



Education Report: Tertiary Education Commission performance – Quarter 1 2020/21

To:	Hon Chris Hipkins, Minister of Education		
Date:	15 January 2021	Priority:	Medium
Security Level:	In Confidence	METIS No:	1246038
Drafter:	Sara Hewson	DDI:	§ 9(2)(a)
Key Contact:	Fiona O'Leary	DDI:	§ 9(2)(a)
Messaging seen by Communications team:	No	Round Robin:	No

Purpose of Report

This paper provides our assessment of the Quarter 1 (Q1) 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 secondary monitors.
- This assessment covers TEC's performance over July to October 2020 (Q1 2020/21), and developments up to the date of this report. This report sits alongside TEC's own quarterly report, which you have received.
- Our advice on TEC's annual report is being submitted alongside this report and complements our Q1 advice. These pieces of advice signal the upcoming challenges TEC face and inform the upcoming Letter of Expectations, which will be submitted to your office by the end of January 2021.
- The response to COVID-19 and understanding ongoing and future impacts continues to be a strong focus for TEC. This is informing the organisational strategy TEC is developing which it intends to engage the sector on in early 2021.
- TEC is broadening its Review of Vocational Education (RoVE) focus to cover internal impacts. This is good to see as its initial focus has been primarily on the wider system. We will continue to engage on this as TEC confirms scope of the associated work streams.

Recommended Actions

The Ministry of Education recommends you:

- a. **note** our report on TEC's performance in Q1 2020/21

Noted

- b. **sign** and **send** the attached letter on TEC's Q1 and end of year performance to Jenn Bestwick, Chair of the TEC Board

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
15/01/2021



Hon Chris Hipkins
Minister of Education

19/ 3/ 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 TEC Board Chair on the entity's Q1 performance

Monitoring focus areas

COVID-19 and scenario planning

In Q1 TEC completed an impact analysis of COVID-19 on its business, which has helped form its medium to long-term organisational strategy. This work will enable TEC to continue to look at what is coming ahead, understand organisational pressures, and plan its ongoing COVID-19 response, while supporting sector continuity.

Although the organisational strategy is in early stages of development, the next steps will involve:

- translating the strategy into a set of outcomes, which will help support the framing of measures in future accountability documents,
- identifying any gaps in service delivery and how these can be implemented in the short and long-term,
- how Business-As-Usual (BAU) activities align to the needs of the current environment, and
- engaging with the sector to ensure the strategy is aligned to its priorities. This work is not being completed until February 2021, to avoid adding additional work to an already pressured sector.

TEC is aware its staff have limited to no additional capacity. It is good to see TEC is focusing on work planning, and what organisational trade-offs can be made, and how the work programme can be sequenced to relieve these pressures. This will continue to be an area of focus for our monitoring moving forward.

It will also be important for the sector and key partners to be engaged when considering changes in long-term direction and delivery, including completing consultation where appropriate.

Review of Vocational Education (RoVE)

TEC has largely been focused on the wider RoVE system changes. We are pleased to see it is now broadening its focus towards its internal work programme and how its BAU will need to adapt to

accommodate the changes needed for RoVE. The Board also recognises this is a priority for TEC.

As noted in our 2019/20 Q3/Q4 advice [METIS 1212160 refers], we monitor the education Crown entities on how they are implementing the parts of the programme they are responsible for, and not the overall programme.

TEC is focusing on how to progress four key work streams into its organisational BAU including:

- Transitional ITOs,
- Unified Funding System,
- Te Pūkenga, and
- Workforce Development Councils (WDCs) and Regional Skills, Leadership Groups (RSLGs).

This work will help TEC understand the tasks, scope and resourcing needs to position TEC to help fully embed RoVE into its organisational BAU activities. As part of this work TEC is considering how the RoVE programme can be incorporated into its careers function.

While TEC scopes its workstreams, it continues to deliver on:

- setting up an effective monitoring regime of Te Pūkenga and WDCs,
- reviewing and adjusting the investment process and funding of Te Pūkenga,
- creating stronger relationship roles in the RoVE delivery function,
- establishing WDCs, and
- ensuring Te Tiriti is being actively considered in RoVE.

Ōritetanga Learner Success

Through the Ōritetanga work programme, several Tertiary Education Organisations (TEOs) have been piloting the Learner Success model, aimed at understanding learner's needs, and providing support to

Monitoring focus areas

ensure they remain at the centre of all decision making. Many of these pilots have now been completed. One pilot was delayed at implementation due to COVID-19.

TEC is in the process of completing an evaluation of the pilots. This will enable it to understand what supports and needs were identified for learners, and the scalability potential of the Learner Success model. We look forward to hearing about the outcomes of the evaluations in future engagements.

To further embed equity in the system, TEC has shifted its investment processes with TEOs, so those who receive funding of more than \$5 million will need to submit a Learner Success Plan. With these plans, TEOs need to outline, among other things:

- how they aim to improve outcomes through parity of participation and achievement for Māori, Pacific and disabled learners,
- organisational commitment by identifying what culturally appropriate, responsive processes and practices are in place, and
- how they are developing partnerships with stakeholders.

A reporting framework will be developed to give an overarching picture of a subsidiaries' performance, capability and to identify any gaps in this space. This will be important to help provide a stronger lens to address alleged racism in the system, and monitor TEOs' performance in this space ongoing.

This is a positive shift in the funding model, and we are interested in understanding:

- what the reporting framework looks like,
- how TEC will be monitoring the TEOs' performance against these plans,
- what levers they will apply, and
- understanding financial spend in this area.

Careers

Direct careers service

Alongside the Career Development Association of New Zealand (CDANZ), TEC has developed direct careers guidance services to be implemented in stages from October 2020 to March 2021.

Utilising CDANZ Careers Advisors, the service will:

- provide a phone service, where customers will be triaged and allocated to a CDANZ advisor for 1-1 careers guidance,
- place CDANZ careers advisors at pop-up stations in regions of New Zealand directly affected by COVID-19 job losses to raise awareness of careers options, and
- one-off career information sharing events alongside the Ministry of Social Development (MSD) offices in regions as above.

TEC has developed an evaluation approach to measure the outcomes of these services, to help inform future stakeholder delivery. We will continue to monitor this programme of work closely in upcoming quarters, with an interest in what will happen with frontline delivery of direct careers services once the interim funding is depleted. We will provide you with further information on the outcome of these services once the evaluation data is available.

The direct careers service has led to better careers system stakeholder collaboration, particularly with MSD. TEC has completed role clarity conversations with MSD about the careers space over Q1. TEC has advised it intends to progress these discussions with other relevant careers stakeholders also. This will be beneficial to ensure there is an agile, collaborative and sustainable careers system that can be responsive to the needs of New Zealanders.

Monitoring focus areas

Sector capability

During the quarter, TEC alongside CDANZ, helped to deliver capability building sessions to frontline MSD staff. It is not clear where responsibility lies for capability building in the system, and we see this as an area of opportunity for TEC to explore further in future with the Ministry.

Inspiring the Future

TEC continues to deliver on its *Inspiring the Future* programme. Before the March 2020 lockdown occurred, two pilots were able to be delivered, with three more being completed post lockdowns. One more pilot is yet to be completed.

Targeted media advertising was completed from August 2020, to find volunteer role models to deliver at pilot schools in Gisborne, Auckland and Dunedin, with a view to gathering further expressions of interest for other regions for future programme delivery.

Key insights from the pilots have been included in the development of the Inspiring the Future website as well as the supporting resources for role models, teachers and students. Insights are gathered from interviews prior and post the events, as well as observations during the events. Full end-to-end testing will commence in Term 1, 2021 and will be reported in TEC's formal benefits and evaluation plan.

In the next quarter we will continue to build on our understanding of the impact of the work completed so far with *Inspiring the Future*, including:

- how it fits into its primary careers' role, and
- how it will continue to measure performance, particularly as TEC intends to further expand delivery of the programme.

Tiro Whetū

Tiro Whetū features in our end of year advice and will be a focus for our monitoring activities in Q2.

Data and Digital

TEC's Data and Digital security work programme is progressing well. In Q1 we have focused on gaining an understanding of its current priorities and focus.

TEC is developing an understanding of its security and privacy needs, and continues to strengthen its systems, practices and processes in this space. Activities have included:

- providing training to staff on cyber security risks, including supporting staff to understand the organisational privacy policies and procedures,
- updating its privacy and information policies such as how to manage the collection and storage of private information, and
- contracting a third-party agency to review its cyber security approach.

This is timely given the updates and changes to the Privacy Act which came into effect on 1 December 2020. TEC has provided assurance it is compliant with the guidance issued in 2019 by the National Cyber Security Centre for public service Chief Executives on protecting agency systems.

Work is continuing between TEC and the Ministry to advance the Data 2020 project. The timing of which has been reviewed and redefined owing to the impacts of COVID-19 and will likely be delivered in the latter half of 2021. Phases for this project have been scoped, with the first being to replace the obsolete data collection platform with a new one, and the second involving replacing the collection system. We will continue to monitor progress of this project and provide you with advice accordingly.

Monitoring focus areas

Digital and data monitoring framework

The Ministry has worked with TEC and the other education Crown entities to co-design a digital and data monitoring framework. This will help guide our Information Technology assurance approach and enable us to identify any risks in TEC's work in this area moving forward. The Ministry met with the Crown entities recently to progress the framework, who agreed to complete self-assessment against this document. We expect to report on the results of this in our Q3 report.

Annual report 2019/20

Due to COVID-19, Audit NZ has been delayed in providing their final report to TEC. At the time of writing this report, TEC is finalising its Annual Report, and will be provided to you within 15 working days of the Audit opinion being issued. This does not preclude our ongoing monitoring, nor the timing of this Quarter 1 report.

Challenges, opportunities and priorities for TEC in Q2 and beyond

As monitors some of the key challenges, opportunities and priorities which will inform our monitoring advice for Q2 include:

- the overall capacity and workload of staff,
- how TEC is applying trade-offs and prioritisations to its workload. We need to continue conversations on what these are and increase transparency on how they are being applied through its business plan processes,
- ensuring Te Tiriti is considered and embedded across its wider work programme. Progress has been made in doing this so far with RoVE,
- continuing to engage with TEC on its role and value-chain in careers services, and how it is engaging with other Government and careers sectors stakeholders who deliver services in this space,
- understanding its performance improvement plan and what this means for its SPE,

- understanding the evaluation impacts of TEC's projects and programmes to further measure the impacts it is having,
- continuing our focus on critical work programmes TEC needs to implement and deliver within its organisation, including RoVE, Data 2020 and Te Rito, and
- maintaining a focus on financial and investment management capabilities. This includes understanding what processes are in place for allocating funding, and how TEC ensures compliance against the Public Finance Act 1989.

Future engagement

Some topics we are interested in engaging on in coming quarters include:

- focusing on TEC's core investment capability, including understanding decision making and delegations of responsibility for changes in the use of funds within or between appropriations,
- understanding organisational prioritisation and trade-off management in considering work-programme development and delivery
- understanding TEC's risk management, through engagements with Risk and Audit Committee and the EPMO function, and
- planning for the appointment of a member in 2021, which is detailed in a separate Education Report [METIS 1244424 refers].

Non-financial performance

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

This quarter, TEC has reported progress against two SOI, and six SPE measures.

Monitoring focus areas

Performance against current measures

SOI measures

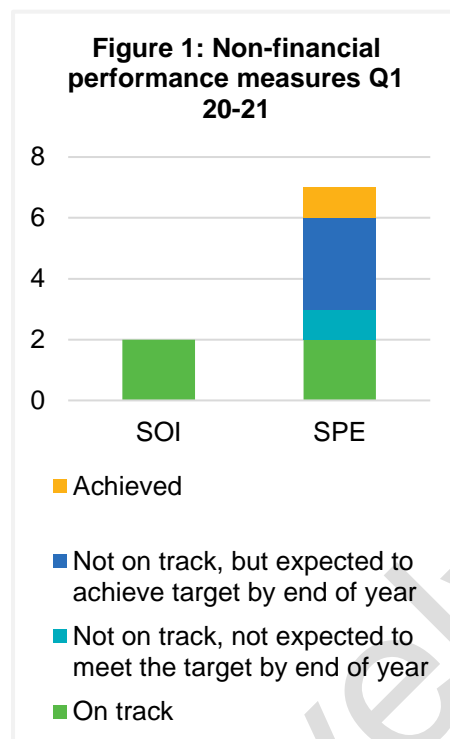
TEC has a total of eight SOI measures, two of which were reported against this quarter:

- *At least three system-wide reviews completed each year and results shared with TEOs*
- *At least three educational activities undertaken each year to support the capability of TEOs and provide information and guidance on their obligations*

Both measures are reported as being on track, however COVID-19 may have an impact on the final results. Each measure requires engagement with the sector, and in particular the measure 'At least three educational activities undertaken each year to support the capability of TEOs and provide information and guidance on their obligations' will be impacted by restrictions on group gathering sizes if there are further changes in alert levels.

SPE measures

TEC has a total of 59 measures in its 2020/21 SPE, six of which are reported against in Q1. Of these measures, TEC reports it has achieved one measure already:



- *Number of domestic equivalent full-time students in Information and Communications Technology (ICT) Graduate Schools per calendar year.*

Four measures are **not on track but expected to achieve target** by the end of the year:

Measure	Actual year to date	Target 2020	Actual 2019
Percentage of learners accessing the desired range (hours) of provision: Intensive literacy and numeracy (TEO – led)	32.74%	At least 60.8%	73.37%
Percentage of learners accessing the desired range (hours) of provision: Intensive literacy and numeracy	42.33%	At least 60.8%	94%
Percentage of learners accessing the desired range (hours) of provision: English for Speakers of Other Languages	93.33%	At least 95.6%	95.78%
Gateway – total participants and number of schools	8,108 in 339 schools	13,200 ± 5% in up to 375 schools	14,333 in 378 schools

Performance for some of these measures is consistent with previous years' Q1 results, however as with the SOI measures, we may see the results of some of these measures be impacted by COVID-19 in the coming quarters.

Lastly, TEC has reported one measure is not on track, and not expected to be achieved by the end of the year:

- *Percentage of payments the TEC makes to TEOs that are made within agreed timeframes*

Monitoring focus areas

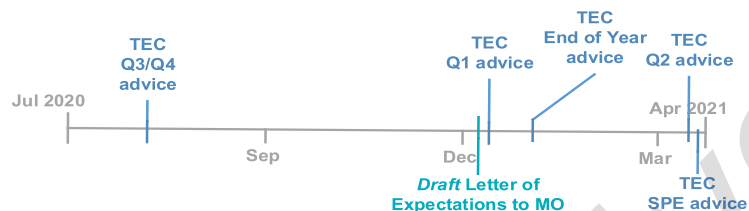
TEC's has advised this is due to two out of 6,494 payments not being made within agreed timeframes.

Future measures development

Planning is underway to develop the 2021/22 SPE and for the 2021 supplementary estimates process. TEC and the Ministry are working collaboratively to shape measures that align better to policy intent and outcomes associated from the different appropriations. We are pleased to note this process is going well and allowing for positive discussions around how measures should read. We will provide you with further updates on this work in Q2.

Upcoming reports

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



Financial performance Q1 2020/21

Overview

TEC remains in a stable financial position. It is forecasting losses in both its operating and grant performance for the financial year ending 30 June 2021 (FY21). These losses can be funded from its balance sheet and will not have a material impact on TEC's financial viability.

From a medium-term perspective, TEC is forecasting losses in each of the next five financial years as it self-funds a number of initiatives and reduces its head count, so it can operate within its core appropriation. These losses will be funded from accumulated reserves on its balance sheet. At the end of the five-year period, TEC will have minimal ability to absorb budget overruns.

Quarterly financial performance

TEC's operational performance has been slightly ahead of budget with a deficit in the quarter ended 30 September 2020 (YTD) of \$0.374m, compared to the budgeted deficit of \$1.405.

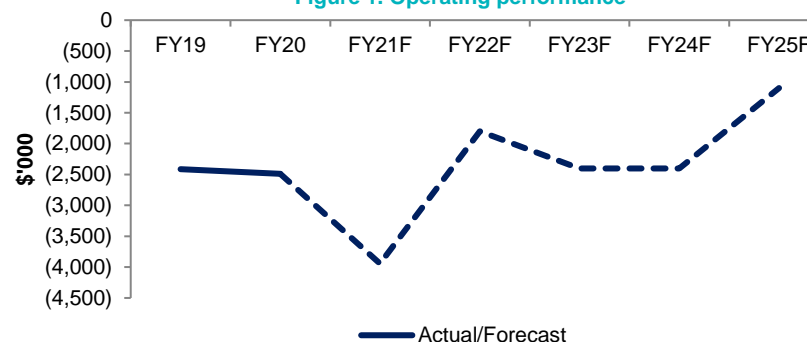
This is partially a result of delays in the timing of when expenditure will occur, together with some permanent savings in travel, depreciation and employee costs that will flow through to the end of year performance. TEC is forecasting a full year operating loss of \$3.943m compared to a \$4.976m loss when the budget for the year was set.

Grant revenue and expenditure were closely aligned in the financial quarter, with a small net surplus of \$0.098m recorded. While TEC currently anticipates a grant deficit for the financial year of \$48.499m, which will be funded from the Balance Sheet Mechanism (BSM), given current economic uncertainty it is hard to forecast tertiary student demand with any real accuracy. TEC will monitor grant performance closely during the year and will adjust the forecast as required.

Table 1. Financial performance

	YTD Actual	YTD Budget	FY21 Budget	FY21 Forecast
\$'000				
Operating				
Revenue				
Government grants	18,766	18,656	75,258	80,533
Other	958	1,078	4,621	4,533
	19,724	19,734	79,879	85,066
Expenditure				
Personnel expenses	(13,293)	(13,541)	(54,109)	(57,556)
Other operating expenses	(5,644)	(6,270)	(25,549)	(27,152)
Depreciation & amortisation	(1,161)	(1,328)	(5,197)	(4,301)
	(20,098)	(21,139)	(84,855)	(89,009)
Net surplus/(deficit)	(374)	(1,405)	(4,976)	(3,943)
Grants				
Revenue	172,673	190,681	2,506,019	2,555,930
Expenditure	(172,575)	(190,106)	(2,554,518)	(2,604,429)
Net surplus/(deficit)	98	575	(48,499)	(48,499)
Overall				
Net surplus/(deficit)	(276)	(830)	(53,475)	(52,442)

Figure 1. Operating performance



Financial performance Q1 2020/21

Financial sustainability

TEC's financial position was closely aligned to budget at the end of the quarter, with equity of \$140.665m compared to a budget of \$141.123m.

It's current asset and liability position remain higher than historically reported due to the accounting treatment of grants, which were guaranteed to TEO's for the 2020 academic year. This is a non-cash treatment and most of the current asset is a receivable from the Crown. Conversely, the majority of the liability is a payable due to TEO's. Both balances will reduce as the financial year progresses.

Included within current assets is cash of \$18.636m held in respect of pre-purchased English language tuition (PELT). This comes with an associated liability and as such does not impact the overall equity position.

As previously referenced, TEC has forecast operating losses over each of the next five financial years which will be funded from the balance sheet. The impact of this on operating equity is shown in figure 2.

TEC currently has \$108m of grant capital on its balance sheet accrued under the BSM. This will be utilised to fund the forecast grant deficit of \$48m referenced and does not impact TEC's financial viability.

Work is underway to better understand the scale of BSM funding that needs to be available to manage its purpose, being to provide additional funding, currently up to an additional 2%, to in-demand provision without needing to wait for funding to be recovered from other providers.

Other financial considerations

A focus for our financial monitoring in future quarters will focus on understanding what processes TEC has in place for assessing and making decisions on a change in the use of funds, either within an appropriation or between appropriation categories. This is to ensure transfers are approved by the appropriate party, for example someone internally within TEC or externally, such as the Ministry or Treasury.

Table 2. Financial position

	As at 30 Sept 2020	As at 30 Sept 2020 Budget	As at 30 June 2021 Budget	As at 30 June 2021 Forecast
\$'000				
Assets				
Current assets	1,107,339	1,157,858	553,582	540,031
Non-current assets	16,977	18,595	25,559	25,747
	1,124,316	1,176,453	579,141	565,778
Liabilities				
Current liabilities	981,989	1,033,482	482,070	468,904
Non-current liabilities	1,662	1,848	1,735	1,582
Total liabilities	983,651	1,035,330	483,805	470,486
Equity	140,665	141,123	95,336	95,292

