



Education Report: Tertiary Education Commission performance – Quarters 3 and 4 2019/20

To:	Hon Chris Hipkins, Minister of Education		
Date:	29 July 2020	Priority:	Medium
Security Level:	In Confidence	METIS No:	1231849
Drafter:	Sara Hewson	DDI:	04 463 7734
Key Contact:	Fiona O'Leary	DDI:	04 463 0910
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Purpose of Report

This paper provides our assessment of the performance of the Tertiary Education Commission (TEC) over the last six months (Q3 and Q4 2019/20), and asks you to sign and send the letter relating to its quarterly report (attached as Annex One) to the Chair of 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 performance over the last six months (Q3 and Q4 2019/20) and developments up to the date of this report. This report sits alongside TEC's own quarterly report, which you have received. We will provide you with further end-of-year advice when TEC presents its Annual Report to you.
- The focus of this report is on the entity's response to COVID-19, progress with its Enterprise Project Management Office (EPMO), and the Reform of Vocational Education (RoVE) and Careers work programmes. Attached as Annex Two is a diagram outlining our monitoring approach for COVID-19.
- TEC has provided evidence of the work it did to respond to and support the sector through the lockdown, and the work it is doing to ensure the sector remains responsive to the needs of New Zealand's learners. TEC's excellent Business Continuity Planning ensured a seamless transition for staff going into lockdown and TEC reported no decrease in productivity during this period.
- COVID-19 has amplified the importance of the Careers work programme, and TEC has mobilised this function to help support New Zealand's economic recovery, including building a new hub and refreshing website content to assist job seekers. We are pleased to hear TEC has forged relationships with agency and industry partners such as the Ministry of Social Development (MSD), to help develop and advance this work.
- As outlined in earlier advice to you, our future monitoring will continue to seek assurance that TEC is making the necessary trade-offs and rescoping its work programme to remain responsive to the needs of its customers, as well as ensuring they have the internal capability and capacity to deliver this. We consider that TEC's EPMO will play a pivotal role in this in the coming 12 months.

Recommended Actions

The Ministry of Education recommends you:

- a. **note** our assessment of TEC's performance in Q3 and Q4 2019/20

Noted

- b. **sign** and **send** the attached draft letter on TEC's Q3 and Q4 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
29/07/2020



Hon Chris Hipkins
Minister of Education

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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 that may need to be withheld will be done so in line with the provisions of the Official Information Act 1982.

Annexes

- Annex A: Draft letter to the TEC Board Chair on the entity's Q3 and Q4 performance
Annex B: The Ministry's Monitoring approach for COVID-19

Summary

Key points

TEC has performed well

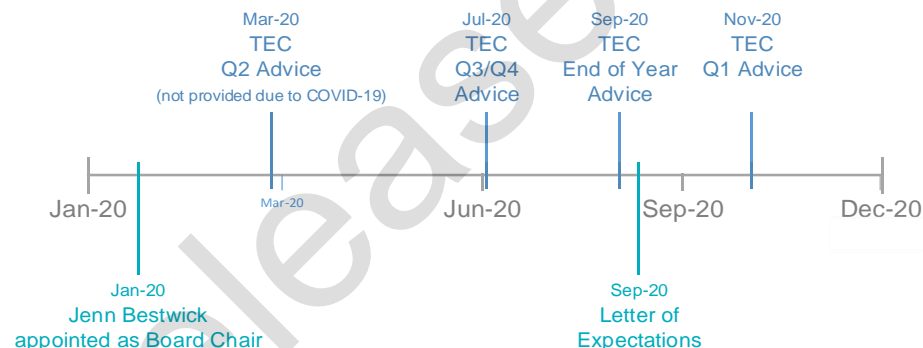
- We consider TEC has responded well to the pandemic.
- TEC's continuity planning meant it was able to seamlessly transition its staff to work from home. It also worked closely with staff to ensure their general wellbeing was supported through lockdown and the return to the office.
- TEC has:
 - worked closely with agencies and the sector to ensure the sector was well prepared for and able to support students and tertiary education providers through COVID-19 Alert Levels
 - reprioritised and refocused the deliverables in its Careers work programme to better assist those who have lost employment due to COVID- 19
 - made good progress in understanding the implications of RoVE for their business. However, implementing significant changes to TEC's business-as-usual processes and systems within the timeframes set for the external RoVE changes will remain challenging
 - provided strong evidence that its EPMO function is performing well. It has reviewed TEC's work programme and projects to ensure they still meet organisational goals and government priorities in the current climate.

Priority monitoring areas for upcoming quarters

In upcoming quarters, we will continue to focus our monitoring on:

- how the entity is continuing to manage the impacts of COVID-19
- delivery of core functions including:
 - support to the tertiary sector given the disruption of COVID-19
 - the Careers System Strategy
- operational progress of RoVE
- information security
- risk and assurance
- financial sustainability and prioritisation of its work programme and activities.

Upcoming reports



Financial performance

TEC has provided its financial information for the period ended 31 March 2020 (Quarter 3). The financial performance and position is summarised as follows:

Financial performance operating summary

	YTD	YTD	FY20	FY20
\$'000	Actual	Budget	Budget	Forecast
Revenue	55,057	50,839	68,023	74,825
Expenditure	(53,948)	(53,876)	(72,050)	(76,695)
Net surplus/(deficit)	1,109	(3,037)	(4,027)	(1,870)

Financial position summary

	As at 31	As at 31	As at 30	As at 30
\$'000	Mar 2020	Mar 2020	June 2020	June 2020
Cash and investments	47,620	69,141	59,354	65,435
Equity	142,790	121,775	115,835	140,611
Working capital ratio	1.32	1.26	1.25	1.07

Non-financial performance

Background

The focus for Ministry monitoring activity for the past six months has been the impact of COVID-19. This has required gathering information to assess, in the short term:

- how COVID-19 affected / is affecting the agency, and
- how well the agency has continued to deliver while adjusting to the changes brought about by COVID-19.

The monitoring team has also provided advice on how to manage key accountability processes through COVID-19, namely the Statement of Performance Expectations (SPE) process and the focus for reporting.

This report focuses on:

- how well TEC immediately responded to the COVID-19 pandemic, the effectiveness of its ability to assess changed sector needs, and how it reprioritised to meet these needs
- progress with the EPMO as we consider its effective operation to be crucial for TEC in managing the depth and breadth of its change programme ahead, and
- progress with RoVE and the Careers work programme, because you have indicated you require more assurance over these work streams.

The planned approach to monitor performance through COVID-19 is attached as Appendix Two.

COVID-19 response and continued delivery

TEC had a well-developed Business Continuity Plan in place before COVID-19. The plan identifies critical business functions and the chain of communication needed to see the organisation through an emergency scenario. This preparation and planning served the TEC well, as staff were able to seamlessly move into lockdown and work from home with minimal issues and without impact on the delivery of services. As part of this preparation, TEC ran a whole organisation, two-day work-from-home trial the week before lockdown was declared. This enabled it to identify and manage issues and facilitated its transition to lockdown.

Prior to COVID-19, TEC was under pressure to deliver a complex work programme across multiple streams, including RoVE, and the Careers Systems Strategy (CSS). We consider that TEC has done well to continue to deliver on its work programme, and is working well to adapt delivery to respond to, and meet the pressures across the sector, as a result of COVID-19.

TEC had a robust plan to support remote working during subsequent Alert Levels, especially for staff who still needed or wanted to work from home, and we note TEC's ongoing commitment to flexible working now at Alert Level 1.

TEC reported no significant technological barriers to working from home.

TEC adapted its ways of working and the support provided to its staff over this difficult time. It ensured it understood and managed, as much as possible, any issues for staff caused by lockdown. This included regular staff surveys to monitor wellbeing. We were especially heartened to hear how TEC's Chief Executive, Tim Fowler, personally checked in with staff who were isolating by themselves.

RoVE

RoVE is a complex, dynamic work programme, which has many interdependencies. The approach to, and actual implementation of, the programme varies across the education sector agencies responsible for enacting these important reforms.

In this regard, our monitoring scope means we consider the operational progress of the entities we monitor to ensure they are able to implement the parts of the programme they are responsible for. We do not comment on the overall programme.

The RoVE programme is developing an operational blueprint for the system delivery of RoVE. It is also developing its change and implementation capability. These two initiatives will allow TEC to take the

Non-financial performance

components of the blueprint it is responsible for and design and implement its components by the end of 2022.

TEC is modifying its BAU activities while significant structural changes are implemented across the system. There are real challenges for TEC in:

- delivering BAU while delivering all it must for RoVE, and at pace,
- being able to design what it needs to for itself while the wider programme is still being thought through and implemented.

The blueprint will be a critical milestone for our monitoring. We will be working with TEC to understand how its systems and operational model are adjusting to the new environment of the New Zealand Institute of Skills and Technology, the Workplace Development Councils and the Regional Skills Leadership Groups.

Enterprise Project Management Office

The Enterprise Project Management Office (EPMO) is an important function for TEC, its purpose is to ensure the organisation has the right level of prioritisation, interdependency management and programme governance in place.

This quarter, we considered how the EPMO function is being used for effective trade-offs and prioritisation conversations within the organisation. It appears to be doing a very good job. We were impressed to learn it carried out due diligence in reviewing TEC's work programme and projects to ensure they still meet organisational goals and government priorities in the current climate. We have seen the robust reporting and analysis measures utilised as part of this process, and also in considering whether future programmes fit within TEC's remit. We are pleased to see TEC is maturing in its EPMO functionality. This is critical given the complexity and scale of TEC's work programme.

In future monitoring, we would like to further explore the factors that drive trade-offs. This will become more apparent as the organisation continues to build capability in this area, and the EPMO functionality fully embeds over time.

Careers programme of work

COVID-19 means all agencies have been required to review their work programmes and priorities, and must continue to do so. As part of this, the EPMO comprehensively reviewed the Careers' *Inspiring the Future* programme to ensure it was still a priority stream of work for the TEC, i.e. appropriately scoped and prioritised, given COVID-19. It is good to see formal reviews were carried out as part of TEC's understanding of the potential shifts required because of COVID-19. The review confirmed the programme's priority and funding.

TEC has also prioritised funding to develop a section of the Careers' online services for adults seeking employment and been successful in securing funding through Budget 2020 to further develop the *Tiro Whetū* online tool. As TEC reported to you, its immediate response to COVID-19 included developing a multi-channel marketing campaign to raise awareness of career information and support, and creating a COVID-19 hub page with new content that:

- provides essential career support information and tools in one place so job seekers can easily access it
- helps job seekers identify their transferable skills in the retail, tourism and hospitality sectors that could underpin shifts to new jobs in other sectors, and
- provides job seekers with easy access to career planning information and gives them:
 - tools to update their Curriculum Vitae
 - advice on setting up *LinkedIn* profiles, and
 - information on how to participate in remote interviews.

We look forward to seeing the launch of *Tiro Whetū*, the extended vocational education and training marketing campaign, and the strengthening of connections between the careers programme and RoVE.

Over the past year, TEC has worked to strengthen and build its relationships across the system and actively work with:

- training providers

Non-financial performance

- the careers peak bodies, Careers and Transition Education Association NZ Inc. (CATE), and the Career Development Association of New Zealand (CDANZ), and
- other government departments and agencies, including MSD, MBIE and the Ministry.

This work has meant TEC has been in a good position to understand the impact of COVID-19 on the system and it has moved quickly to support the system to meet current and future impacts. For example, it quickly identified that MSD required assistance to deliver its Job Connect programme and it mobilised to jointly provide training with CDANZ for new MSD staff working with the recently unemployed.

We are pleased to see TEC taking an active role in identifying solutions to address needs caused by COVID-19. Understanding how TEC determines future work streams is an area of interest for us, as monitors, and TEC will need to continue to work closely with MSD, MBIE and the Ministry on the Careers work. In the next quarter we will engage with TEC to understand what its role in the system is post COVID-19, and how its work programmes and services connect with other services.

Critical success factors for TEC to deliver its careers functions include:

- a clear set of strategic priorities underpinned by a robust monitoring and evaluation framework;
- an understanding of its priority customer segments and how its service offerings bring value to these segments across the business (e.g. a comprehensive value chain across investment and information);
- where there are gaps, how it partners with other organisations to add value for all segments (i.e. a system strategy lens that recognises its role to influence and support education agencies and providers); and
- a concrete sense of how it plans to respond to the rapidly evolving economic situation.

We are pleased to hear of the productive relationships and work being done with the sector, peak bodies and agencies. Co-operation, support

and goodwill across the training and careers sectors will continue to be critical as New Zealand moves forward to rebuild its economy.

We will continue to monitor this programme of work closely in upcoming quarters.

Financial performance

Overview

TEC is in a stable financial position. It had budgeted an operating deficit of \$4.03m for the year as it invests in key strategic projects. The deficit will now not be as high as budgeted due to a number of factors, including the impact of COVID-19.

Over the coming five years, TEC is planning continued operating deficits as it invests in strategic projects. While TEC has sufficient financial capacity on its balance sheet to fund these initiatives, this leaves it with limited ability to fund unplanned activities.

The latest financial information currently available is for the period 1 July 2019 to 31 March 2020 (YTD). This period ended shortly after the Level 4 lockdown and, as such, the accounts do not fully reflect the impact of COVID-19 on TEC. We have discussed the full impact of COVID-19 on TEC's financial performance and position, and the commentary in this section includes a reflection of this impact.

Financial performance

TEC made an operating surplus in the period ended 30 March 2020 of \$1.11m, compared to a budgeted deficit of \$3.04m.

The original budget did not include funding now provided for RoVE and the associated expenditure. The funding totalled \$8.6m (subsequently reduced to \$7.95m) and it is anticipated \$2.0m of this will remain unspent at the end of the financial year, mainly due to delays resulting from COVID-19. This funding will be carried forward to FY21.

There have been other areas of reduced expenditure due to staff vacancies and the impact of COVID-19, which will result in a variance at year-end to the budgeted position. This, taken with the above RoVE underspend, will see TEC have a net deficit at year-end of approximately \$1.87m.

The Ministry will provide an analysis on the final position once TEC has drafted its annual financial statements.

While not reflected in the YTD actual results shown in Table 1, as the adjustment was subsequent to the end of the quarter, TEC will recognise a significant increase in grant revenue and expenditure at the year-end (reflected in the FY20 forecast column in Table 1). This is due to the Government's commitment to hold grant funding at previously agreed levels, even if student numbers decline due to COVID-19. To account for this commitment, TEC is required to recognise a full year's funding in its financial performance and position. Accordingly, a transfer of \$1.2 billion was undertaken between FY20 and FY21. This is a technical accounting issue and does not impact on cash or the financial position of TEC.

Table 1. Financial performance

\$'000	YTD Actual	YTD Budget	FY20 Budget	FY20 Forecast
Operating				
Revenue				
Government grants	51,290	47,333	63,049	69,659
Other	3,767	3,506	4,974	5,166
	55,057	50,839	68,023	74,825
Expenditure				
Personnel expenses	(33,875)	(32,834)	(43,563)	(48,654)
Other operating expenses	(15,913)	(16,820)	(22,544)	(21,797)
Depreciation & amortisation	(4,160)	(4,222)	(5,943)	(6,244)
	(53,948)	(53,876)	(72,050)	(76,695)
Net surplus/(deficit)	1,109	(3,037)	(4,027)	(1,870)
Grants				
Revenue	2,340,212	2,508,688	3,312,373	4,493,039
Expenditure	(2,339,167)	(2,518,723)	(3,327,253)	(4,491,139)
Net surplus/(deficit)	1,045	(10,035)	(14,880)	1,900
Overall				
Net surplus/(deficit)	2,154	(13,072)	(18,907)	30

Financial performance

Financial sustainability

TEC remains in a stable financial position with overall equity of \$142.79m at the end of Quarter 3. This position is forecast to reduce by year-end as the balance sheet is used to absorb operating deficits. This deficit will not impact on TEC's financial sustainability.

TEC's current assets and liabilities will materially increase to reflect the accounting for committed grant funding, as discussed on the previous page. As the increase is by the same amount, it has no impact on equity.

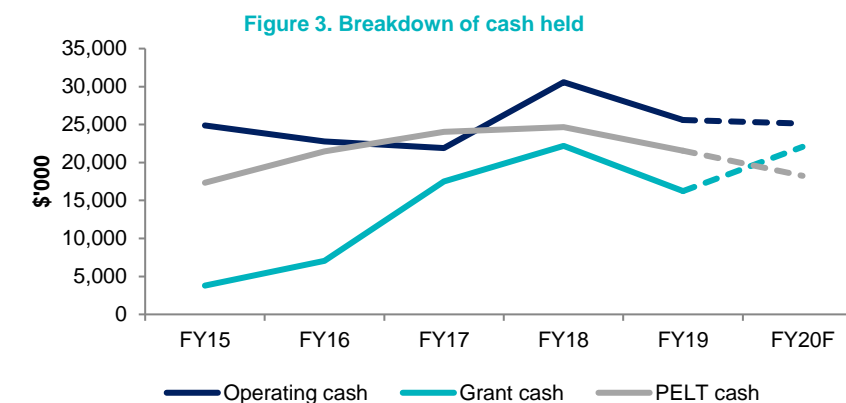
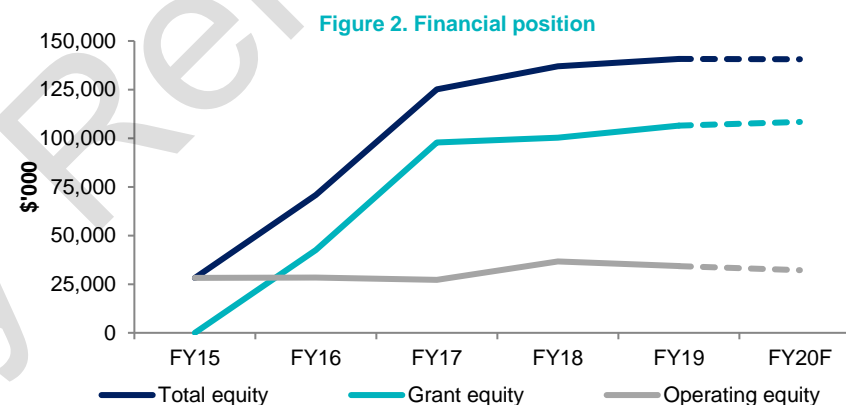
While TEC continues to retain significant cash of \$47.62m on its balance sheet at 31 March 2020, \$21.47m relates to pre-purchased English language tuition (PELT) and \$0.20m is grant cash, leaving a balance of \$25.95m of operating cash. Demand for PELT is likely to dramatically reduce due to border restrictions and, as such, TEC anticipates this cash balance will reduce over the coming twelve months. If PELT funding is not utilised, it is returned to MBIE. TEC recognises an associated liability for the PELT cash and therefore the amount of cash held has limited impact on overall equity.

As referenced on the previous page, TEC is planning operating deficits over the next five years, and will be utilising its balance sheet to fund these deficits. The total deficits over this five-year period is forecast at \$15.5m, which includes provisions for initiatives of \$8.6m.

TEC faces some credit risk as a result of COVID-19. Default by providers is heightened due to the financial stress they find themselves in, particularly those reliant on international student revenue to remain viable. It is likely this risk will materialise in the next calendar year when the current guaranteed funding ends and Tertiary Educational Organisations (TEOs) feel the full effect of reduced revenue from international students. We understand TEC has already stepped up its monitoring of TEOs as part of a strategy to manage this risk.

Table 2. Financial position

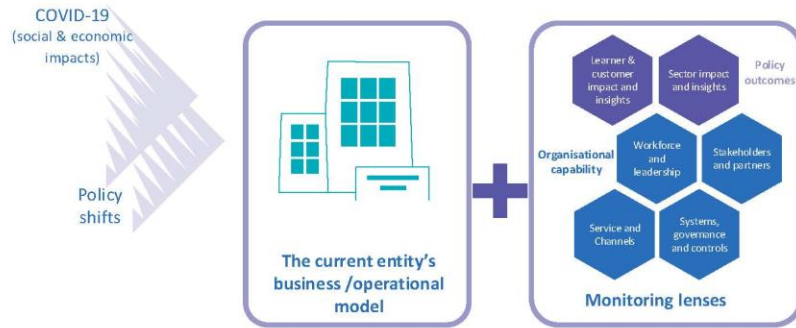
	As at 31 Mar 2020	As at 31 Mar 2020 Budget	As at 30 June 2020 Budget	As at 30 June 2020 Forecast
\$'000				
Assets				
Current assets	520,880	481,300	470,388	1,834,031
Non-current assets	19,103	23,044	23,507	17,256
	539,983	504,344	493,895	1,851,287
Liabilities				
Current liabilities	395,513	380,881	376,407	1,708,807
Non-current liabilities	1,680	1,688	1,653	1,869
Total liabilities	397,193	382,569	378,060	1,710,676
Equity	142,790	121,775	115,835	140,611



MONITORING APPROACH FOR COVID-19

Strategic Planning

What does COVID-19 mean for the organisation as a whole ?



Moving from pre-COVID-19 to current and future state

Informs

Operational planning

How has the entity adapted to change and planned to manage impact ?

Planning and adapting to address impact



Operational delivery

How is change being managed?



How is agility supported, impact measured and action enabled?



- Consider:
- Governance structures
 - Systems, controls and processes (especially financial systems)
 - Performance measures (including measures for equity)
 - Human resource management
 - Feedback loops to enable adjustment

Equity Lens: consideration of outcomes for Māori, Pacific and disabled students

Strategic Assurance

How has the operating environment changed and how will it further change in the future?

How has COVID-19 affected the entity?

What is the impact on its business model and how does that relate to the sector, customer and stakeholders?

How has it impacted the entity in achieving equity and excellence in the system? (what have we learnt? How have the challenges changed? How do we accelerate changes?

How well is the entity thinking through impacts?

What changes is the entity considering? (What should be stopped? accelerated? added? Has an equity lens been applied to this analysis?)

Does the entity have the capability, capacity and systems in place to manage now and in the future? If not, what needs to change?

Informs

Operational Assurance

What changes are needed to the current work programme? (trade-offs, prioritisation, scope, sequencing, interdependency)

How well are medium / long term changes defined and understood?

What changes are needed in the organisation? (capability, capacity, systems, processes)

What is the initial impact assessment and how will it be tracked? (risk and assurance profile, measures, financial analysis, has equity been adequately incorporated?)

How is change being managed while continuing to deliver?

Consider lenses on the left to understand impact and effectiveness of change and interdependencies within and across the system

How is the organisation performing and adjusting?

Consider organisational health including maturity, risks and performance (measures, evaluation, feedback)

Hon Chris Hipkins

MP for Remutaka

Minister for COVID-19 Response

Minister of Education

Minister for the Public Service

Leader of the House



16 November 2020

Jenn Bestwick
Chair
Tertiary Education Commission (TEC)
PO Box 27048
WELLINGTON 6141

Chair@TEC.govt.nz

Dear Jenn

I have received TEC's Q3 Report for 2019/20, alongside the Ministry of Education's assessment of performance over the past six months. Thank you for sharing this information.

Beginning your term as Chair of the TEC as a global pandemic hit will not have been easy. I would like to take this opportunity to thank you for your leadership through this challenging time.

I appreciate how TEC was able to move into lockdown so readily, and supported its staff to continue to deliver on the Government's tertiary education priorities as well as work quickly and responsively to new demands in and on the sector due to COVID-19. I also recognise how the TEC was able to reprioritise to deliver on the careers work programme for the New Zealanders whose jobs have been affected by COVID-19. Please pass my thanks on to the Board, and organisation for this.

I look forward to hearing more about TEC's work to ensure the successful implementation of the Reform of Vocational Education and the Careers System Strategy as TEC continues to balance its work programme and delivery of these important reforms.

Thank you again for all of your work over these past months.

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