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MINISTRY OF EDUCATION
TE TĀHUHU O TE MĀTAURANGA

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Office of Hon Hipkins

Education Report: Tertiary Education Commission performance – Quarter 2 2018/19

To:	Hon Chris Hipkins		
Date:	14 March 2019	**Priority:**	Medium
Security Level:	In Confidence	**METIS No:**	1176686
Drafter:	Jennifer Heersping	**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 2 (Q2) performance of the Tertiary Education Commission (TEC), and asks you to sign and send the letter to 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 Q2 2018/19 (1 October to 31 December 2018) and developments up to the date of this report. This report sits alongside TEC's own quarterly report which you received 13 March 2019.
- This quarter our monitoring engagement with TEC has focused on understanding how TEC is implementing its new operating model as a result of the Kia Rite change process. TEC has begun work to understand any implications of its increased scope of work from a regulatory and legislative lens. This work will give TEC a clear understanding of the levers it is able to utilise, and will also identify potential changes that may need to occur moving forward.
- Now that the Careers System Strategy (CSS) has been signed out by you and the TEC Board, and TEC's Kia Rite change process is near complete, we have begun scoping our future engagement as monitors. This will include understanding how TEC has thought through its operating context, how it will manage interdependencies across the system and how the CSS will support equitable access.

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Recommended Actions

The Ministry of Education recommends you:

a. **note** our assessment of TEC's performance in Q2 2018/19

Noted

b. **sign** and **send** the attached draft letter to the Chair of the TEC Board

Agree / Disagree

c. **forward** a copy of this Education Report to Minister Salesa as she has delegated responsibility for the Performance Based Research Fund

Agree / Disagree

d. **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
__/__/____

Hon Chris Hipkins
Minister of Education
5/4/19

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: Monitoring overview for Q2
Annex B: Monitoring focus areas
Annex C: Non-financial performance
Annex D: Financial performance and position
Annex E: The 2018/19 Letter of Expectations (LOE)
Annex F: Draft letter to the TEC Board Chair

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Annex A: Monitoring overview for Q2

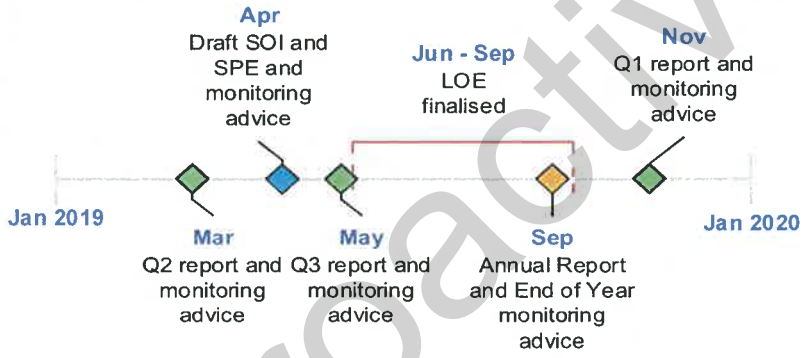
Key points

- It is good to see that TEC has commenced work to develop its regulatory framework to reflect the increased scope of work. This will help TEC to be clear about the levers it has to apply or needs to apply moving forward.
- The Reform of Vocational Education (RoVE) has been a key focus for TEC across the quarter. Once the consultation phase is complete we will be engaging with TEC on possible implications.
- Planning and development of TEC's 2019/20 Statement of Performance Expectations (SPE) and its 2019 – 2023 Statement of Intent (SOI) is well underway. We will be engaging with TEC on its performance measures from early March 2019 and will provide you with advice alongside TEC's draft versions.

Priority monitoring areas for upcoming quarters

- RoVE
- Risk and assurance
- Enterprise Project Management Office (EPMO)
- Regulatory and accountability governance work programme
- Fees Free 2019 delivery
- Learner parity work programme
- Careers System Strategy
- SOI and SPE development
- Tertiary Education Organisation (TEO) monitoring

Upcoming reports



Note: Advice has been provided on the timing of the LOE [METIS 1174700 refers].

Financial performance

Financial performance summary

$'000	YTD FY19	YTD FY19B	YTD FY18	FY19B
Revenue	35,149	34,514	35,432	68,662
Expenditure	(37,013)	(38,764)	(32,230)	(74,077)
Net surplus/(deficit)	**(1,864)**	**(4,250)**	**3,202**	**(5,415)**

Financial position summary

$'000	As at 30 Sept 2018	As at 30 Sept 2018 Budget	As at 30 June 2018
Current assets	78,389	56,599	77,420
Equity	137,173	142,337	137,055
Working capital ratio	1.22	1.22	1.24

Board appointments

s 9(2)(f)(iv)

[redacted]

Planning | Candidate sourcing | Candidate analysis | Candidate selection | Candidate confirmation

Current TEC board members by term expiry date

Name	Start date	Expiry date
John Morris	1/11/2012	31/10/2018*
Christopher Mace	1/05/2013	11/05/2019
Vanessa Stoddart	18/09/2013	17/09/2019
Phil O'Reilly	18/09/2013	17/09/2019
Alastair MacCormick	30/05/2017	29/11/2019
Nigel Gould (Chair)	1/08/2017	31/07/2020
Jenn Bestwick	14/12/2018	13/12/2021
Vivien Bridgwater	14/12/2018	13/12/2021

Board profile

- 3 female, 4 male
- Age: 51 – 73
- Low regional diversity
- Members from Auckland, Wellington and Queenstown
- Two Māori members
- No Pacific members

*Is staying on until a new member is appointed

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Annex B: Monitoring focus areas

Background

Areas of focus for Ministry monitoring activity are informed by TEC's 2018/19 Letter of Expectations [METIS 1131167 refers] and its environmental context.

Strategic areas of focus

TEC's new operating model is a good step forward in enabling TEC to meet its current and future needs as an organisation. TEC has increased and strengthened its capabilities to enable it to move from being predominantly focused on operational delivery to being more strategic. In particular, it has increased its ability to translate strategy and policy into operational direction for the entity, and be more focused on customers and the sector. It is good to see that TEC is identifying and building opportunities to capture intelligence and insights to inform continuous improvement and to evaluate the impact of its activities.

TEC has commenced work to develop its regulatory framework to reflect its increased scope of work as a result of recent changes. TEC will need to be clear about the levers it can apply or needs to apply moving forward, and its linkages across the system. We consider this work as being important to ensure TEC's operating model is fit for purpose. It will also be a key input into TEC's understanding of the impact of the Reform of Vocational Education (RoVE) on the organisation.

We will engage on the Enterprise Project Management Office function and regulatory work programme next quarter.

Careers System Strategy (CSS)

Now that the CSS has been signed out by you and the TEC Board, and TEC's Kia Rite change process is near complete, we have begun scoping our future engagement as monitors.

Our initial areas of focus will include understanding how TEC:

- has thought through its operating context,
- will manage interdependencies across the system,
- is engaging with its partners and customers on the CSS, including how it is expanding the scope of this engagement to non-traditional segments (for example, the trade industry and Iwi groups), and
- will measure success, both in the system and internally.

In developing the proposed products in the CSS, we intend to seek assurance on how TEC:

- is planning to source key data and information to provide accurate advice,
- will ensure the products support equitable access and outcomes in the system, and
- understands how the system is able to accommodate and use the products.

RoVE

TEC is continuing to work with the Ministry and other key agencies on the consultation process for RoVE. TEC is actively engaging with the sector and capturing views from the consultation. TEC is aware that it also needs to start work to understand the implications of RoVE into the organisation.

TEC's new structure has put it in a good position to manage work that results from RoVE. Next quarter we will be engaging with TEC on timing for when its work to understand internal implications will commence.

This is an important area for all entities we monitor. We will also be seeking assurance over the ongoing communications approach that TEC will take with its customers and key partners.

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Operational areas of focus

Performance Based Research Fund (PBRF) review

This quarter, we sought monitoring insight into the PBRF as TEC prepares to distribute PBRF funding. TEC has good operational processes for managing the PBRF and is actively engaging with the Ministry as part of the 2019 review.

Currently TEC cannot directly capture the impact that the PBRF may be having on the tertiary sector. Two independent studies carried out by Victoria University of Wellington and the University of Canterbury, have shown that the PBRF supports improved organisational sustainability and equity of outcomes for learners, particularly women.

Understanding the impact of the PBRF, in particular how it supports a wider range of participation in the sector, is part of the PBRF review. TEC could also consider how this might be measured to determine the return on investment from the PBRF

We will engage with TEC after the review is completed to understand how TEC will support other providers to participate in the PBRF.

Risk and assurance processes

This quarter we had an initial conversation about TEC's risk and assurance processes to inform future engagement.

TEC has been reviewing and enhancing its risk functionality, particularly with its reporting and risk identification. As monitors we have asked to understand how it will identify and address system and operational risk in regard to the key change programmes such as RoVe and CSS.

TEC's audit function is managed through NZQA. Next quarter, we will be engaging with NZQA on how it provides this service and how its work programme reflects coverage of:

- services,
- the regulatory environment, and
- change projects.

TEC is also addressing internal risk capability by supporting staff with training and information products.

Next quarter we will be engaging with TEC on how risk is incorporated into its audit plan and processes.

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Annex C: Non-financial performance

Non-financial performance

Background

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

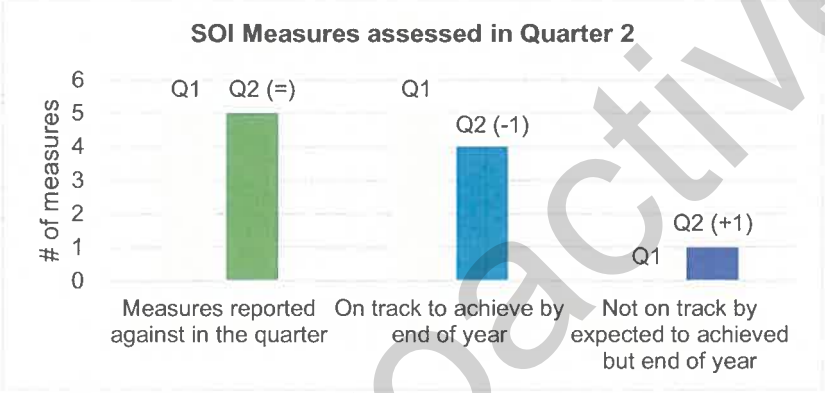
This quarter, TEC reported progress against nine measures.

Performance against current measures

SOI measures

TEC has a total of 13 SOI measures, five of which were reported against this quarter. Four of these measures were reported as being on track to achieve target by the end of the year.

One measure, *availability of core ICT services and applications we provide for tertiary education organisations (excluding planned outages)*, was close to target (98.2% against a target of 98.5%). It is expected to achieve target by the end of the year.



SPE measures

Seven of TEC's SPE measures are reported quarterly – four TEC outputs and three sector outputs. The four TEC outputs all relate to its performance in the careers system. All remained on track to achieve target by the end of the year.

Data for the three sector output measures will be available for Q3.

Enhancing the performance framework

TEC will be developing a new SOI this year, alongside its annual SPE. You will receive these draft documents by the end of April 2019. We will be providing advice to you alongside the draft SOI and SPE.

Due to the level of change in relevant systems, and the number of reviews underway, the education Crown entities intend to pitch their SOIs at a high level so they are able to adapt to change. Some key themes we expect to see include:

- focus on outcomes,
- understanding customers and their needs including Maori, Pacific, and disabled peoples,
- student wellbeing, and
- alignment to your priorities, your Education Portfolio Work Programme and relevant system strategies.

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Annex D: Financial performance and position

Background

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.

Quarterly financial performance

TEC had a small overall net surplus of $0.332m for the period ended 31 December 2018 (YTD), compared with a budgeted deficit of $3.240m. TEC had an operating deficit of $1.864m compared to a budgeted deficit of $3.240m. This improved performance was largely the result of reduced expenditure as opposed to increased revenue.

The lower than budget expenditure is largely a result of a significant number of vacancies from the Kia Rite restructuring. Some of these vacancies are being filled by contractors and consultants, which has partially offset the saving. While TEC is working to fill these vacancies, it may result in a lower deficit than anticipated when the budget was approved. As at 5 March 2019, we are aware TEC has 75 vacancies (21% of total FTEs available).

TEC has received an additional $5m in funding to cover costs of the RoVE programme in the remainder of FY19. It is anticipated this will be sufficient to meet the remaining costs of the programme.

Both grant revenue and expenditure were lower than budget in the quarter. This is driven by continued lower demand, especially in the Youth Guarantee and Student Achievement Component (SAC) appropriations. In addition, the demand for Fees Free has been lower than anticipated.

s 9(2)(f)(iv) [redacted]

We have been informed by TEC of an expected $90-$95 million reduction in grant expenditure in FY19. This relates to the expiration of a SAC recovery exemption for the Canterbury based tertiary education institutions, and the accounting treatment which requires the full calendar year funding to be recorded in the annual accounts. TEC is aware that earlier indication of recoveries is important to how the grant fund is managed.

Moving forward our monitoring advice is that TEC, in managing its grant fund:

- applies the same forecasting rigour that it has for its internal operating budget (this forecasting needs to take a longer term, strategic lens that accounts for liabilities, assumptions and any changes in expense), and
- provides earlier signalling and reporting on any changes.

In the next quarter we will be engaging further with TEC to understand what changes have been put in place as a result of this recent issue.

Table 1. Financial performance

$'000	YTD FY19	YTD FY19B	YTD FY18	FY19B
Operating				
Revenue				
Government grants	32,227	32,227	32,878	63,905
Other	2,922	2,287	2,554	4,757
	35,149	**34,514**	**35,432**	**68,662**
Expenditure				
Personnel expenses	(22,564)	(22,717)	(20,140)	(41,492)
Other operating expenses	(11,791)	(13,603)	(9,586)	(27,723)
Depreciation & amortisation	(2,658)	(2,444)	(2,504)	(4,862)
	(37,013)	**(38,764)**	**(32,230)**	**(74,077)**
Net surplus/(deficit)	**(1,864)**	**(4,250)**	**3,202**	**(5,415)**
Grants				
Revenue	1,494,143	1,526,923	1,436,893	3,304,929
Expenditure	(1,491,947)	(1,525,913)	(1,434,694)	(3,302,909)
Net surplus/(deficit)	**2,196**	**1,010**	**2,199**	**2,020**
Overall				
Net surplus/(deficit)	**332**	**(3,240)**	**5,401**	**(3,395)**

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Quarterly financial position

While TEC's balance sheet is forecast to remain stable, TEC's equity is anticipated to fall as a result of the budgeted operating deficit. However it retains sufficient reserves to cover the deficit and, to some extent, unexpected expenditure or cost overruns on budgeted projects.

While TEC continues to retain significant cash on its balance sheet of $61.46m, $25.53m relates to pre-purchased English language tuition (PELT) and $9.80m is for grant payments to TEOs. Demand for PELT has started to pick up and TEC anticipates this balance will start to decrease. If PELT funding is not utilised, it is returned to MBIE.

Operating cash, which currently sits at $26.14m, is forecast to reduce to $18.66m by the end of the financial year as cash is used to fund the operating deficit and the significant capital programme. The balance of cash remains more than sufficient for an organisation the size of TEC.

TEC is budgeting for deficits over the coming financial years as it undertakes strategic projects, including the replacement of the Single Data Return. TEC will fund these deficits from accumulated reserves.

TEC currently faces a number of future uncertainties around its operations, particularly as a result of RoVE. RoVE could have an impact on TEC's financial position. We will continue to engage with TEC on this.

A better understanding of the impact of this will be known following consultation and final decisions. At this point, we will engage further with TEC.

Table 2. Financial position

$'000	As at 31 Dec 2018	As at 31 Dec 2018 Budget	As at 30 June 2018	As at 30 June 2019 Budget
Assets				
Current assets	660,809	673,684	621,333	665,915
Non-current assets	19,126	20,462	17,870	25,001
	679,935	**694,146**	**639,203**	**690,916**
Liabilities				
Current liabilities	540,896	550,307	500,361	549,247
Non-current liabilities	1,866	1,502	1,787	1,425
Total liabilities	**542,762**	**551,809**	**502,148**	**550,672**
Equity	**137,173**	**142,337**	**137,055**	**140,244**

Figure 2. Financial position

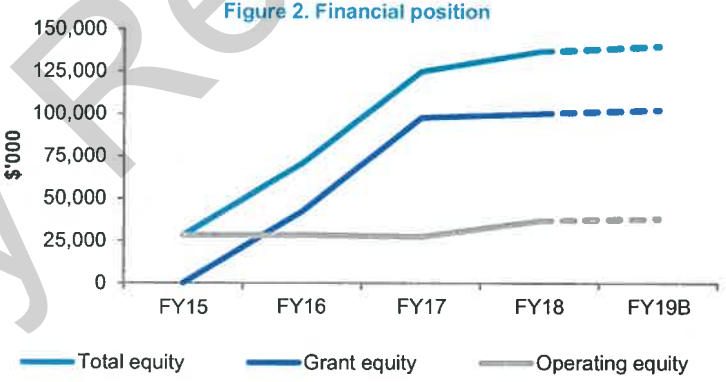
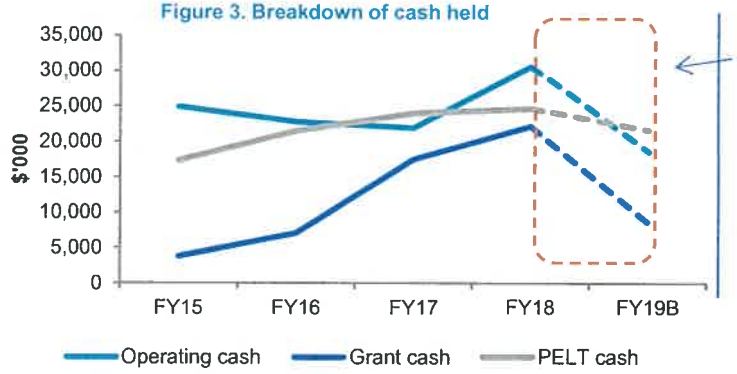


Figure 3. Breakdown of cash held



The FY18 final position was worse than the forecast figures used when preparing the FY19 Budget. Therefore, the equity position at the end of FY19 will likely be worse than shown

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Annex E: The 2018/19 Letter of Expectations (LOE)

TEC is making good progress against the priorities in its 2018/19 LOE.

This table provides an overview of how the key activities and events outlined in TEC's Q2 report relate to your priorities outlined in TEC's 2018/19 LOE.

Areas of activity in TEC's Q2 report	Priority areas outlined in TEC's LOE				
	Stewardship of a sustainable tertiary system	Providing adaptive, future focused and connected services	Promoting and supporting equity of access and outcomes for learners	Demonstrating sustainable practices and responsive business systems	Delivering outcomes for the education, research, and careers system
Supported the design and development of advice for the Reform of Vocational Education (RoVE)	•	•			
Implementing a new strategic direction for the careers system	•	•	•		
Delivering the 2018 Performance-Based Research Fund (PBRF) Quality Evaluation	•			•	
Ongoing delivering of Fees Free 2019	•		•		•
Building success through the Māori and Pacific parity work programme			•		•
Supporting Government priorities for strong labour markets in priority sectors		•			•
Completing the 2019 investment round				•	
Strengthening processes for identifying, assessing, monitoring an responding to risks at TEO and system level	•	•			•
Redesigning TEC through the Kia Rite change process		•			•
Developing people capability					
Building products to support decision making in the tertiary education sector	•	•			
Fund management and payments project				•	
Implementing and embedding the Kiritaki customer relationship management system				•	
Planning the next customer survey				•	
Areas of Q2 monitoring focus and engagement					
Careers System Strategy	•	•	•		
Reform of Vocational Education	•				
Improving systems and processes – risk and assurance capability				•	•
Financial position and sustainability				•	•
Performance framework					•

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