



Education Report: Advice on Tertiary Education Commission - Quarter 4 2021/22 and Quarter 1 2022/23 performance

To:	Hon Jan Tinetti, Minister of Education		
Date:	15 February 2023	Priority:	Medium
Security Level:	In Confidence	METIS No:	1302238
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Messaging seen by Communications team:	No	Round Robin:	No

Purpose of Report

This report is being resubmitted from it being provided to the previous Minister of Education on 15 December 2022. It provides our assessment of the Tertiary Education Commission's (TEC) performance over Quarter 4 2021/22 and Quarter 1 2022/23 performance. We have combined performance assessment of these two quarters into one report due to resourcing challenges both at TEC and the Ministry. A letter to the TEC Board Chair for you to sign is attached as Annex 1. You may wish to combine this letter with the letter of our Quarter 2 advice on TEC's performance [METIS 1302238], which you will receive late February 2023.

Summary

- TEC has made significant progress in advancing the National Careers Strategy. Extensive engagement has occurred under tight timeframes and TEC has performed very well delivering on this work stream.
- TEC's internal Reform of Vocational Education (RoVE) project has been incorporated into Business as Usual (BAU) roles. Medium to longer term operational model changes (people, processes, systems, technology) are still being worked through.
- Monitoring of Te Pūkenga remains complex and there has been significant public scrutiny of the entity. TEC continues to work closely with Te Pūkenga and is well across risks. Building a strong relationship with the new Chief Executive is a current focus.
- Resourcing remains a challenge in some areas in TEC due to a tight labour market and financial constraints.
- TEC continues to have a lead role in cybersecurity in the Tertiary sector and it continues to assess risks and opportunities with providers. Internally, TEC is progressing work with its vendors to adopt CERT NZ's Phishing Disruption Service.
- TEC is required to report on pay gaps by the end of 2022. It is on track to do so, and we will engage further on its action plan in 2023.
- We have been engaging on TEC's draft Annual Report for the 2021/22 financial year. TEC intends to provide the final version to you on 11 January 2023. Based on the draft version we have reviewed, the Annual Report meets legislative requirements for content. We will provide detailed analysis over the performance measures in early 2023. Once received, you will need to table TEC's Annual Report in Parliament within 5 working days.

Recommended Actions

Te Tāhuhu o te Mātauranga | the Ministry of Education recommends you:

- a. **note** our advice on TEC's performance in Quarters 4 2021/22 and 1 2022/23.

☒ Noted

- b. **note** TEC's Annual Report meets the legislative requirements for reporting as outlined in the Crown Entities Act 2004.

☒ Noted

- c. **sign and send** the attached letter to the TEC Board Chair (Annex 1)

Yes ☒ No

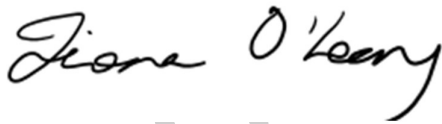
or

- d. **combine** the attached letter to the Board Chair with the letter attached to our forthcoming Q2 report

☒ Yes No

- e. **agree** that Te Tāhuhu o te Mātauranga | Ministry of Education proactively release this briefing in full once the attached letter has been signed and sent to the TEC Board Chair.

☒ Agree Disagree



Fiona O'Leary
Director, Monitoring and Appointments
Te Pou Rangatōpū
15/12/2022



Hon Jan Tinetti
Minister of Education

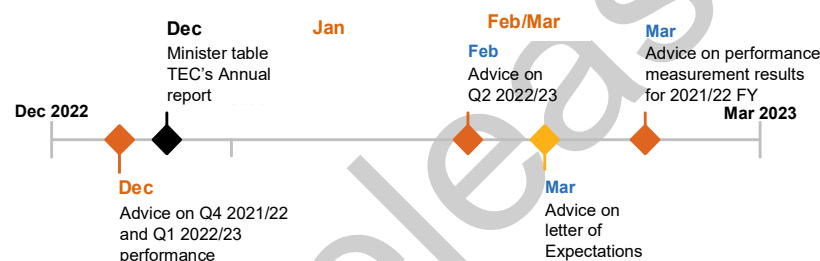
16/02/2023

Monitoring overview Q4 2021/22 and Q1 2022/23

Key challenges and opportunities

- We have opted to provide a combined report for the Q4 and Q1 period to manage resourcing challenges. TEC has continued to provide us with regular updates across this period.
- Similar to the other education Crown entities, TEC continues to be impacted by resource pressures, including recruitment and retention challenges and high workloads. This continues to be a system-wide issue which has been further exacerbated by ongoing illness. TEC has a strong focus on wellbeing of staff and the Board and Leadership team are receiving regular reporting on this.
- High workloads and significant change programmes are impacting on the sector's ability to manage the change in the system. This continues to be an area of focus for us across the entities we monitor.
- TEC's role in monitoring Te Pūkenga remains a key focus. Maintaining strong relationships, particularly with the new Chief Executive, is a priority for TEC.
- Non-financial performance is a key focus for us as Monitors in the lead-up to TEC's preparation of its Statement of Performance Expectations. We are currently analysing TEC's performance measures, which will be provided to you in the New Year.
- We are seeing increasing cost pressures across the entities we monitor, which is a priority area for our financial performance analysis in the New Year.

Upcoming reports



Financial performance Q1 2022/23

Financial performance operating summary

\$'000	YTD23 Actual	YTD23 Budget	YTD22 Actual
Revenue	19,855	19,401	20,500
Expenditure	(20,885)	(21,414)	(20,202)
Net surplus/(deficit)	(1,030)	(2,013)	298

Financial position summary

\$'000	As at 30 Sept 2022 Actual	As at 30 Sept 2022 Budget	As at 30 Sept 2021 Actual
Cash and investments	77,199	90,068	121,572
Equity	118,793	122,200	115,207
Working capital ratio	1.23	1.22	1.17

Non-financial performance – Monitoring Engagement – Q4 2021/22 and Q1 2022/23

Careers

TEC's careers work programme has made significant progress since our last update. Initial decisions on the updated group business model have been made. It is good to see that TEC will have a dedicated focus on careers. The current strategy proposes the need for a system monitor for careers; if TEC becomes the system monitor, we would expect it to review resourcing, governance, performance and reporting practices.

We have seen improvements in the engagement and consultation process TEC has undertaken on the National Careers Strategy. Strong and extensive engagement with sector, Iwi, Māori, Pacific and disability focus groups has occurred resulting in a much more fit-for-purpose and streamlined strategy. This work was achieved under tight and ambitious timeframes and we are pleased to see a positive outcome.

Development of Tahatū remains on track. TEC has moved into its third increment which includes a review across the intended benefits. A privacy impact assessment has also been completed and initial changes have been made on the existing platform, some of which will also be built into the new products.

Moving forward, TEC has work underway to develop its performance measures relating to its careers function. We have raised this as an area for improvement for some time. We look forward to hearing more about this next quarter.

Unified Funding System (UFS) implementation

TEC is currently focused on supporting the successful integration of the UFS into the existing TEC systems and processes. This includes assessing and updating investment plans and funding conditions; and the associated processes which sit alongside. Work is running ahead of schedule due to strong governance arrangements over the project and a well-resourced team to support the work. The project is also

closely connected with the Reform of Vocational Education (RoVE) PGB so there is strong alignment with other key workstreams.

The IT component for the strategic solution for UFS is proving more challenging than expected; the existing systems, however, are able to remain in place while the platform is developed further.

A key focus for moving forward is ensuring providers have the capability to deliver on the strategic component and that IT systems are able to implement the final solution.

Iwi, Māori, WDCs and RSLGs have a key role in setting the strategic direction and in driving national and regional priorities. Initial advice to TEC is expected in early 2023.

Cybersecurity

Cybersecurity

TEC is continuing to develop its support for cybersecurity in the tertiary sector. This includes developing minimum expectations for tertiary providers, areas for improvements and identifying key risks to address.

Resourcing

IT Resourcing remains a challenge due to the highly competitive job market for technical roles. This is resulting in high workloads, turnover, and a significant number of vacancies which limits capacity for new work. This is also being reflected in the vendor market, which is impacting TEC's ability to acquire vendor support as larger organisations are able to offer more competitive rates.

TEC is continuing to develop career progression pathways and incentives for staff to remain within the organisation.

Non-financial performance – Monitoring Engagement – Q4 2021/22 and Q1 2022/23

Information system strategy

TEC's information system strategy was shared with its Board in June and has been rolled out internally across the organisation. It would be beneficial to share this strategy with partner agencies to ensure alignment or identify opportunities to connect on workstreams.

Phishing disruption service

In November 2021, Cabinet directed all state sector agencies to adopt CERT NZ's Phishing Disruption Service. Initial implementation begun in April 2022, focusing on the larger central agencies, and has now moved to include Crown Entities.

TEC's vendor is currently progressing the incorporation of this service into existing products, and we will seek an update in early 2023.

RoVE and monitoring of providers

TEC's internal readiness for RoVE has now been incorporated into business as usual. Medium to long term operational changes (such as how the monitoring model will shift) are still being worked through.

There has been significant public scrutiny across Te Pūkenga's role and leadership over the engagement period. TEC has been focused on building a strong relationship with the new Chief Executive, which is critical moving forward. Engagement with Te Pūkenga remains frequent, and across multiple dimensions. TEC places considerable emphasis on ensuring internal consistency across its communications and relationship management with Te Pūkenga.

Alongside regular conversations about sustainability and viability, TEC has engaged with university vice chancellors to understand what is top of mind for them moving into 2023. The ongoing impact of illness, only slowly increasing international enrolments, inflation and cost pressures remain major challenges.

In the Private Training Establishment sector, the impacts of COVID-19 are becoming more evident as they no longer have the funding guarantee in place. Looking after learners through this period is a priority to ensure minimal impacts on learning.

Pay equity – Kia Toipoto

Kia Toipoto – the Public Service Pay Gaps Action Plan 2021–24 was launched in November 2021.

Key milestones entities are expected to meet:

Timeframe	Action
End of 2022	<ul style="list-style-type: none">publish annual action plans based on gender and ethnicity data and union/employee feedback.ensure that starting salaries and salaries for the same or similar roles are not influenced by bias.
End of April 2023	<ul style="list-style-type: none">have plans and targets to improve gender and ethnic representation in their work force and leadership.
By mid 2023	<ul style="list-style-type: none">have career pathways and equitable progression opportunities that support women, Māori, Pacific and ethnic employees to achieve their career aspirations.
By the end of 2023	<ul style="list-style-type: none">have remuneration and HR systems, policies and practices designed to remove all forms of bias and discriminationensure leaders and employees learn about and demonstrate cultural competence.

Non-financial performance – Monitoring Engagement – Q4 2021/22 and Q1 2022/23

By the end of 2024

- the Public Service workforce and leadership are substantially more representative of society
- offer equitable access to flexible-by- default working and ensure it does not undermine career progression or pay

TEC is on track to meet these deadlines and we will engage further on the action plan in early 2023.

Non-financial performance – Monitoring updates

Annual report 2021/22

We have been engaging with TEC on the development of its 2021/22 Annual Report across October. Initial feedback has been provided and incorporated.

TEC is intending to provide its final Annual Report to you on **11 January 2023**. You are required to table the entity's final Annual Report to the House of Representatives within five working days after receiving the report or, if Parliament is not in session, as soon as possible after the commencement of the next session of Parliament.

We will be providing a further analysis across TEC's non-financial performance measures in early 2023. We are also exploring opportunities to incorporate a cross-entity workforce analysis to highlight trends across the sector. Initially, we are likely to look at staff-related data, such as contractors, retention and pay gaps.

Based on the draft version received, TEC's Annual Report meets the legislative requirements for reporting as outlined in the Crown Entities Act 2004.

Statement of Performance Expectations 2023/24 and updated Letter of Expectations

Engagement on the development of TEC's Statement of Performance Expectations for 2023/24 will begin next quarter. Some areas we are looking to explore further include how functions such as Careers and TEC's role in RoVE are further reflected in its performance measurement framework. A detailed analysis will be provided to you around April 2023.

The process to update the current TEC letter of expectations is underway. We are planning to refresh the current version and provide a draft to you in February. Initial changes are currently being tested with TEC and Ministry policy teams.

Financial performance – Monitoring Engagement – Q4 2021/22 and Q1 2022/23

Overview

TEC delivered an overall deficit of \$0.58m in the period 1 July 2022 to 30 September 2022 (YTD FY23). This was made up of an operating deficit of \$1.03m and a grant surplus of \$0.45m.

The operating performance was ahead of budget, largely as a result of programme and project cost being lower than anticipated, higher than usual vacancies and lower depreciation. In addition, TEC received an unbudgeted \$0.50m from the Ministry of Social Development to continue running the Direct Careers Service in July and August. TEC now anticipates its full year operating performance will be \$1.10m ahead of budget, with an operating deficit of \$3.86m.

The grant surplus in the YTD is largely aligned with budget, however both revenue and expenses have been lower. TEC has noted that it now expects its end-of-year grant spend to be \$30.0m less than budget with a \$10.0m surplus in its MCA and \$18.0m in fees-free.

From a balance sheet perspective TEC remains in a stable financial position. The majority of current assets and liabilities relate to grant receivables and payables.

TEC had \$77.2m in cash and cash equivalents at the end of the quarter, with \$46.6m related to grants and \$11.6m pre-purchased English language tuition. The remaining \$19.0m was operating cash.

Looking forward, we are seeing increasing cost pressures due to high inflation and labour market movement. TEC is managing these pressures well now but is concerned about the medium to long term implications. This has led to several small restructures/realignments this year to manage costs and support its sustainability. TEC is actively managing financials to ensure viability/sustainability.

The public sector-wide staff pay increases that are currently negotiated, if adopted by TEC, will add additional cost pressure.

Table 1. Financial performance

\$'000	YTD23 Actual	YTD23 Budget	YTD22 Actual
Operating			
Revenue			
Government grants	18,853	18,853	19,525
Other	1,002	548	975
	19,855	19,401	20,500
Expenditure			
Personnel expenses	(14,818)	(14,004)	(14,307)
Other operating expenses	(4,796)	(5,705)	(5,058)
Depreciation & amortisation	(1,271)	(1,705)	(837)
	(20,885)	(21,414)	(20,202)
Net surplus/(deficit)	(1,030)	(2,013)	298
Grants			
Revenue	774,745	805,757	846,290
Expenditure	(774,297)	(805,157)	(848,769)
Net surplus/(deficit)	448	600	(2,479)
Overall			
Net surplus/(deficit)	(582)	(1,413)	(2,181)

Table 2. Financial position

\$'000	As at 30 Sept 2022 Actual	As at 30 Sept 2022 Budget	As at 30 Sept 2021 Actual
Assets			
Current assets	494,786	527,369	645,563
Non-current assets	26,663	27,709	23,150
	521,449	555,078	668,713
Liabilities			
Current liabilities	401,294	431,334	552,036
Non-current liabilities	1,362	1,544	1,470
Total liabilities	402,656	432,878	553,506
Equity	118,793	122,200	115,207