quarter 2 2024/25 report. I have now also received the Ministry of Education's monitoring report on TEC's performance from January to March 2024. The report provides a state of play overview of TEC's corporate health, the performance of its monitoring function and its financial performance.

It is good to see your continued focus on monitoring and that TEC is undertaking performance enhancements. I am also pleased to hear that you continue to have a strong focus on meeting Government savings and targets.

I look forward to receiving an update on your five-year financial strategic plan and getting a long-term view of TEC's financial sustainability, as well as getting an update on digital and data, learner success and investment the next quarter.

I want to thank you, the Board and the TEC for your ongoing leadership and hard work in the tertiary education sector.

Kind regards

Hon Penny Simmonds
Minister for Tertiary Education and Skills

CC: Tim Fowler, Chief Executive, TEC
CC: Andy Jackson, Hautū, Te Pou Kaupapahere, Ministry of Education