



Education Report: Tertiary Education Commission performance – Quarter 1 2018/19

To:	Minister of Education		
Date:	5 December 2018	Priority:	Medium
Security Level:	In Confidence	METIS No:	1162499
Drafter:	s 9(2)(a)	DDI:	s 9(2)(a)
Key Contact:	Fiona O'Leary	DDI:	
Messaging seen by Communications team:	No	Round Robin:	No

Purpose of report

This paper provides our assessment of the Quarter 1 performance of the Tertiary Education Commission (TEC), and asks you to sign and send the attached letter of the Chair of TEC relating to its quarterly report.

Summary

The Ministry of Education (the Ministry) and Ministry of Business, Innovation and Employment (MBIE) provide a joint assessment for TEC. This assessment covers Quarter 1 2018/19 (1 July to 30 September 2018) and developments up to the date of this report. This report sits alongside TEC's own quarterly report which you will receive at the same time as our report.

TEC and the Ministry continue to work closely through the Institutes of Technology and Polytechnics (ITP) Roadmap 2020. Robust governance is in place overseeing the ITP Roadmap and will evolve as the work progresses into the next phase.

TEC continues to mature its monitoring capability and to build its intelligence function across the Tertiary Education Organisation (TEO) network. It has identified areas of improvement from the current ITP sector issues and is implementing the necessary monitoring changes.

TEC's Kia Rite change process has entered its final stages. The confirmed structure is set to be in place by December 2018.

TEC continues to develop and improve its information products for its customer base and is appropriately managing privacy and security of its information products and data.

Proactive release

We recommend this report is proactively released. This recommendation is in line with your response to our report on how the principles of proactive release apply to Crown entity monitoring [METIS 1111386 refers].

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

Recommended actions

The Ministry of Education recommends you:

- a. **note** our assessment of TEC's performance in Quarter 1 2018/19

Noted

- b. **sign** and **send** the attached draft letter to Nigel Gould, Chair of the TEC Board

Agree / Disagree

- c. **release** this Education Report as part of proactive release

Release / Not release



Emily Fabling
Deputy Secretary
Strategy, Planning and Governance

05/12/2018



Hon Chris Hipkins
Minister of Education

5/1/19

Annexes

Annex 1: Draft letter to the TEC Board Chair

A. The Ministry's report at a glance

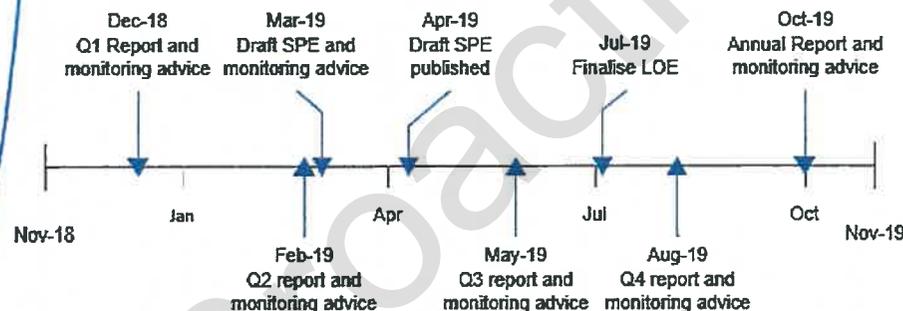
Key Points

- TEC continues to work closely with the Ministry on progressing the ITP Roadmap 2020.
- Robust governance is in place to manage the ITP Roadmap and will evolve as the ITP Roadmap progresses.
- TEC has put in place the necessary conflicts of interest registers ensuring management of any potential, perceived or actual conflicts.
- TEC continues mature and develop its TEO monitoring and intelligence functions.
- TEC has identified key areas requiring support such as ITP governance, financial monitoring, capability building and sharing of best practice across the sector.
- TEC has entered the final stages of its Kia Rite change process with its structure planned to be in place by December.
- TEC continues to develop and improve its information products to the sector and supports other key business functions such as its 2019 investment round and Fees Free.

Focus Areas for Quarter 2

- Careers System Strategy Update
- TEC Investment
- Risk and Assurance Management
- Performance Based Research Fund Quality Evaluation

Upcoming monitoring and accountability reports



Financial performance

Financial performance operating summary				
\$'000	YTD FY19	YTD FY19B	YTD FY18	FY19B
Revenue	17,637	17,349	17,495	68,662
Expenditure	(18,291)	(19,381)	(15,753)	(74,077)
Net surplus/(deficit)	(654)	(2,032)	1,742	(5,415)

Financial position summary			
\$'000	As at 30	As at 30	
	Sept 2018	Sept 2018	As at 30 Budget June 2018
Cash and investments	78,389	56,599	77,420
Equity	137,588	142,337	137,055
Working capital ratio	1.22	1.22	1.24

Non-financial performance

TEC assessed 12 measures in Quarter 1, five are SOI measures and seven are SPE measures.

- nine measures are on track to achieve their target by end of year,
- one measure is not on track but is expected to be met by the end of the year,
- one measure is new in 2018/19 and is establishing a baseline result, and
- one measure is not on track and is not expected to be met by the end of the year (see non-financial performance section).

Board overview

- Appointments to the TEC Board have been confirmed for 2018/19. TEC's Board as of 3 December 2018 is as follows.

John Morris**	1-Nov-2012	31-Oct-2018
Christopher Mace	1-May-2013	11-May-2019
Vanessa Stoddart	18-Sep-2013	17-Sep-2019
Phil O'Reilly	18-Sep-2013	17-Sep-2019
Alastair MacCormick	30-May-2017	29-Nov-2019
Nigel Gould (Chair)	1-Aug-2017	31-Jan-2020
Vacant*	7-Dec-2018	6-Dec-2021
Vacant*	7-Dec-2018	6-Dec-2021

* Nominees are due to be announced in early December.

** John Morris remains on the Board until a successor is appointed in early 2019

- Planning has begun for four Board appointments that are due to expire in 2019/20.



B. Monitoring focus areas

1. Background

Areas of focus for Ministry monitoring activity are informed by TEC's 2018/19 Letter of Expectations [METIS 1153128 refers] and its environmental context.

2. Strategic areas of focus

ITP Structural Reform

TEC and the Ministry have worked closely on the development of advice on the way forward for the ITP sector via the ITP Roadmap 2020 project.

Now that Ministers are making decisions on the current phase of work, TEC is preparing to move quickly into design and implementation of ITP structural change via a new project called ITP Structural Reform – a work stream of the Government's broader Reform of Vocational Education work programme. It has been signalled to you that it requires additional funding due to dependencies on external support through consultants.

As this work moves towards the design and implementation, our monitoring areas of focus includes:

- understanding the governance of ITP Structural Reform,
- what capability building in the ITP sector and within TEC will be addressed,
- TECs consultation process with the sector,
- how risks are identified and managed.

TEC and the Ministry have established joint governance groups to oversee the Reform of Vocational Education work programme, of which ITP Structural Reform is a part. This group comprises senior managers from the Ministry, TEC, MBIE, New Zealand Qualifications Authority (NZQA), Department of the Prime Minister and Cabinet, State Services Commission and Treasury, and is chaired by the TEC's Chief Executive.

TEC is in the process of establishing a project management structure and sector engagement approach for the ITP Structural Reform project.

Once the Minister's proposed changes have been agreed by Cabinet and announced for consultation (likely in early February 2019), TEC will seek to reconvene the working groups it created during ITP Roadmap 2020 to advance the work. These included stakeholders from different sectors that have a strong interest in the ITP sector, and allowed TEC to test operational ideas and approaches.

s 9(2)(f)(iv)

Kia Rite will also embed Enterprise Project Management Office (EPMO) functions into TEC business operations. This will be important capability for supporting this project in the longer term.

s 9(2)(f)(iv)

The core element of the next phase of work will be its active consultation and engagement with key stakeholders. This includes managing

expectations with the ITP sector, providers and the wider TEO network. The approach may vary depending on the time available to further consult.

s 9(2)(f)(iv)

The pace of change presents a risk to TEC and the Ministry in implementing the ITP structural reform. We understand you are being briefed on this risk as part of your engagement.

TEO monitoring

TEC continues to mature and develop its TEO monitoring and intelligence functions. It is working with the Ministry to identify areas of improvement from the current ITP sector issues, and improve its monitoring approach and focus.

A work programme is in development with improvements underway. It will be important TEC remains focused on delivering these improvements to key areas. Some of these areas include:

- TEC enhancing induction processes for new members to TEI councils. This will reinforce obligations and areas of responsibility such as risk and financial monitoring and management,
- s 9(2)(f)(iv)
- making improvements to current Financial Monitoring Frameworks based on experience from current intensive financial monitoring of ITPs. The lessons learnt, will allow TEC to provide guidance on financial best practice. This will also support the ITP Roadmap by providing guidance to the network,
- continuing to build best practice across ITPs by capturing and sharing the processes used by well performing providers. This guidance will set a 'benchmark' for performance across ITPs when shared across the network, and

- leveraging its monitoring function through its investment relationship managers. These managers directly interface with ITP providers and will add a new dimension to TEC's sector intelligence. This will create a more complete picture of the ITP sector and support the earlier identification of potential risks.

We sought assurances on the use of consultants and were provided assurance that the necessary conflict management controls are in place.

Moving forward into the medium term, TEC will also need to strengthen TEO's internal monitoring processes and establish stronger links across the business particularly in its investment directorate. This will support reporting transparency and risk detection.

3. Operational areas of focus

Kia Rite – change process

TEC has entered the final stages of its *Kia Rite* change process. TEC has confirmed its new structure. An announcement was made earlier in October with the structure planned to be in place by December.

It will be important given system changes that the wellbeing of staff continues to be a focus. Senior managers in TEC have been actively engaging with staff throughout the process and have good lines of communication.

s 9(2)(f)(iv)

TEC will also need to consider its external facing communications to ensure that its relationships across the sector and with stakeholders are maintained during this time of change.

Data systems, Information management

TEC’s operational context is highly dependent on information products and databases. TEC has a work programme in place to prioritise and implement information product development and improvements across the year, to support key initiatives and processes.

This quarter TEC has:

- improved the types of information it receives from providers making the investment round process more efficient,
- launched the eligibility criteria for Fees Free coverage in 2019 alongside its Student Verification tool, and
- continued to work with Iwi to ensure its information products are meeting the diverse needs of learners.

This year critical initiatives for TEC include the ITP Roadmap 2020, Careers System Strategy and the continued operation of Fees Free. These initiatives are all highly dependent on information and data products.

It will be important that TEC continues to connect with the wider system and strategic directions for data, as well as recommendations from the Education Agencies Data Standards Management Board¹. Timing and sequencing may need to be prioritised to ensure interdependencies are appropriately managed.

It is also important TEC understands whether customer needs are being fully met through its existing products and channels. TEC are aware of the importance of the above factors and will continue to work with the Ministry to fully align priorities.

TEC has good policies, procedures and processes for appropriately managing privacy and security of its data and information products. The Department of Internal Affairs has provided assurance of this through its assessment of TEC against the Privacy Maturity Assessment Framework (PMAF) and Protective Security Requirements (PSR).

TEC is also currently doing a review to ensure its information products remain fit for purpose under the stronger legislative requirements.

In future engagement with TEC we will be exploring:

- how it transfers data and information across the education sector,
- its use of mechanisms such as memorandums of understanding (MOUs) across other departments,
- how it manages interdependencies, and
- how it is supporting a system approach to tertiary and employment data.

4. The 2018/19 Letter of expectations (LOE)

We are working with TEC to finalise our monitoring engagement plan based on the 2018/19 LOE. Table 1 outlines some of the key areas that we see as being high priority. Monitoring topics will be regularly reviewed depending on priority.

Table 1. LOE based monitoring topics

LOE priorities	Monitoring topic
Stewardship of a sustainable tertiary system	<ul style="list-style-type: none"> • ITP Roadmap 2020 progress, • Careers System Strategy implementation • Fees Free 2019 and 2021 development • Alignment with Tertiary Education Strategy

¹ The Education Agencies Data Standards Management Board is comprised of staff from the Ministry, TEC and the NZQA.

Providing adaptive, future focused and connected services	<ul style="list-style-type: none">• TEO Monitoring• TEC investment• System interdependencies
Promoting and supporting equity of access and outcomes for learners	<ul style="list-style-type: none">• Maori and Pasifika parity• Performance measures improvement
Demonstrating sustainable and responsive business systems	<ul style="list-style-type: none">• Customer needs• Information and data systems,• Financial sustainability• Risk management and assurance
Delivering outcomes of the education research and careers system	<ul style="list-style-type: none">• Performance measures improvement• Performance Based Research Fund Quality Evaluation

Proactively Released

C. Financial performance

1. Overview

TEC is in a stable financial position. In FY18 it made a net surplus of \$4.57m, however a significant amount of planned expenditure was deferred into FY19, resulting in a budgeted deficit of \$5.42m. TEC is able to fund this deficit from accumulated reserves on its balance sheet.

2. Quarterly financial performance

TEC's overall net surplus for the period ended 30 September 2018 (YTD), was higher than Budget.

Both Grant revenue and expenditure were lower than budget in the quarter. This is driven by continued lower demand, especially in the Training for Designated Groups and Student Achievement Component appropriations.

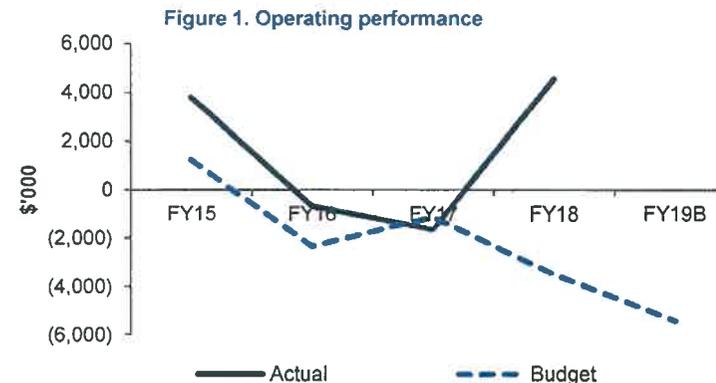
TEC had an operating deficit of \$0.65m compared to a budgeted deficit of \$2.03m. This improved performance was a result of reduced expenditure as opposed to increased revenue.

The lower than budget personnel and other operating expenditure is down to a difference in timing of expenditure and is not representative of any permanent reduction in expenditure.

s 9(2)(f)(iv)

The TEC is prioritising its work programme to ensure spending stays within budget. We will have a strong monitoring focus on project expenditure during the course of the financial year, to assess the impact on TEC's budget and financial position.

Table 1. Financial performance				
\$'000	YTD FY19	YTD FY19B	YTD FY18	FY19B
Operating				
Revenue				
Government grants	16,113	16,114	16,386	63,905
Other	1,524	1,235	1,109	4,757
	17,637	17,349	17,495	68,662
Expenditure				
Personnel expenses	(10,975)	(11,494)	(10,080)	(41,492)
Other operating expenses	(5,965)	(6,639)	(4,462)	(27,723)
Depreciation & amortisation	(1,351)	(1,248)	(1,211)	(4,862)
	(18,291)	(19,381)	(15,753)	(74,077)
Net surplus/(deficit)	(654)	(2,032)	1,742	(5,415)
Grants				
Revenue	763,660	777,524	726,664	3,304,929
Expenditure	(762,378)	(777,019)	(724,703)	(3,302,909)
Net surplus/(deficit)	1,282	505	1,961	2,020
Overall				
Net surplus/(deficit)	628	(1,527)	3,703	(3,395)



3. Financial sustainability

TEC's balance sheet is budgeted to remain stable. As the FY18 equity position was worse than the forecast figure used in the FY19 Budget, the final position at the end of FY19 will be worse than budget.

While TEC continues to retain significant cash on its balance sheet of \$78.39m, \$25.35m relates to pre-purchased English language tuition (PELT) and \$24.95m is for grant payments to TEOs. Demand for PELT has started to pick up and TEC anticipate this balance will start to decrease. If PELT funding is not utilised, it is returned to MBIE.

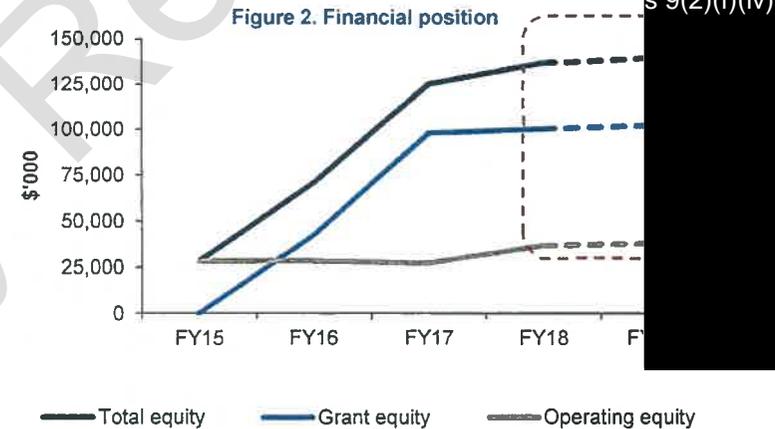
s 9(2)(f)(iv)

4. Looking forward

s 9(2)(f)(iv)

Table 2. Financial position

\$'000	As at 30	As at 30	As at 30	As at 30
	Sept 2018	Sept 2018 Budget	June 2018	June 2019 Budget
Assets				
Current assets	660,268	673,684	621,333	665,915
Non-current assets	18,760	20,462	17,870	25,001
	679,028	694,146	639,203	690,916
Liabilities				
Current liabilities	539,686	550,307	500,361	549,247
Non-current liabilities	1,754	1,502	1,787	1,425
Total liabilities	541,440	551,809	502,148	550,672
Equity	137,588	142,337	137,055	140,244



s 9(2)(f)(iv)

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D. Non-financial performance

1. Background

TEC's non-financial performance is measured against both its Statement of Intent 2018/19 – 2021/22 (SOI) and Statement of Performance Expectation 2018/19 (SPE).

In this quarter TEC reported progress against 12 measures, five SOI and seven SPE measures.

2. Statement of Intent measures

There are total of 13 measures outlined in TEC's SOI. Five SOI measures are assessed in this quarter and relate to building provider capability and monitoring performance and to TEC's organisational strategy. All five measures are on track to be achieved by the end of this year.

s 9(2)(f)(iv)

Other measures regarding unplanned staff turnover, availability of core ICT services and applications and availability of ICT services provided to TEOs are also on track.

3. Statement of performance expectation measures

There are a total of 55 measures outlined in TEC's 2018/19 SPE. Measures are classed into TEC output and Sector output measures. In this quarter, seven SPE measures have been assessed. TEC has

indicated that four are on track to be achieved by the end of the year, one is not on track this quarter but is still expected to be achieved by the end of the year, one measure that is new and is establishing a baseline result and one measure is not on track or expected to be achieved.

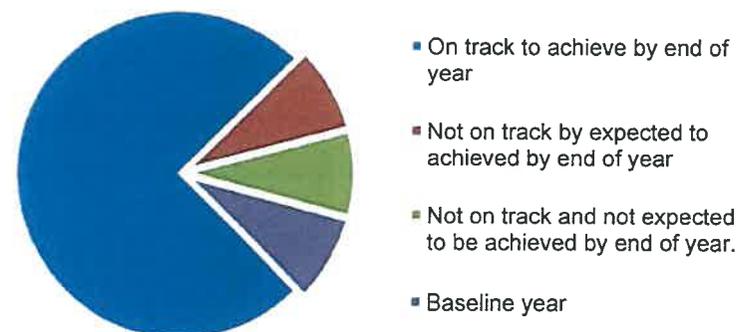
The one measure not expected to be achieved this year relates to delivering work ready graduates with skills in the ICT industry. TEC has investigated and found that although enrolment numbers in Auckland were slightly above forecasted projections, both Wellington and South Island ICT schools remained below expected targets.

Factors contributing to the target not being achieved included a delayed start for some ICT schools which affected enrolment numbers and the Wellington ICT School operating on a July/June financial year instead of the school calendar year.

A review of the initiative has also indicated that the ICT schools have in fact produced good outcomes for students and the ICT industry.

Overall, all three ICT schools have seen growth in their enrolments year on year and remain optimistic in increasing enrolment numbers through implementing new recruitment strategies.

TEC Measures assessed in Quarter 1



Hon Chris Hipkins

MP for Rimutaka

Minister of Education

Minister of State Services

Leader of the House

Minister Responsible for Ministerial Services



07 JAN 2019

Nigel Gould
Chair
Tertiary Education Commission
PO Box 27048
WELLINGTON 6141

Dear Nigel

I have received the Tertiary Education Commissions' Quarter 1 Report for 2018/19, alongside the Ministry of Education and Ministry of Business Innovation and Employment's assessment. Thank you for providing me with this information.

I am pleased that TEC's *Kia Rite* – Change process is progressing well and that the organisational structure has been confirmed. TEC will be well positioned to respond to system changes in 2019.

I am also pleased that improvements from recent issues in the sector are being incorporated and implemented through TEC's sector monitoring. Monitoring, including sector governance, will continue to be a priority for me. I look forward to receiving updates on this across the year.

I want to acknowledge the work that TEC and the Ministry are doing on the Reform of Vocational Education, and recognise that it will require significant effort for TEC to implement the changes expediently.

In the coming year, I expect TEC to publish an updated Statement of Intent (SOI) that fully reflects my priorities and refreshes the medium-term direction of TEC. With numerous system reviews progressing and some due to be completed in 2019, TEC will need to consider the outcomes of these reviews during the development of its SOI.

I look forward to seeing TEC's progress on some of its key programmes and its SOI in the next quarter.

Yours sincerely

A handwritten signature in blue ink, appearing to be 'CH', written over a large, light grey watermark that reads 'Previously Released'.

Chris Hipkins
Minister of Education

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