



Education Report: Tertiary Education Commission performance – Quarter 3 2020/21

To:	Hon Chris Hipkins, Minister of Education		
Date:	29 June 2021	Priority:	Medium
Security Level:	In Confidence	METIS No:	1257554
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Messaging seen by Communications team:	No	Round Robin:	No

Purpose of Report

This paper provides our assessment of the Quarter 3 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 3 2020/21 (Q3 2020/21), and developments up to the date of this report. This report sits alongside TEC's own quarterly report, which you have received.
- We have provided you with an in-depth analysis into TEC's Data Exchange Programme (DXP), formerly known as Data 2020, and its cyber security work. TEC has completed a review of the DXP and has discovered some misalignment with the initial key assumptions about the programme. As a result, TEC will need to delay delivery of the tool while it puts in place mitigations to support delivery of the DXP.
- TEC has a large, challenging work programme, and is responsible for delivering or supporting significant change across the tertiary education system, such as the Reform of Vocational Education (RoVE). A common theme of our engagements during this and previous quarters has been the capacity of the organisation and its people to absorb the high workload, which is also identified as one of TEC's top risks. Continuing to look at trade-offs across the organisation and reviewing its work programmes will be important mitigating factors to manage wellbeing in the long-term.
- The Ministry and TEC have started engagements on determining roles and responsibilities for careers services across each agency. It was agreed in the interagency workshop that TEC will take the lead on development of a whole of Careers System Strategy (CSS). While this workshop was a positive start, further role clarity discussions are needed with the Ministry, TEC, and other careers' sector agencies such as the New Zealand Qualifications Authority (NZQA).

Recommended Actions

The Ministry of Education recommends you:

- a. **note** our assessment of TEC's performance in Quarter 3 2020/21

Noted

- a. **sign** and **send** the attached letter on TEC's Q3 performance to Jenn Bestwick, Chair of the TEC Board (see Annex A)

Agree / Disagree

- b. **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
28/06/2021



Hon Chris Hipkins
Minister of Education

20/7/2021

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

Monitoring focus areas

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.
- Delivery of the Data Exchange Programme (DXP), formerly known as Data 2020, has been delayed to ensure the DXP meets the needs of the sector, and the right internal capability is in place to support the design work for the tool. We have carried out more analysis into the DXP and TEC's cyber security work. This can be found on page five.
- TEC is thinking through the systems, processes and reporting requirements needed to adapt to the role WDCs will have in the investment decisions.
- While Te Pūkenga continues to operationalise and is being supported by TEC to build monitoring capabilities, TEC is continuing to monitor subsidiaries individually, as well as monitoring Te Pūkenga as a whole. TEC is also exploring how its role will shift as monitoring capability matures within Te Pūkenga. This continues to be a high-interest area for our monitoring activities.
- TEC is working with Tertiary Education Organisations (TEOs) to further test parts of the Ōritetanga Learner Success approach and is working with an external provider to develop an evaluation for the pilots completed so far.

Priority areas for monitoring

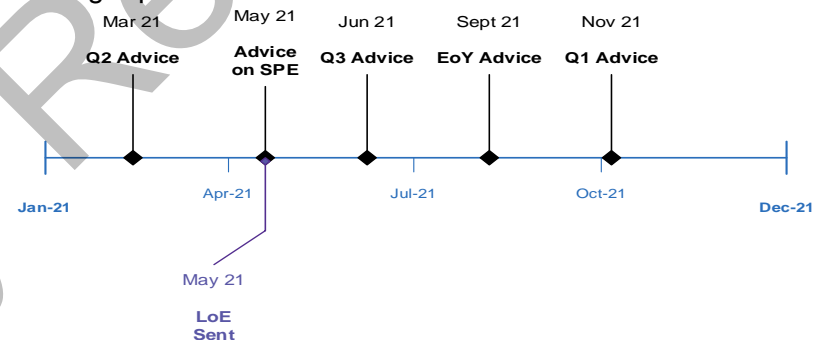
Over the next quarters our priority monitoring areas will include:

- TEC's operational readiness for RoVE,
- How work is progressing to develop the Data Exchange Programme (DXP),
- The ongoing development of the Online Careers Planning solution,
- Understanding how TEC is developing its performance measures and intervention logic, particularly in context of the development of its next Statement of Intent (SOI),

- Understanding how TEC is delivering on key education strategies, e.g. the Statement of National Education and Learning Priorities and the Tertiary Education Strategy, and
- Engaging with the EPMO function to report back on benefit realisation and impact analysis.
- Reviewing with TEC how non-financial performance can improve both in how it reports on its measures, and how we provide analysis to you on these.

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	64,048	59,456	79,879	85,923
Expenditure	(61,108)	(63,813)	(84,855)	(85,725)
Net surplus/(deficit)	2,940	(4,357)	(4,976)	198

Financial position summary

\$'000	As at 31 Mar 2021 Actual	As at 31 Mar 2021 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	151,267	143,421	95,336	100,633
Working capital ratio	1.30	1.29	1.15	1.13

Snapshot: TEC's digital and data work programme

TEC has a significant work programme underway to review and implement changes across its digital and data work programme. This will have implications for the tertiary and vocational education sector and its own internal operations. We see this as being particularly relevant in the work programme around the Reform of Vocational Education (RoVE), to align to the needs of the new system, and for its own internal operations to identify capability and resourcing needs.

For this quarter we focused on two areas of TEC's digital and data work programme, the Data Exchange Programme (DXP) – formerly known as Data 2020, and an update on the cyber security work programme.

Data Exchange Platform

The Data Exchange Platform (DXP) will replace the ageing technologies supporting two of the core tertiary sector data collection systems onto a single platform. This will provide a cost-effective and relevant platform to meet the sector's ongoing needs for data collection and distribution. DXP is not initially changing what data TEC collects from the sector, nor the frequency, but it will provide the building blocks for these changes soon.

DXP consists of two key streams of work:

- Putting in place Workspace 2, and
- Services for Tertiary Education Organisations (STEO), which provides the Single Data Return (SDR) platform for providers to submit learner data.

The SDR is utilised in many ways by TEC including to help inform funding decisions for providers.

As previously advised [METIS 1250213], TEC has completed a review of the scope, timing, and resourcing needs of the DXP. In particular, a focus has been on ensuring the timing of the changes aligns to the

Unified Funding System (UFS) and RoVE work programmes, to reduce the impact in the sector and to ensure the compliance burden and risk in the tertiary sector is minimised.

Work is progressing well for the Workspace 2 components of the DXP, with a planned deployment expected in October 2021.

The focus of the project now shifts to the detailed planning of the STEO platform to confirm development workloads and time frames. A long-standing challenge for the project is the limited knowledge of STEO's functionality and technical design by TEC and Ministry staff, due in part to the age of this platform. To help mitigate this risk, additional resource involved in the original application development have been engaged and added to the project to support this detailed planning of the STEO work.

Longer-term planning

Once the DXP is in place, TEC will be well-placed to start transforming the data collection processes. As previously noted, the aim will be to reduce some of the compliance costs and complexity related to data collection in the sector, as well as increasing the richness and timeliness of the data collected.

TEC is developing a data strategy which will, amongst other things, inform the longer-term investments and building blocks of DXP. Having a data strategy will also provide a view on reporting and analytics opportunities. In the next quarter we will provide you with information on TEC's data strategy it is developing.

As RoVE is implemented and fully operationalised and the UFS designed and operationalised, consideration on how to utilise the full potential of the DXP will be considered and enhancements or new features implemented to support more frequent and diverse data collection requirements of the RoVE Programme.

Current and future challenges

TEC has also been carrying out standard technical reviews of the work streams. At the time of writing, TEC had recently completed a detailed review for STEO, which further confirmed the complexity of outstanding work was not fully understood and additional work is required to successfully complete the platform. For this reason, there is a delay of this work stream, with deployment of the STEO components of the DXP expected in June 2022.

To provide further assurance over the DXP programme, TEC has:

- Commissioned an independent review with Grant Thornton over the work programme to help support its end-to-end view of the process,
- Completed a review over the capability in the team, particularly what is needed to help support the design and build of the DXP and recruited three additional staff accordingly,
- Reviewed the security and privacy settings around the work to be completed. TEC is confident there are no unmitigated risks and will further test the cyber security approach as part of the independent review,
- Looked at key milestones to determine whether the work remains on-track or off-track,
- Considered how the system will be impacted by the DXP, and TEC will utilise this additional time to support sector readiness for the change,
- Initiated a review of its data strategy and model, to ensure it has the systems in place to address any performance issues moving forward, and
- Began the process to further scope the work needed to be done to ensure the DXP is being developed to support the changes and complexity in the system, e.g. ensuring it aligns with the UFS.

As previously mentioned, TEC is thinking through contingency planning and mitigations which may be needed in case the DXP is further delayed or rescoped. We understand TEC will work with the Ministry to think through solutions, however it has advised in the interim

the current SDR platform would need to continue to be used. Any costs and risks associated with running the current system for longer will be identified through the review. TEC has also confirmed it will work through concurrent planning on the indicators and timeframe for delivery of the DXP.

Recruitment is a significant challenge for TEC across all aspects of its business, given the tight labour market felt across the public services as a lingering impact of the pandemic. We understand it has taken some time to recruit specialist skills needed to help carry this work programme forward, and we are pleased to note sufficient resource is now in place.

Snapshot: cyber security

TEC's internal cyber security programme

This quarter we have engaged on TEC's security and privacy systems, which at the time of writing is a particularly heightened area of interest given the cyber security hack which occurred at Waikato District Health Board (DHB).

Internally we see TEC is well-placed to manage cyber security risks, as it takes a fairly conversative, risk-based approach to protect the organisation from potential threats. This also ensures the organisation continues to be compliant with the guidance issued in 2019 by the National Cyber Security Centre for public service Chief Executives on protecting agency systems.

As part of this, TEC has advised it has instigated several controls within the organisation to minimise potential threat, including:

- The implementation of a four tier Cyber Security Assurance Framework and on-going investment programme to mature and enhance TEC's cyber security posture,
- Building awareness and capability in cyber security for its staff during induction, and with ongoing training to recognise and respond to potential threats, e.g. phishing campaigns and how to

Monitoring focus areas

report these to IT. This is also embedded within TEC's use of technology policies and procedures,

- Having a good process in place to review any potential risks of bringing new technology into the organisation,
- Assessing staff understanding of the cyber security approach with random penetration tests,
- Using secure platforms, including moving away from software outside of TEC's ability to control, e.g. Zoom, and
- Adding in extra layers of security and protection for its systems, including identity management controls, multi-factor authentication, robust firewalls, and monitoring of internet usage.

TEC is working with Aura Information Security, an external cyber security group acting as a 'critical friend' to help test the maturity and resiliency of its systems and processes. With Aura's support, it is identifying what still needs to be completed within the work programme and the priority order of these activities.

TEC's cyber security and privacy work programme is well connected to other aspects of its business, particularly the Risk and Assurance and the Enterprise Project Management Office (EPMO) functions. These business groups meet regularly to complete reviews over IT projects across the organisation and any associated risks, such as technology enablers needed to support business continuity in scenarios such as a cyber-attack or further alert-level shifts.

Cyber security at a tertiary system level

TEC does not have a role or oversight of cyber security, privacy, and wider security for the tertiary sector, either directly or indirectly through its monitoring activities. While this may be appropriate within the current system setting, this gap of knowledge means vulnerabilities and potential risks within the tertiary system are unknown.

Perpetrators of data breaches are extremely sophisticated and increased vulnerabilities have been seen across several sectors. Notable examples of recent cyber-attacks include Waikato DHB and

the 2018 data breach of the Australian National University (ANU). Findings of this latter attack were published in June 2019, and can be found at [SCAPA190209 Public report web 2.pdf \(anu.edu.au\)](#). One of the key findings, which is a common vulnerability for any organisation, is the use of phishing emails and how critical it is for staff and students to be aware of these types of attacks.

We would expect to see varied maturity in cyber security across the tertiary system. It would not be uncommon, even in instances where organisations have a high level of organisational maturity regarding privacy and security, for there to still be vulnerabilities in its systems to cyber-attacks.

TEC are looking at ways to raise awareness and support maturity enhancement across the tertiary sector in this space.

Careers

Careers system

Last quarter we provided you with advice noting TEC planned to meet with the Ministry to discuss roles and responsibilities within the careers sector [METIS 1250213]. This interagency workshop was held in late May 2021 and covered key topics including:

- The key aspects and functions within the careers value chain,
- Capability across the sector and where responsibility lies in supporting ongoing professional standards or Professional Learning and Development (PLD), and
- Linkages and consistency of information in careers services and delivery in school and community settings.

One of the outcomes of the workshops noted that a whole of Careers System Strategy (CSS) is needed, and TEC is responsible for leading this piece of work. The CSS will be an important vehicle to support continued discussions on roles and responsibilities moving forward.

I'd like some urgent advice on whether TEC should be given a greater mandated role re cyber security in light of recent events at Waikato DHB. This seems too big to leave to chance. CH

Monitoring focus areas

The Ministry and TEC remain committed to working together to progress these discussions around roles and responsibilities in the system. It will also be important TEC works with other agencies who also have a role in supporting careers services to further progress role clarity and responsibilities such as MSD, MBIE and NZQA. TEC will need to be clear how the CSS will relate to employment and active labour market strategies, which are primarily led by the above agencies.

The set-up of the Ministry's internal Education and Employment Portfolio Board (EPPB) has been a strong tool for strengthening relationships and progressing work in this space, and the EPPB will heavily feed into the development of the CSS. This will include refining the scope and clearly identifying streams for Māori, Pacific and disabled learners.

TEC has also been feeding into work to create a skills taxonomy which will ensure the terms we are using in the careers space are consistent across government. This will cover not just SkillNet, but the development of TEC's new website and across its other channels and communication streams also.

As monitors it has been challenging to measure TEC's performance in the careers space due to limited measures and uncertainty over TEC's role. We see the roles and responsibilities stream and refinement of the scope as critical for TEC. As this work progresses, we expect to see it feeding into the development of new measures in its next SOI and future SPEs. We will provide you with further advice over this work in future quarters as it becomes available.

Inspiring the Future

TEC launched the Inspiring the Future (ITF) programme at Avalon Intermediate in Lower Hutt on 27 May 2021. The roll out of the programme is staggered by age group, initially focussing on primary and intermediate students, with a view to move into the secondary schooling space. TEC will continue to roll out the programme across

the year with the intention of having six percent of all schools involved nationally by the end of the calendar year.

TEC is looking at how it can ensure equitable roll out of the programme and is trialling different delivery options such as online workshops. Uptake of ITF is voluntary, and we note there has been some challenge in engaging lower decile schools based on their resourcing and capacity challenges. From an equity perspective, it will be important TEC is supporting barrier-free access for children and young people across all deciles to engage in and receive the benefits of this programme.

TEC is aware that expansion of the programme into secondary schools will need careful consideration. Sequencing alongside NCEA changes will also need to be considered given the limited capacity within the sector.

One of the main challenges TEC has observed is finding suitable role models to share their experience with students as part of the programme. Careful consideration is being made when the role models are selected, and strong feedback loops are in place to manage any complaints.

TEC will be connecting with NZQA to understand any learnings from the NCEA Online review which may be relevant to the online sessions it is running with ITF.

Reform of Vocational Education (RoVE)

Work has continued at pace for TEC to help implement the Reform of Vocational Education (RoVE), both in supporting the system to operationalise and in how its internal business is adapting to the changes needed. As noted in previous reports, our monitoring focus is on TEC's role in implementing RoVE and not the wider system performance in this space.

Workforce Development Councils

Last quarter you provided feedback that you would like to see how TEC is preparing for Workforce Development Councils (WDCs) to have a greater role in funding decisions [METIS 1250213].

Once established, TEC must have regard to the advice WDCs provide on the overall investment needs in vocational education and training, and the identified skills and workforce needs for specific industries covered by the WDCs. Eventually, plans developed by the WDCs and Regional Skills Leadership Groups (RSLGs) will also help inform provision needs for industry and regions.

TEC has a project in place to think through the systems and processes needed to manage investment and reporting requirements, to adapt to the role WDCs will have in this space. As you will be aware, TEC's investment processes and decision making receive and use WDC advice. There will be an accountability responsibility for TEC to report back how it utilises WDC's, and in the instances where this was not possible, to provide an explanation why.

NZQA has the primary legislative role of ensuring the quality and effectiveness of the WDC's performance of its functions, as set out in the Education and Training Act 2020. TEC's role is supporting the investment function through monitoring their financial position and adherence to funding rules.

TEC's monitoring role

You indicated last quarter an interest in how TEC's monitoring role will change as it moves from monitoring 16 ITPs to one (Te Pūkenga). As the system is still in the process of operationalising, TEC is working to adapt its monitoring and accountability processes accordingly. TEC is working with NZQA to think through roles and responsibilities, as well as what a maturity model will look like for WDCs.

During this transition phase, TEC is continuing to monitor the 16 Te Pūkenga subsidiaries individually, as well as to inform a group level view of Te Pūkenga's overall performance and position. TEC is also supporting Te Pūkenga to develop its own monitoring framework, which is linked to the work programme to help develop its operating model.

TEC's processes are robust to meet current and new thinking in the system and notes overall it is well-placed capability wise in its monitoring team. Capacity is a challenge presented in the short to medium-term with the additional work to operationalise the monitoring space within Te Pūkenga.

As a result of the COVID-19 pandemic, TEC found its relationship with the university sector strengthened, as it engaged closely with university sector Chief Financial Officers to understand their current position. TEC is planning to maintain this "higher touch" approach with universities, rather than return to the "light-touch" approach in place pre-pandemic. Currently, the TEC is utilising its good relationships to solicit more frequent information and reporting from universities, but in due course, plans to discuss with the university sector options to formalise more regular reporting arrangements that will be fit-for-purpose in a post-COVID environment.

Progress in these areas remains of high interest to us, and we will continue to provide you updates in future quarters.

Supporting the COVID-19 pandemic recovery efforts

This quarter we discussed with TEC the trades and apprenticeships programmes which will help support the long-term workforce needs the Government's COVID-19 recovery efforts.

TEC reports the Targeted Training and Apprenticeship Fund (TTAF) and the extension of the Apprenticeship Boost initiative to support learners into fees-free training and apprenticeships, is going well.

Monitoring focus areas

Statistics released reflect enrolments have increased by 20 percent across Te Pūkenga subsidiaries, compared to 2020 data.

TEC notes the upcoming investment round reflects this increase in demand in domestic enrolments and is looking at movements within appropriations to put into areas with increased demand. It has noted there is some risk around long-term funding capacity should demand continue to increase. We note TEC is working with the Ministry to monitor this situation and work through solutions, as applicable.

From a wellbeing perspective, we enquired whether there had been any concerns raised through engagements with the sector or through monitoring discussions on capacity to meet learner demand or wellbeing and safety needs in the face of increased domestic enrolments. TEC confirmed it has not heard any of these issues being raised through its information channels.

Ōritetanga Learner Success

Ensuring equitable outcomes for Māori, Pacific and disabled learners remains a priority for TEC as it continues to work with the sector to further implement the Ōritetanga Learner Success approach.

This quarter we sought further information over how TEC is continuing to give effect to the Tertiary Education Strategy (TES) and its key objectives of “Learners at the Centre” and “Barrier Free Access”, by embedding the Ōritetanga Learner Success approach both internally and within the tertiary sector.

TEC has advised it is working with Te Pūkenga to ensure the Learner Success Approach is being incorporated into the development of its operating mode. This will ensure learner-centric thinking is a strategic driver for decision making, and enable Te Pūkenga to give effect to its statutory obligations as outlined in s9 of the Education and Training Act 2020 to respond to the needs of, and improve outcomes for, Māori learners, whānau, hāpu and iwi.

Developing the Learner Success approach

Utilising equity underspends, TEC is working with some Tertiary Education Organisations (TEOs) to test further parts of the approach not completed during the initial pilots. This was due in part to timing or funding constraints.

An approach to evaluate the Learner Success pilots is underway, with TEC utilising expertise of an external contractor to complete a report which will focus on the outcomes and high-level learnings from the pilots completed so far to date. It is hoped these learnings will be able to inform how delivery of the model could be expanded across the sector. At the time of writing, two of the pilots were yet to be completed.

Last quarter we advised how it will be important for TEC to collect and utilise data from the tertiary sector to help measure the impact of the Learner Success approach. We are pleased to note TEC is thinking through what its long-term data needs are, particularly in the development of the Unified Funding System (UFS).

This presents a challenge in the way data is captured specifically for disabled learners as the current system relies on students self-identifying as belonging to this community. Stigma and a poor definition of what falls under the umbrella of ‘disabled learner’ may present a barrier either to enrolment or the self-identification process for learners.

TEC and the Ministry are considering ways to improve data collection about disabled learners and are working with the sector and specialists in this field to understand:

- what the most appropriate definition may be for ‘disabled learner’,
- who is included under this umbrella, and,
- what supports are needed to destigmatise and better support disabled learners, including what capability building is needed within TEOs or the wider tertiary sector to support best practice around enrolments and student pathways or

Monitoring focus areas

transitions into vocational or tertiary education for disabled learners.

To help prepare for further expansion of the Learner Success approach, TEC has begun phase two of the Ōritetanga approach to develop a toolkit set around the framework to support sector capability. The toolkit will enable TEOs to access resources to work through the approach themselves, and eventually allow the TEOs to support each other independent of TEC. The resources in the toolkit will be informed by case studies and best practice examples gathered from review of the pilots. We will continue to engage on this work programme and provide you with further advice in coming quarters.

We noted in our Q2 advice [METIS 1250213], underspends from the Access to Tertiary Education appropriation were used to fund the learner success pilots. The reporting requirements outlined in your letter of delegation in effect since June 2020 have not been met, however TEC advise they intend to report on the use of this funding shortly.

Risk and Assurance (RAC)

Last quarter we reported TEC had completed a self-assessment with the internal audit function covering its risk management maturity. As part of the results of this self-assessment, the Risk and Assurance (RAC) functions are continuing to improve reporting processes and aligned to review cycles and the risk management policy.

TEC has identified an opportunity to further strengthen reporting in risk mitigation, and how this could be bought into staff training and induction cycles. This is an area where the risk function is well connected to the Enterprise Project Management Office (EPMO), as staff across these functions are connecting on risk management across the organisation, and the training needs for staff in this area.

As previously reported, TEC considers the strategic risks for the organisation to still be:

- 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.

TEC is working through the mitigation needs against these risks, including identifying which areas are within TEC's control and where it may play a role in the wider system, and identifying priority of escalations and the appropriate channels to raise these through. As part of this, the RAC functions are well connected to the leadership team and Board, to bring visibility to the identified risk and mitigations.

Challenges, opportunities and priorities for TEC in Q4 and beyond

In previous quarters we have noted the areas we see as most important in terms of challenge, opportunity, and priority for our monitoring activities moving forward. Of these areas, we still see the below as still being of significance:

- Managing the transition of TITOs to WDCs and TEOs, and the associated communication with the sector will be important,
- Reducing reliance on contractors where appropriate to support embedding of knowledge for key change programmes internally, e.g. RoVE and in the careers space,
- TEC has been under a sustained, high workload, which has placed strains on its people. Managing staff wellbeing and capacity continues to be a challenge and high priority for the organisation,
- We acknowledge TEC has put a lot of thought into its monitoring approach for Te Pūkenga as previously noted, and it will be important it does the same for WDCs. This is to ensure there are effective processes in place once WDCs are established at the end of June 2021,
- Continuing role clarity conversations with key careers stakeholders, such as MSD, MBIE and NZQA,

Monitoring focus areas

- The development of the Online Careers Solution, and how TEC intends to measure the success of this tool, including the recently released *Skill Net*,
- Understanding TEC's performance story and how it measures its performance in the system,
- Building TEC's capability to meet its Te Tiriti obligations moving forward is both a challenge and an opportunity for the organisation, and for the tertiary sector. We see work is progressing in this space through the updates to its organisational strategy and with the sector through the Ōritetanga Learner Success approach, which remains of high interest to our engagements ongoing, and
- The impact on TEOs of supports targeted to help the sector manage through the uncertainty of the COVID-19 pandemic, such as non-recovery in 2020.

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 Q3, TEC has reported progress against nine performance measures total. These include:

- two SOI, and
- seven SPE measures.

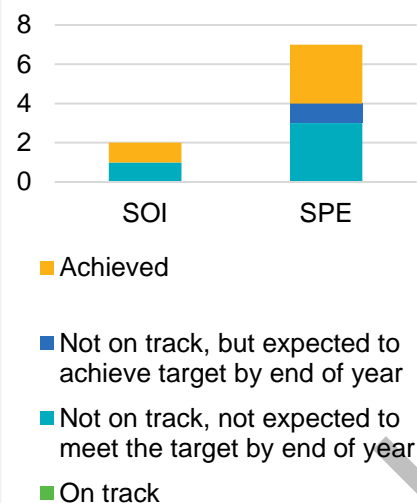
SOI measures

In its 2019/20 – 2022/23 SOI, TEC has a total of eight SOI measures, two of which were reported against this quarter as below:

Measure	Actual as at 30/03/21	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>	3.00	Achieve	3

For the measure 'At least three system-wide reviews completed each year and results shared with TEOs', TEC has advised this measure is

Figure 1: Non-financial performance measures Q3 20-21



not on track and not expected to meet the target by the end of the year.

Despite this outcome, TEC has reported within its Q2 several activities completed as part of the system-wide reviews which speak to its key role in the system identify administrative improvement. Some of these activities have included:

- the development of an app to provide guidance and support to the sector,
- supporting Te Pūkenga with its subsidiary reporting, and
- sharing learnings with the sector from the review of TTAF settings.

Additionally, TEC plans to complete a review of the Pre-purchased English Language Tuition (PELT) reporting and compliance issues in Q4. This is timely, as there has been some media attention during Q2 on the PELT following questions raised during the Education and Workforce Committee 2019/20 annual review of TEC on how this fund is ring-fenced.

SPE measures

TEC has a total of 59 output measures recorded in its 2020/21 SPE. This quarter, it is reporting against seven of these, including:

Measure	Actual year to date	Target 2020	Actual 2019
<i>Percentage of learners accessing the desired range (hours) of provision – Intensive literacy and numeracy</i>	52.94%	At least 62.6%	62.89%
<i>Percentage of learners accessing the desired range (hours) of provision – Workplace literacy and numeracy (TEO led)</i>	73.7%	At least 60.8%	73.37%
<i>Percentage of learners accessing the desired range (hours) of provision – English for speakers of other languages</i>	92.97%	At least 95.6%	95.78%

Monitoring focus areas

<i>Gateway – total participants and number of schools</i>	13,060.00 in 386.00 schools	13,200 ±5% in up to 375 schools	14,333 in 378 schools
<i>Number of domestic equivalent full-time students in ICT graduate schools per calendar year</i>	217.00	At least 195	195
<i>Percentage of TEIs' council members and support staff attending our governance seminars who agree that they gained relevant knowledge to apply to their work</i>	0.00%	At least 94%	94%
<i>Percentage of payments the TEC makes to TEOs that are made within agreed timeframes</i>	99.90%	100%	99.8%

TEC has reported three of the above SPE measures are **not on track, and not expected to achieve target by end of year**, as detailed below.

The first of these measures relating to “*percentage of payments the TEC makes to TEOs that are made within agreed timeframes*”, TEC notes it has only made 17 late payments. When compared to previous years' performance at the Q3 point, percentage wise, TEC has improved on its 2020 results, however, will not meet this target for the second year.

The following two measures not expected to achieve target relate to the “*percentage of learners accessing the desired range (hours) of provision*”. TEC notes the “*Intensive literacy and numeracy*” and “*English for speakers of other languages*” results were impacted by COVID-19, as one of the conditions for the funds is that tuition must be delivered to each learner face-to-face, but due to the lockdowns, this was not possible.

We note previous years' performance for these two measures during Q3 has also been impacted by various factors including an increase in student numbers for intensive literacy and speakers of other

languages, and the withdrawal of a provider from funding during the year. This makes it challenging to compare performance on previous years when factors influencing results have been outside of TEC's control.

Understanding non-financial performance

As TEC reports performance against several of its SPE performance measures only on an annual basis, it is challenging to track performance on these measures across the year. We note this reporting is appropriate for some of the performance measures based on timing of the associated activities. Where appropriate, it would be good to see the format used in reporting its internal measures replicated for its operational performance.

We are considering ways we can provide more insights into TEC's performance, and how this is tracking against its measures, in our regular reporting. TEC is also committed to reviewing how it reports on its performance, which in turn will help support the way we provide analysis to you on its performance measures. We will continue to work with TEC on how this can be better reflected in future reports.

As we noted in our recent advice against TEC's 2021/22 draft SPE [METIS 1257536], the education system is complex and undergoing significant change, and the current operating environment will continue to impact the scope and operations for aspects of TEC's business for some time. As the SOI was produced at a time before these priorities and system challenges were known, it does create a disconnect between the strategic input measures and the output measures reflected in its current SPE. We see this as being particularly relevant for the careers space for example, where it can be hard to gauge its performance story in this area through the lack of outcome or output measures in this area.

We note TEC has a work programme underway to review its performance measurement framework. This work, alongside the

Monitoring focus areas

development of a new SOI, will help support TEC to better reflect and measure its performance in 2022 and beyond.

Overview

TEC has performed better than budget in the period 1 July 2020 to 31 March 2021 (YTD FY21), with an overall net surplus of \$6.092m, compared to a budgeted loss of \$2.632m. This was made up of a \$2.940m operating surplus and a \$3.152m grant surplus, see Table 1 below.

By the end of the financial year, TEC anticipates this position will change significantly. In its forecast prepared for the Q3 report, TEC expected a year end operating surplus of \$0.198m and a grant deficit of \$47.564m. This position has subsequently moved with forecast deficits of \$1.677m and \$78.780m (excluding the retention of any Fees-Free surplus) respectively.

TEC has sufficient reserves available on its balance sheet to meet these deficits and remains in a stable financial position. The grant deficit has created a potential issue for the 2022 funding allocations to TEI's, details of which are covered within the grant performance section.

Operating performance

Operating performance has been better than budget in YTD FY21 due to lower personnel costs, depreciation, and travel costs. Whilst some of this expenditure will be incurred in the remainder of FY21, the deficit from general operations is now expected to be \$2.958m, rather than the original budget of \$4.976m.

Additionally, there is a surplus on two major projects, RoVE, and Direct Careers Advice, of \$1.281m. This funding will be utilised in the next financial year.

TEC continues to forecast operating deficits over the next four financial years which will be funded from its accumulated reserves and has no impact on its financial sustainability.

Grant performance

The forecast grant deficit has been created by two compounding issues:

- the guarantee provided to TEIs for 2020 funding, which created a \$46m overspend, and
- an increase in Student Achievement Component (SAC) Equivalent Full-Time Students (EFTS) in the first half of 2021, leading to an increase in committed funding, and resulted in an estimated \$32.8m deficit.

It should be noted the latter is not a cash deficit in FY21, but an accounting issue due to the mismatch in timing between the financial and academic year ends. However, given demand is high it appears there is strong chance that SAC funding will be utilised up to the 102% overallocation position in 2021.

Whilst TEC has sufficient grant equity retained on its balance sheet to cover the deficit, it will erode grant equity to approximately \$32m. This is a figure lower than TEC's target of \$50m, which provides it with the ability to allocate 102% of SAC. Without this flexibility TEC may have to reduce allocations for the 2022 academic year.

This is not an issue that needs resolving now but will need to be considered prior to the end of the calendar year in conjunction with ongoing SAC funding policy. We will continue to liaise with TEC in respect of this position and provide you with any relevant updates.

TEC is expecting a Fees-Free surplus for FY21 (the final amount is being calculated). 9(2)(f)(iv)

Financial performance Q2 2020/21

Table 1. Financial performance

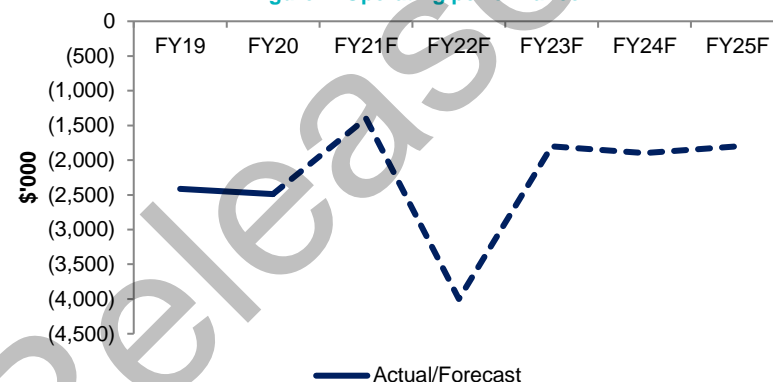
\$'000	YTD Actual	YTD Budget	FY21 Budget	FY21 Forecast*
Operating				
Revenue				
Government grants	61,259	56,222	75,258	81,925
Other	2,789	3,234	4,621	3,998
	64,048	59,456	79,879	85,923
Expenditure				
Personnel expenses	(39,139)	(40,497)	(54,109)	(55,245)
Other operating expenses	(18,567)	(19,593)	(25,549)	(26,122)
Depreciation & amortisation	(3,402)	(3,723)	(5,197)	(4,358)
	(61,108)	(63,813)	(84,855)	(85,725)
Net surplus/(deficit)	2,940	(4,357)	(4,976)	198
Grants				
Revenue	1,475,295	1,530,987	2,506,019	2,586,260
Expenditure	(1,472,143)	(1,529,262)	(2,554,518)	(2,633,824)
Net surplus/(deficit)	3,152	1,725	(48,499)	(47,564)
Overall				
Net surplus/(deficit)	6,092	(2,632)	(53,475)	(47,366)

* The forecast figures are as per TEC's Q3 report. As detailed in the body of the report, the forecast has subsequently been updated and the overall net deficit has increased. As we have not yet received the updated forecast, our table depicts the most up to date information available at the time of writing.

Table 2. Financial position

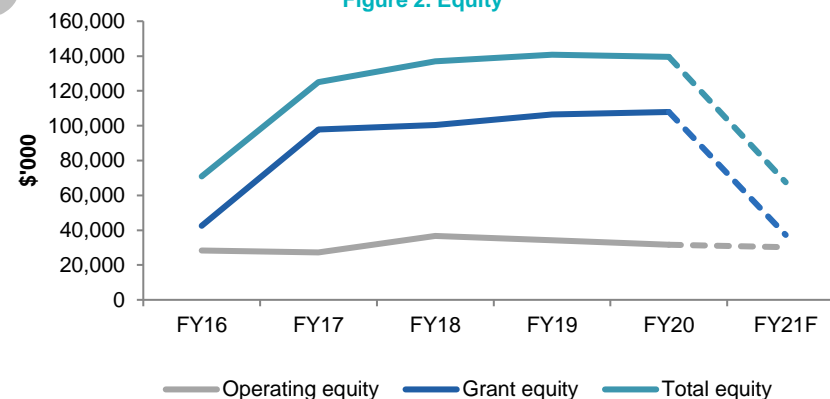
\$'000	As at 31 Mar 2021 Actual	As at 31 Mar 2021 Budget	As at 30 June 2021 Budget	As at 30 June 2021 Forecast*
Assets				
Current assets	563,152	543,704	553,582	650,078
Non-current assets	21,763	22,950	25,559	25,910
	584,915	566,654	579,141	675,988
Liabilities				
Current liabilities	432,061	421,460	482,070	573,773
Non-current liabilities	1,587	1,773	1,735	1,582
Total liabilities	433,648	423,233	483,805	575,355
Equity	151,267	143,421	95,336	100,633

Figure 1. Operating performance*



** The operating performance graph has been updated for the new headline FY21 forecast position. Out years are based on TEC's medium term financial plan, which is being regularly reassessed

Figure 2. Equity***



*** The equity figures have been updated to consider the impact of the revised forecast.

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

Thank you for the Tertiary Education Commission's (TEC) Quarter 3 2020/21 report. I have also received the Ministry of Education's (the Ministry) advice on TEC's performance for this period.

I am pleased to see TEC is working through the systems and processes needed to help adapt to the role Workforce Development Councils (WDCs) will play in its investment decisions. As you will know, WDCs will have a critical role informing the provision of vocational education through its view of industry needs. It is essential that TEC continues to think how its funding model will need to adapt to meet this change as part of the Reform of Vocational Education, and I look forward with interest in understanding how this work is progressing.

It will be important for TEC to continue to work with the Ministry and other relevant careers stakeholders to progress discussions around role responsibility and strategic direction for the careers system. I am particularly interested in the development of a Careers System Strategy, which will be essential to support careers services forward to continue to support the recover from the COVID-19 pandemic.

As I stated in my letter from the previous quarter, my focus continues to be on how the education sector is implementing the Education Work Programme 2021, including the National Education and Learning Priorities (NELP), the Tertiary Education Strategy (TES) and the Education Work Programme 2021. In addition, I would like to see further updates on the progress of the Data Exchange Programme and TEC's Data Strategy.

In the face of ongoing challenges associated with the pandemic, I want to acknowledge the hard work of both TEC and the Board. Your efforts to continue to support the tertiary sector are appreciated.

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