



Education Report: Tertiary Education Commission performance – Quarter 2 2020/21

To:	Hon Chris Hipkins, Minister of Education		
Date:	29 March 2021	Priority:	Budget Sensitive
Security Level:	In Confidence	METIS No:	1250213
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Messaging seen by Communications team:	No	Round Robin:	No

Purpose of Report

This paper provides our assessment of the Quarter 2 2020/21 performance of the Tertiary Education Commission (TEC).

Summary

- The Ministry of Education (the Ministry) monitors the performance of the TEC with the Ministry of Business, Innovation and Employment (MBIE) as a secondary monitor.
- This assessment covers TEC's performance over Quarter 2 2020/21 (Q2 2020/21), and developments up to the date of this report. This report sits alongside TEC's own quarterly report, which you have received.
- TEC is progressing work to embed the Reform of Vocational Education (RoVE) in its internal operations. The scale of change within the sector is demanding, and TEC has a key role in translating the reforms into operational policy. TEC is continuing to think through implications, as well as ensuring its business planning capability is developed throughout the organisation to support the change while being realistic about its role in continuing to monitor 16 subsidiary polytechnics alongside Te Pukenga during the transition.
- TEC is continuing to mature its risk and assurance approach by establishing stronger connections between the risk and assurance functions. TEC has identified RoVE, the COVID-19 pandemic and the wellbeing of its people among its top strategic risks. It is good to see TEC is thinking through its wider operating environment and that interdependencies on other work programmes are also being considered. Sequencing and timing of any internal and external changes need to be well thought through to ensure systems are in place.
- Data 2020 has been rescoped and rephased to align with the needs of the system, as it continues to respond to the challenges of the COVID-19 pandemic and other change initiatives, such as RoVE. TEC has started working with the sector to plan the sequencing of the phases needed to replace the current outdated data collection platform and with a view over time to move to an Application Programming Interface (API).

- Ownership of the strategic direction for careers services is of significant interest to our monitoring engagements. We note there has been feedback from the sector about the need for a system strategy to help drive careers services. TEC has committed to hosting a workshop, in May 2021, with the Ministry of Education (the Ministry) to progress role clarity conversations. Key issues to be discussed include responsibility for leading careers strategy in the system and ongoing service delivery, including in senior secondary schooling. The TEC has indicated a refresh of the Careers System Strategy is likely in the 2021/22 year. In the next quarter, we will seek to understand how TEC is working through its own strategy and direction in this area.
- Work to develop the online careers planning solution *Tiro Whetū* is progressing well. TEC is contracting three specialist companies for the development of the tool and is engaging with the Ministry to unpack interdependencies. Future engagements will focus on understanding how TEC will measure the performance of the tool, and how it will engage customer feedback to enable future design.

Recommended Actions

The Ministry of Education recommends you:

- a. **note** our assessment of TEC's performance in Q2 2020/21

Noted

- b. **sign** and **send** the attached letter on TEC's Q2 performance to Jenn Bestwick, Chair of the TEC Board (see Annex A)

Agree / Disagree

- c. **agree** that this Education Report is proactively released as part of the next publication

Release / Not release



Emily Fabling
Deputy Secretary
Strategy, Planning and Governance
29/03/2021



Hon Chris Hipkins
Minister of Education

8 / 4 / 21

Proactive Release

It is intended that this Education Report is proactively released as per your expectation that information be released as soon as possible. Any information which may need to be withheld will be done so in line with the provisions of the Official Information Act 1982.

Annexes

- Annex A: Letter to the Board Chair
Annex B: Digital and Data Monitoring Framework

Monitoring overview for Q2

Key points

- The Ministry of Education (the Ministry) monitors the performance of TEC with the Ministry of Business, Innovation and Employment as a secondary monitor.
- TEC is thinking through its business planning and capability needs to ensure it can effectively embed the Reform of Vocational Education (RoVE) internally. Our monitoring role does not include monitoring the wider RoVE system changes.
- Operational support for RoVE, the COVID-19 pandemic, and its people regarding the well-being and resilience, skills, and capability of its staff, were identified by TEC to be among its top strategic risks.
- Work is progressing well to develop the online careers planning solution *Tiro Whetū*. It will be important TEC is able to engage well with careers systems stakeholders to determine roles and responsibilities. In our future engagement we hope to gain further clarity over who or which organisation owns the development of a long-term careers system strategy.
- TEC has rescoped and rephased Data 2020 and intends to rename the project to better reflect the ongoing work.

Priority areas for monitoring

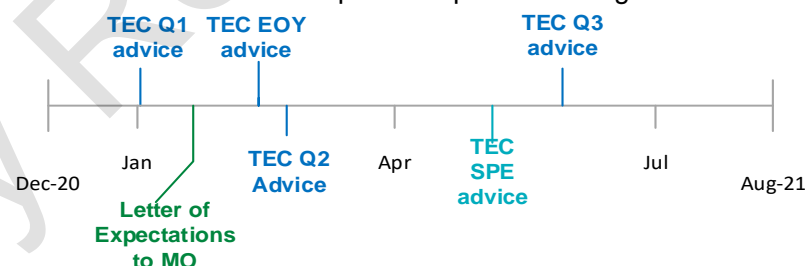
Over the next quarters our monitoring priority areas will include:

- the ongoing development and evolution of monitoring arrangements of Te Pūkenga, the 16 subsidiary polytechnics and the Workplace Development Councils (WDCs),
- TEC's own operational readiness for RoVE,
- roles, strategic direction, and interdependencies across the careers system,
- the ongoing development of *Tiro Whetū*. We are particularly interested in how the tool is aligned to TEC's careers' and wider work programmes,
- understanding how TEC's risk and audit functions are continuing to stay firmly connected, and results from a self-assessment against these areas,

- how TEC is embedding Te Tiriti, Ka Hikitia, Tau Mai Te Reo, the Tertiary Education Strategy and the Statement of National Education and Learning Priorities, as well as other important pieces of government direction on achieving equitable outcomes for learners,
- as part of our upcoming advice against its Statement of Performance Expectations (SPE), we will be looking at TEC's performance capability, and its evaluation, and impact analysis processes of its projects,
- its data and digital work programme, as noted though our data and digital monitoring plan attached in Annex B,
- monitoring and investment function engagement, and
- the Performance Based Research Fund review update.

Upcoming reports

The below timeline reflects both past and present timings of our monitoring reports:



Financial performance

Financial performance operating summary

\$'000	YTD Actual	YTD Budget	FY21 Budget	FY21 Forecast
Revenue	41,065	39,467	79,879	86,340
Expenditure	(41,365)	(43,328)	(84,855)	(90,090)
Net surplus/(deficit)	(300)	(3,861)	(4,976)	(3,750)

Financial position summary

\$'000	As at 31 Dec 2020 Actual	As at 30 Dec 2020 Budget	As at 30 June 2021 Budget	As at 30 June 2021 Forecast
Cash and investments	78,294	64,925	58,665	51,214
Equity	142,307	140,583	95,336	97,885
Working capital ratio	1.41	1.34	1.15	1.16

Monitoring focus areas

Reform of Vocational Education (RoVE)

This quarter, several critical pieces of work were completed by TEC which will help advance the delivery of RoVE, particularly as the programme moves from design to operationalisation. The scale of change is demanding, and TEC has a key role in translating the reforms into operational policy. Our monitoring focus for RoVE is TEC's role in implementing the reforms for its organisation.

Internal implementation of RoVE

This quarter we sought assurance over how TEC is adapting its operations to accommodate RoVE. This work involves:

- scoping out at a high-level what tasks need to be completed internally, and
- ensuring TEC's BAU work and business planning is aligned to the required changes.

We also raised in this quarter how TEC is intending to measure the performance and impact of RoVE. Particularly, we are interested in understanding how TEC will measure the impact of its own services in this complex environment. This will be a strong area of focus as part of the SPE advice we will provide you later this year.

It is essential that TEC has systems in place to ensure knowledge and expertise of the reforms is retained within TEC as it is critical to its role in implementing RoVE. To achieve this, TEC has advised:

- it does not see the retention of knowledge as being an issue, as the intellectual property of the reforms sits within TEC at the senior leadership level,
- it is also building capability by seconding staff from other parts of the organisation to help embed the knowledge internally,
- core TEC staff are supporting the ROVE programme team is also helping to ensure TEC retains the knowledge it will need, and

I'd like to see a greater focus on how TEC's monitoring role will change as we move from 16 ITBs to 1.
I'd also like to see a focus on how TEC is preparing for WDCs to have a greater role in funding decisions.

- it has staff representation on the RoVE Programme Board to help with decision making, and expectations around core functions, e.g. appointments to Tertiary Education Institutions (TEIs) and completing the Orders In Council (OIC) work.

TEC has also advised it is completing a stakeholder engagement model, which will help it to understand where efforts need to be concentrated to strengthen relationships with the sector.

TEC has experienced **some challenge in recruiting external capability into key roles within its organisation due to the tight labour market.** This is particularly evident in finding a candidate with the expertise and mana to support its relationship building and sector engagement with Māori. This is critical to ensure the reforms are meeting the needs of Māori, and TEC meets the current and future expectations of Te Tiriti o Waitangi (Te Tiriti).

Workforce Development Councils (WDCs)

Much of this quarter has seen TEC focused on the OIC consultative process with the sector, including TEOs, peak bodies and employers among others. It has reported good sector engagement and questions through this process which will inform the legislation to give effect to each of the six WDCs.

TEC has received additional funding through your revised letter of delegation to stand-up an establishment unit, to support the establishment and initial operations of WDCs once the OIC are passed. TEC is bringing in external expertise to help develop administrative aspects needed to enable the WDC's establishment. It has advised the WDCs are on track to be stood-up by June 2021.

TEC has identified some of the challenges it perceives to the stand-up of WDCs includes:

- the transition from Transitional Industry Training Organisations (TITOs) to WDCs,

To what extent is this a public sector-wide challenge?

Monitoring focus areas

- the impact on learners of transitioning from their industry training being arranged by TIOs to being arranged by Tertiary Education Organisations, and
- communication with the sector, including the critical interface between schooling and tertiary. Effective communication needs to ensure strong, clear messaging around what needs to be in place to manage this period of transitioning to WDCs.

We note TEC is working through how to manage these challenges and we will engage further on this topic in the next quarter.

Monitoring of Te Pūkenga and WDCs

Work has progressed to develop a monitoring approach for Te Pūkenga, after TEC signed a memorandum of understanding with the institution this quarter. As reported in its Q2 Report, TEC has advised it is working with Te Pūkenga to develop performance measurements for the organisation, alongside the 16 subsidiary polytechnics. TEC will include results as part of its own quarterly reporting.

TEC will be working with the WDC establishment unit, interim Establishment Boards (iEBs) and, once they are established, WDCs to develop and implement fit for purpose monitoring arrangements. Once WDCs are established later in the year, TEC intends to issue a Letter of Expectations (LoE) to WDCs to outline expectations for ongoing performance reporting.

Careers

Role clarity

In recent reports we have highlighted the importance of TEC working through role clarity with the other key careers' systems stakeholders. This is to determine, among other factors:

- what a careers delivery model looks like,
- confirming the value-chain within this model in a post-COVID-19 pandemic and RoVE environment,
- where responsibility lies in driving careers strategy, and
- who is responsible for careers' service delivery.

TEC met with the Ministry of Social Development in 2020 to discuss role clarity in careers delivery across each organisation, and we are pleased to note it has committed to holding the same discussion with the Ministry soon.

This will be especially important as we note there has been feedback from the careers sector around the need for a strategy or ownership of careers strategic direction. As part of our future engagements, we would like to gain assurance over:

- what the long-term strategy for careers is, especially given the changes and interdependencies in the system,
- who or which organisation owns the development of a long-term system strategy,
- how the sector (including senior secondary schooling) is being engaged to understand the strategy, and
- who has responsibility for delivery.

We note that a TEC led refresh of the Careers System strategy is likely in the 2021/22 year. We will provide you with information over these questions in coming quarters.

Tiro Whetū

Tiro Whetū, TEC's online career planning solution, is being developed to help TEC continue to deliver on its responsibility to provide a publicly available careers information service that includes a database of information about occupations and tertiary education and training¹.

¹ s409(e) of the Education and Training Act (the Act)

Monitoring focus areas

TEC has contracted three companies to help with the design of the tool and has co-located some of its staff within these organisations to help with development.

It is good to see TEC is:

- engaging with key stakeholders including the Ministry and NZQA around the front-end design consideration needs and interdependencies for *Tiro Whetū*. This is especially important to ensure the tool is aligned with the education system strategic priorities and learner requirements, and
- considering linkages across the organisation (such as within its digital and data space) and feeding back findings from these discussions into the design build. Governance systems and detailed planning is still being put in place and we will engage on this in the next quarter.

Skill Net, the first iteration of *Tiro Whetū*, will be able to support jobseekers who may have been displaced by the on-going impacts of COVID-19 pandemic or those seeking other employment options due to other economic changes or a personal choice. TEC has launched a beta version with 22 Careers Practitioners to gain early feedback and anticipates this tool will be available for further users to access after Q3. This will allow users to see the transferability of their skills to the demands of the current job market.

It will be important for TEC to consider interdependencies of the tool with its careers' services, and how *Tiro Whetū* can support its wider work programme.

We are also interested in developing our understanding of how TEC will measure the success of the tool, and how it will engage consumer feedback to ensure it remains user-friendly and fit-for-purpose.

Direct Careers' Guidance Service

A preliminary review of the direct careers' guidance service was completed this quarter, with a view to complete a comprehensive review towards the end of Q3. Initial results indicate customer engagement with the phone service was not as high as initially anticipated, with the **in-person pop-up service proving to be more popular.**

The direct careers guidance service has been extended to 25 June 2021 to allow for further uptake. As part of this service, TEC is looking at ways to complete one-off careers workshops to New Zealanders impacted by the COVID-19 pandemic. Sessions have already been held in communities adversely affected by substantial job-losses, for example with Auckland employees of Air New Zealand recently made redundant. In these scenarios, TEC will need to work closely with MSD, as they engage with workplaces experiencing significant redundancies to offer job brokering and other services.

TEC has indicated it would be unable to provide direct careers services long-term without either additional funding or making reprioritisations and trade-offs within its critical work programme.

A key insight from the evaluation work TEC has completed is current provision around cultural competency, particularly in working with Māori and Pacific communities. This is due to the identified lack of an established network of Māori and Pacific careers advisors within CDANZ. TEC has identified this is an area which would need to be strengthened, should it continue to deliver direct careers' services.

This is also an important insight to be considered across careers services and delivery of careers products, and what a wider Te Tiriti partnership model looks like.

Monitoring focus areas

Ōritetanga Learner Success

TEC's Disability Action Plan

During this quarter, TEC released its Disability Action Plan (DAP), outlining how it will work to improve accessibility of services for disabled people. The DAP is aligned with government priorities including the Tertiary Education Strategy and New Zealand Government Disability Action Plan 2019-2023, and reflects the commitments expressed within its output measures in its 2020/21 Statement of Performance Expectations (SPE).

Additionally, TEC's DAP outlines its organisational commitment to its employees to create an accessible working environment and to help build organisational capability in this space. We are pleased to see this commitment to embedding disability support within the organisation and see this as positive modelling for the sector to help embed this approach.

Kia Ōrite

TEC is continuing to lead sector work in updating *Kia Ōrite, the New Zealand Code of Practice for an Inclusive Tertiary Education Environment for Students with Impairments*. Set to be released in Q3, *Kia Ōrite* will produce a suite of tools and guidance to help guide best-practice and system performance to better support disabled learners, such as accessibility and inclusivity considerations.

Sector engagement has been identified by TEC as a challenge to progressing this work, and we also see a challenge in ensuring the capability exists within the system to ensure the approach's success.

Through Student Achievement Component (SAC) funding, TEC will require Tertiary Education Organisation's (TEOs) who receive more than \$5 million in funding to produce a Disability Action Plan reflecting how they will implement *Kia Ōrite*. DAPs, alongside a TEO's Learner Success Plans (LSPs), are designed to support all learners to succeed. These two plans are important levers for TEC to help drive sector performance and we look forward to seeing its success through SAC performance reporting in future years.

Developing approaches to Learner Success

We are pleased to see the focus and momentum to further ingrain the Ōritetanga Learner Success within the organisation and the tertiary sector has continued at pace. This work programme is part of supporting the Tertiary Education Strategy (Learners at the Centre" and "Barrier Free Access").

It also supports TEC's targets to achieve equity of outcomes through parity of participation and achievement for Māori, Pacific and disabled learners.

Internally, this has seen the TEC applying learner success approaches to all aspects of its work programme, including the development of Tiro Whetū, Inspiring the Future, RoVE, and the Unified Funding System (UFS) for vocational education. TEC is also building its organisational capability to have systems, processes, and structures in place to achieve the aspirations of the Learner Success approach. This will be instrumental in ensuring it is able to help build TEO capability to deliver equitable outcomes.

Last quarter we reported on the progress of the Ōritetanga Learner Success pilots with TEOs across the country. Two pilots are yet to be completed at the time of writing, with TEC working on an evaluation framework to measure the outcomes of the pilots overall. It hopes to utilise the data from the pilots to inform scalability of the model to the wider sector, and to inform how it can monitor TEO's delivery and achievement of equitable outcomes for learners moving forward.

Monitoring focus areas

The TEC is also using TEO LSPs, submitted as part of last year's investment plan round, to engage with and monitor TEO performance. The challenge will be in supporting the sector to develop the maturity needed to work with diverse learner populations and their needs. A punitive approach using the LSP lever will not be an effective tool to drive change at this stage in capability building.

We also note it will be important for TEC to collect and utilise data from the tertiary sector to measure the impact of the LSPs, pilots and work being completed through these initiatives, to achieve outcomes for Māori, Pacific and disabled learners.

Moving forward, we are interested in understanding how TEC is progressing with embedding important strategies to improve outcomes for learners, including the Tertiary Education Strategy, Ka Hikitia, Tau Mai Te Reo and the Action Plan for Pacific Education.

We are also interested in understanding how these strategies, the Learner Success work programmes and Te Tiriti are helping to influence TEC's leadership team's decision making and shaping future performance reporting.

Underspends from Access to Tertiary Education appropriation have been used to fund learner success pilots with TEOs. Requirements to report back on this, as outlined in the Minister's delegation in effect since June 2020, are yet to be met.

Risk and Audit Committee (RAC)

This quarter, we engaged with TEC on its RAC functions to understand how this work programme is maturing. The audit function, which is managed out of NZQA, is essential to the organisation given its current operating environment and the many change initiatives underway in the sector, as these may have internal challenges or implications for TEC.

TEC has completed a self-assessment of its audit function and the associated processes, including refreshing what the audit plan,

templates and future approach look like. We are pleased to note capability building is ongoing, and TEC is looking at enhancing its systems, processes and templates so it can deliver on its current audit programme. This will help the maturing of the risk and assurance function within the organisation.

The audit function is strongly connected to TEC's risk programme, with regular meetings planned between this role and its internal audit function. The connection with TEC's leadership team continues to be strengthened also, with strategic risks regularly shared at Executive Leadership and Board meetings.

In the current climate, TEC has identified the following key strategic risks:

- RoVE operational support,
- COVID-19,
- People - regarding the well-being and resilience, skills, and capability of its staff,
- Unconscious biases in both equity and parity, and
- Sustainability of institutions.

As part of ongoing work in these areas, it will be important for TEC to identify any risks in the wider system where it may play a role, or where it may own the mitigation of risk. An example of this could be viewed in the complexity of risk in a value-chain environment, such as the establishment of monitoring with Te Pūkenga, and the associated role clarity conversations which are likely to need to occur.

In future engagements, we would be interested in understanding what the results of the review into its audit and risk functions produced, and how these functions are continuing to be more firmly connected.

Monitoring focus areas

Data 2020

Further to the advice we provided in Q1 [METIS 1246038], we advised TEC reconsidered the scope and phasing of the Data 2020 project. This is in part due to the impacts of the COVID-19 pandemic, and to better support alignment to the changes and readiness of the sector amongst RoVE implementation. TEC is also looking to change the name of the programme to better reflect the outcomes it wants this project to achieve.

Data 2020 will be delivered in two phases, with the first to replace the current aging data collection platform. Phase two to implement the API has been deferred, as is a significant change and may require some financial investment from the sector, which TEC is aware will be a challenge given the current environment.

We are pleased to hear that TEC is currently developing its data strategy. This will ensure that the project has a clear strategic view of what its data needs are and what it means for the organisation and sector.

It is also good to know TEC is ensuring it is building the capability of its staff, so it is able to manage the ongoing support of Data 2020.

We will continue to monitor the progress of the different Data 2020 phases and will provide you updates in future reports. We have attached as Appendix B the digital and data monitoring framework, which will help inform future engagements against this programme of work. Our focus will be informed by the results of TEC's self-assessment against the framework.

A greater focus on "real time" data to support good decision making is a must. The fact it takes 18 months to get an accurate picture of how we did 18 months ago is crazy.

Challenges, opportunities and priorities for TEC in Q3 and beyond

Some of the key challenges, opportunities and priorities identified through our monitoring activities this quarter which may help inform our advice in Q3 and beyond include:

- Managing the establishment of WDCs, and the transition of TITOs to WDCs and TEOs (associated communication with the sector will be important), ✓
- continuing to build internal capability to retain RoVE knowledge and information in-house and not just at the leadership level, ✓
- advancing the development of a monitoring approach for Te Pūkenga and WDCs, ✓
- completing role clarity discussions with key careers stakeholders, ✓
- how TEC will engage sector and user feedback to help inform future development of *Tiro Whetū*, ✓
- how TEC intends to measure the success of *Tiro Whetū*, ✓
- enabling the sector to grow the maturity to work with diverse learner populations, utilising LSP to help support this, ✓
- the impact on TEOs of supports targeted to help the sector to manage through the uncertainty of COVID-19, such as non-recovery in 2020, and ✓
- how TEC's role has supported wider government work to maintain training to support workforce needs in the recovery from COVID-19. ✓

Monitoring focus areas

Non-financial performance

TEC's non-financial performance is measured against both its Statement of Intent 2019/20 – 2022/23 (SOI) and Statement of Performance Expectations 2020/21 (SPE).

For Q2, TEC has reported progress against three performance measures total. These include:

- two SOI, and
- one SPE.

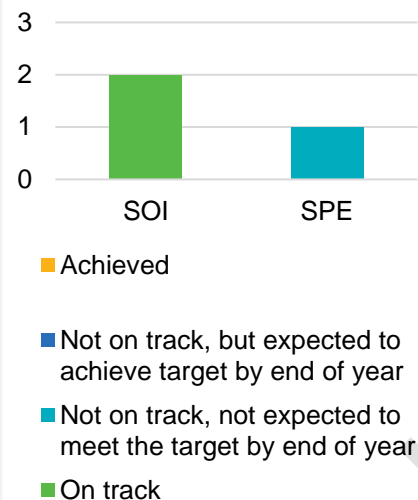
SOI measures

TEC has a total of eight SOI measures, two of which were reported against this quarter:

Measure	Actual as at 31/12/20	Target 2020/21	Actual 2019/20
<i>At least three system-wide reviews completed each year and results shared with TEOs</i>	1.00	Achieve	1
<i>At least three educational activities undertaken each year to support the capability of TEOs and provide information and guidance on their obligations</i>	1.00	Achieve	3

Both measures are reported to be **on track**.

Figure 1: Non-financial performance measures Q2 20-21



For the measure 'At least three system-wide reviews completed each year and results shared with TEOs', TEC notes one system review is nearing completion, and a further three reviews planned. We noted in our Q1 advice [METIS 1246038] the impact COVID-19 may have on the results of each of these reported SOI measures. Should there be further alert-level changes, this measure may be impacted again as resources potentially will need to be reprioritised elsewhere within TEC or within the sector partners. This measure was set pre-RoVE. It is a key part of TEC's business to identify administrative improvements.

SPE measures

TEC has 59 output measures in its 2020/21 SPE, with one reported against in its Q2 report:

Measure	Actual as at 31/12/20	Target 2020/21	Actual 2019/20
<i>Percentage of payments the TEC makes to TEOs that are made within agreed timeframes</i>	99.89%	100%	99.8%

This measure is **not on track, and not expected to achieve target by end of year**. TEC notes this is due to 14 out of 12,654 payments not being made within agreed timeframes. Performance in this area is on par with the previous two years' reporting data.

Financial performance Q2 2020/21

Overview

TEC's financial performance has been better than budget over the period 1 July 2020 to 31 December 2020 (YTD FY21), with a net deficit of \$0.043m compared to a budget deficit of \$2.711m.

It is anticipating this improved financial performance will continue until the end of the financial year, although this is subject to change once updated information on student demand is received after the April SDR's.

TEC remains financially stable and able to absorb the forecast deficits over the next five financial years.

BUDGET SENSITIVE: TEC, together with the Ministry, has submitted a joint RoVE Budget bid for the next financial year. If this funding is not received, TEC will not have sufficient means to self-fund the associated activity.

Quarterly financial performance

TEC has recorded a \$0.300m operating deficit in YTD FY21, which is better than the budgeted deficit of \$3.861m.

Operating revenue has been \$1.598m higher because of Budget bids approved after the SPE budget was prepared.

Operating expenditure has been below budget levels due to lower depreciation and amortisation, travel, and personal costs. Additionally, several work programmes are currently running below Budget levels. Whilst it is anticipated that the level of activity will increase, TEC in its Quarter Two report is forecasting a lower operating deficit (\$3.750m) than originally budgeted (\$4.976m). Subsequent to finalising the

Quarter Two report, TEC has now signalled that the operating deficit will be lower than the \$3.750m previously expected.

With the lower deficit TEC is considering if it can bring forward or accelerate some work programs, albeit this is contingent on securing appropriate resources, which continues to be a challenge in a tight labour market. The tight labour market has been a driver of the improved financial performance in the YTD.

Whilst Grant revenue and expenditure are both running behind the YTD budget, TEC is anticipating it will allocate more funds than budget by year end. This is primarily due to increased funding in response to the COVID-19 pandemic.

Table 1. Financial performance

\$'000	YTD Actual	YTD Budget	FY21 Budget	FY21 Forecast
Operating				
Revenue				
Government grants	39,128	37,311	75,258	82,440
Other	1,937	2,156	4,621	3,900
	41,065	39,467	79,879	86,340
Expenditure				
Personnel expenses	(26,594)	(27,480)	(54,109)	(56,759)
Other operating expenses	(12,543)	(13,292)	(25,549)	(28,948)
Depreciation & amortisation	(2,228)	(2,556)	(5,197)	(4,383)
	(41,365)	(43,328)	(84,855)	(90,090)
Net surplus/(deficit)	(300)	(3,861)	(4,976)	(3,750)
Grants				
Revenue	336,662	394,858	2,506,019	2,542,043
Expenditure	(336,405)	(393,708)	(2,554,518)	(2,588,407)
Net surplus/(deficit)	257	1,150	(48,499)	(46,364)
Overall				
Net surplus/(deficit)	(43)	(2,711)	(53,475)	(50,114)

Financial performance Q2 2020/21

TEC expects to have a grant deficit for the year, which will be funded from its balance sheet, however the final position will not be clear until after the April SDR's are received from TEO's.

Financial sustainability

TEC remains financially stable with equity of \$142.307m. The equity position at 31 December 2020 was better than budget because of the improved financial performance in YTD21.

As referenced previously, TEC anticipates running operating deficits for the next five financial years, including this year, which will be funded from accumulated reserves on TEC's balance sheet.

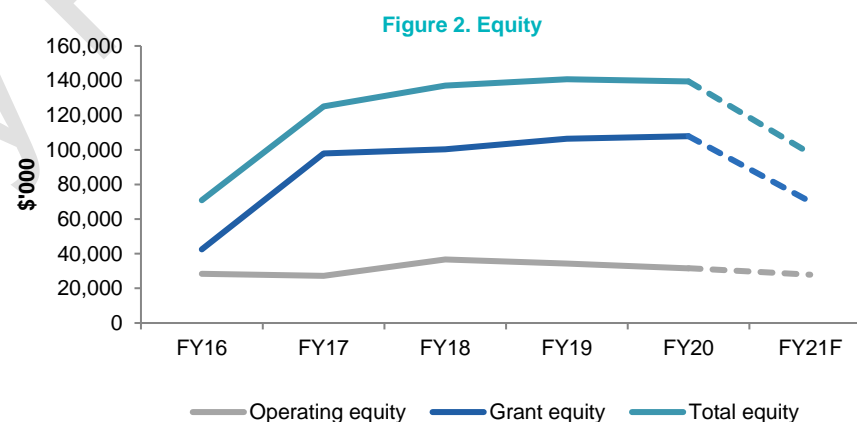
Following this period, TEC will have limited ability to self-fund deficits and will need to identify and initiate operating efficiencies, unless baseline increases in operating funding are received.

TEC currently has \$108m of Grant funding on its balance sheet retained under the Balance Sheet Mechanism. If its Grant forecast for the financial year is accurate, it will utilise \$46.364m of this in the current financial year. Whilst this will significantly reduce this reserve, it will still retain some flexibility in how funding is allocated.

As at 31 December 2020, TEC held \$78.294m in cash on its balance sheet. This was made up of \$25.355m in operating cash, \$35.539m in grant cash and \$17.400m in pre-purchased English language tuition (PELT) cash. This level of PELT cash continues to reduce from historic levels as the number of migrants has dropped due to border closures.

Table 2. Financial position

	As at 31 Dec 2020 Actual	As at 30 Dec 2020 Budget	As at 30 June 2021 Budget	As at 30 June 2021 Forecast
\$'000				
Assets				
Current assets	428,696	478,239	553,582	533,904
Non-current assets	19,127	20,032	25,559	25,664
	447,823	498,271	579,141	559,568
Liabilities				
Current liabilities	303,892	355,878	482,070	460,101
Non-current liabilities	1,624	1,810	1,735	1,582
Total liabilities	305,516	357,688	483,805	461,683
Equity	142,307	140,583	95,336	97,885



ANNEX A: Letter to Chair of the TEC Board (next page)

Proactively Released

Jenn Bestwick
Chair
Tertiary Education Commission
PO BOX 27048
WELLINGTON 6141

chair@tec.govt.nz

Dear Jenn

I have received the Tertiary Education Commission's (TEC) Quarter 2 2020/21 report, as well as the Ministry of Education's advice on TEC's performance for this period.

Implementing the National Education and Learning Priorities (NELP), the Tertiary Education Strategy (TES) and the Education Work Programme 2.0, will continue to be a priority for the education sector this year. TEC will have a key role in driving implementation into the tertiary sector and it will be important it works closely with the Ministry of Education and other key partners on this.

Careers services play a critical role in New Zealand's ongoing response to, and recovery from, the COVID-19 pandemic as it will support people to understand the transferability of their existing skills to move into sustainable employment. For this reason, I watch with interest the continued development of *Tiro Whetū* and how *Skill Net* will support these displaced workers. While Tiro Whetū delivers the platform capability for careers services in the TEC, I look forward to hearing progress of the development of a system strategy to help drive careers services forward in our new operating environment. It is good to see the increase in enrolments compared to previous years in apprenticeships across critical industries to support this recovery, enabled through TEC's delivery of the Targeted Training and Apprenticeships Fund.

The Reform of Vocational Education (RoVE) continues to play a key role in ensuring the sector remains fit-for-purpose for learners, and I am pleased to hear the process to establish the Workforce Development Councils is being well planned. I look forward to further updates on TEC's work to understand operational impacts of RoVE and how it will continue to support workforce needs in the recovery from COVID-19.

There is much to achieve in the upcoming year. Thank you for you and your Board's continuing support. Please pass on my thanks to your Boards members and TEC staff for their efforts.

Yours sincerely



Chris Hipkins
Minister of Education

cc Tim Fowler, Chief Executive, TEC
cc Emily Fabling, Deputy Secretary, Strategy, Planning and Governance,
Ministry of Education