
To: Minister of Education
Date: 26 March 2018
Priority: Medium
Security Level: In Confidence
METIS No: 1111920

Drafted: [Redacted]
Key Contact: Fiona O’Leary
Messaging seen by Communications team: No
Round Robin: No

Purpose of report

This paper provides our assessment of the Quarter 2 performance of the Tertiary Education Commission [TEC] (pages 3-10), and asks you to sign and send the draft letter to the Chair of TEC relating to its quarterly report.

Summary

The Ministry’s assessment of TEC’s performance covers Quarter 2 2017/18 (1 October to 31 December 2017) and developments up to the date of this report. This report sits alongside TEC’s own quarterly report which you should receive at the same time as our report.

Quarter 2 implementation of the fees free policy was successful. Lessons learned are being built into TEC’s implementation work programme and informing the Ministry’s policy work programme.

Our assessment finds that, having developed a strategic direction for its careers system strategy, it is important that TEC formally confirms this direction and implications for implementation.

TEC’s operating model will be finalised in early March and will be implemented through to the end of 2018/19.
Proactive release

We support the overall direction to proactively release advice. We recommend that you do not submit this report for proactive release until you have considered our briefing on how the principles of proactive release apply to Crown entity monitoring. This briefing was provided to your office on 19 March 2018 [METIS 1111386 refers].

Should you prefer to release this report, 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 2 2017/18
   Noted

b. sign and send the attached draft letter to Nigel Gould, Chair of the TEC Board
   Agree / Disagree

6. not release this Education Report as part of proactive release, until after consideration of our briefing on how the principles of proactive release apply to Crown entity monitoring [METIS 1111386 refers].
   Release / Not release

Emily Fabling
Deputy Secretary
Strategy, Planning and Governance
26/03/2018

Hon Chris Hipkins
Minister of Education
11/5/18

Annexes

Annex 1: Draft letter to the TEC Board Chair
A. The Ministry's report at a glance

Key points

- Quarter 2 implementation of the fees free policy was successful. Lessons learned are being built into TEC's implementation work programme. [s 9(2)(f)(iv) OIA]
- Having developed a strategic direction for its careers system strategy, it is important that TEC confirms this direction and implications for implementation.
- TEC's operating model will be finalised in early March and will be implemented through to the end of 2018/19.

Priority areas for Quarter 3

- Fees free tertiary policy implementation
- Future state business strategy and operating model
- Careers system strategy and delivery of careers services
- TEC's 2018/19 investment round

Upcoming monitoring and accountability reports

- TEC is required to produce an updated Statement of Intent for 2018/19

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Financial performance

**Financial performance operating summary**

<table>
<thead>
<tr>
<th></th>
<th>$'000</th>
<th>YTD FY18</th>
<th>YTD Budget</th>
<th>FY18 B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>35,492</td>
<td>33,010</td>
<td>86,556</td>
<td></td>
</tr>
<tr>
<td>Expenditure</td>
<td>32,230</td>
<td>(33,535)</td>
<td>(70,060)</td>
<td></td>
</tr>
<tr>
<td>Net surplus/deficit</td>
<td>3,202</td>
<td>(225)</td>
<td>(3,502)</td>
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**Financial position summary**

As at 30 December 2017

<table>
<thead>
<tr>
<th></th>
<th>$'000</th>
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<tbody>
<tr>
<td>Cash and investments</td>
<td>342,094</td>
</tr>
<tr>
<td>Equity</td>
<td>135,241</td>
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<tr>
<td>Working capital ratio</td>
<td>1.14</td>
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</tbody>
</table>

As at 30 December 2016

<table>
<thead>
<tr>
<th></th>
<th>$'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and investments</td>
<td>301,111</td>
</tr>
<tr>
<td>Equity</td>
<td>129,610</td>
</tr>
<tr>
<td>Working capital ratio</td>
<td>1.14</td>
</tr>
</tbody>
</table>

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Non-financial performance

- Non-financial performance has largely been maintained over Quarter 2 with TEC on track to meet 12 of its 17 TEC output measures.
- Those measures which are tracking behind relate to the administration of and support for the careers system. Three of the five are not expected to achieve target by the end of the year.
- User testing will help TEC to understand and address performance in three areas related to its careers website.
- Data won't be available until Quarter 3 for Tertiary Sector output measures.

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Board overview

<table>
<thead>
<tr>
<th>Name</th>
<th>Start date</th>
<th>Expiry date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Susan Paterson</td>
<td>22/06/2015</td>
<td>21/06/2018</td>
</tr>
<tr>
<td>John Morris</td>
<td>1/11/2012</td>
<td>31/10/2018</td>
</tr>
<tr>
<td>Christopher Mace</td>
<td>1/05/2013</td>
<td>11/05/2019</td>
</tr>
<tr>
<td>Vanessa Stoddart</td>
<td>18/03/2013</td>
<td>17/09/2018</td>
</tr>
<tr>
<td>Phil O'Reilly</td>
<td>18/03/2013</td>
<td>17/09/2018</td>
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<tr>
<td>Alastair MacCormick</td>
<td>30/05/2017</td>
<td>29/11/2019</td>
</tr>
<tr>
<td>Nigel Gould (Chair)</td>
<td>1/08/2017</td>
<td>31/01/2020</td>
</tr>
</tbody>
</table>

Two terms expiring in 2018
B. Monitoring focus areas

1. Background

Areas of focus for Ministry monitoring activity are informed by TEC’s Letter of Expectations (LOE) and its environmental context. Our monitoring activity has a strategic and operational focus.

2. Strategic areas of focus

Fees free tertiary policy

TEC’s implementation of the fees free policy in Quarter 2 was successful. The information to learners was in place in place to support your announcement on 5 December 2017 and [redacted]

TEC worked effectively with Ministry, MSD and Inland Revenue (IR) colleagues to achieve implementation in the tight timeframe. It also took an active role in engaging with the sector.

TEC has reviewed lessons learnt and is building these into its implementation work programme to ensure 2019 is successful. A key aspect of this work is focused on enhancing and incorporating fees free into core business processes.

Alignment to policy changes will be managed by the Ministry and TEC to ensure that any implementation continues to support the policy intent. This will include TEC’s role in establishing operational policy to support the implementation approach.

Relationships between key Government agencies in implementing fees free were well managed through the initial process. These relationships continue and are supported by formal steering and governance structures to ensure the ongoing success of the programme. TEC has established a data sharing agreement with MSD and continued its governance group and engagement reporting to support the implementation of fees free on an ongoing basis.

Our monitoring oversight of TEC’s delivery of fees free has given us a good level of confidence that its work to date has been robust and should be commended given the timeline. We will be working with TEC to map out how we will provide monitoring assurance to you on TEC’s role in fees free over the coming year. In particular, we will consider how we can provide assurance that risks related to fees free are being managed effectively, noting that TEC does not own all the risks in this space.

Development of a careers system strategic direction

TEC has undertaken a programme of work to develop its careers system strategy. This has included input from a wide range of stakeholders, the outcome of which has been presented back to stakeholders in engaging ‘showcase’ events. Its progress on the development of the strategy was presented to you in early February 2018.

As a result, TEC now has a proposed direction and focus. From a monitoring perspective, we consider it important for TEC to confirm the direction of this work with key partners and yourself. This will include its scope and mandate and how TEC will work with its partners to ensure a shared understanding of what this means in practice.

We understand, TEC will provide a briefing to you on this in March 2018. It will be necessary for TEC to consider the implication of its proposed direction on:

- policy and legislative settings
- funding
- roles and responsibilities
- governance approach to the work
- system dependencies and interdependencies
- customers and service offerings.

In particular the roles of, and linkages into, the Ministry, Ministry for Business Innovation and Enterprise (MBIE) and Ministry of Social Development (MSD) as well as New Zealand Qualification Authority
(NZQA) and the Education Council will need to be explored.

It will also be important for TEC to ensure its development of the careers system strategy is aligned to the Government's broader Education Work Programme, which includes the Education Summit.

Our monitoring focus for Quarter 3 will be understanding the work programme, including identifying any key areas that may impact the delivery of this work.

**Future state business strategy and operating model**

TEC has recently completed consultation on its new operating model and is preparing to announce its final model to its staff in early March 2018. The operating model will realise the benefits of bringing Careers New Zealand's functions into TEC and build TEC's capability to deliver critical elements of the Government's education work programme, both now and in the future.

We consider TEC's consultation to have been robust and transparent. It has used an interactive tool to allow staff to comment on and discuss the proposed change in a safe environment. TEC has informed us that it has a communication plan in place that will support active engagement with staff and unions.

Once announced, TEC's implementation of the new operating model will take a phased approach. The first phase will focus on setting up the corporate and information functions, and the leadership team. This phase is expected to be completed by June. The second phase will implement the rest of the operating model changes and is likely to take between 12 and 18 months.

We are confident that TEC is developing a robust approach to the implementation of its new operating model. It is also recruiting change management expertise to support implementation.

We will continue to provide monitoring oversight of TEC's approach to implementing its new operating model, which will include ensuring it is aligned to and does not impact the delivery of other key work programmes, such as fees free and the careers strategy.

3. Operational areas of focus

**TEO monitoring**

TEC has continued to progress its 'beyond compliance' approach to TEO monitoring. It has sought to increase transparency by publishing its Investigations Guidelines on its website as well as its first regular monitoring update.

**Delivery of careers services**

Our focus for Quarter 2 has been primarily on TEC's development of its careers strategy. In Quarter 3, we will seek monitoring oversight of the delivery of careers services, including the Migrant Futures programme and the increased role of Advice Line in the fees free environment.

**2018/19 investment round**

In Quarter 3, we will provide a monitoring update on TEC's progress on the 2018/19 investment round including how it is using the new investment toolkit products developed from the investment approach project.
C. Financial performance

1. Overview

TEC is in a stable financial position. Over the last two years, it used accumulated operating reserves to finance planned deficits. This has allowed it to fund strategic initiatives and the integration of Careers New Zealand (CNZ).

2. Quarterly financial performance

TEC’s overall net surplus for the period ended 31 December 2017 (YTD), was higher than Budget. TEC had an operating surplus of $3.2m compared to a budgeted deficit of $0.4m. This higher surplus was driven by higher Crown revenue ($2.0m higher than Budget) and lower total expenses ($1.3m lower than Budget).

Crown revenue was higher than Budget as TEC recognised $2.0m of the $4.0m operating contingency for the CNZ transition. Lower expenditure was driven by the delay in completion of the CNZ transition and reorganisation.

TEC has a grant surplus for the YTD of $2.2 against a budget of $0.9m. This variance is due to a difference in timing between the receipt of government grants and the allocation to TEOs.
D. Non-financial performance

1. Background

TEC sets out its performance measures against its Statement of Performance Expectations (SPE) 2017/18 and its Statement of Intent (SOI) 2015/16 – 2018/19. Of its 80 measures for 2017/18, 52 are reported quarterly and 28 are reported annually.

TEC's Quarter 2 report provides information on its measures which are reported quarterly. The exception is the 27 tertiary education sector outputs, data for which won't be available until Quarter 3 due to the timing of the Single Data Return¹.

Figure 2. Performance at Quarter 2 2017/18

Performance has largely been maintained over the quarter, with a slight increase in the number of SPE measures related to careers services (an increase from three to five) tracking behind.

TEC has also adjusted its reporting to differentiate between those which are tracking behind and expected to meet target by the end of the year and those which are not. An overview of these results for Quarter 2 are shown in Figure 2.

2. SPE Measures

TEC is on track to meet 12 of its 17 TEC output measures. Performance has fallen slightly from Quarter 1 when 13 measures were on track (one had no data available).

All five measures tracking behind relate to the administration of and support for the careers system. Of those, two are expected to be met by the end of the year and three are not expected to achieve target.

Measures expected to meet target by the end of the year include:

- **Percentage of education organisations accessing career development resources and services that agree this has helped improve their careers services** - This has fallen from 91% in Quarter 1 to 77% in Quarter 2 (against a target of 80%). The sample size will be increased in Quarter 3 and TEC is confident that this measure will be achieved.

- **Percentage of users who agree that the careers.govt.nz website is easy to use** - Performance has been maintained at 78%. User testing in Quarter 3 will help TEC understand and address performance in this area.

¹ Due to the unavailability of Quarter 2 data across tertiary education sector outputs, they have not been included in Figure 2.
Measures not expected to meet target by the end of the year include:

- Percentage of employers or employers organisations participating in a careers initiative that agree the initiative has helped improve their connection with education organisations - Performance is 61% against a target of 80%. Due to the timing of deliveries, there was no data available in Quarter 1 for the measure.
- Percentage of users who agree that the content on the careers.govt.nz website is relevant to their needs - Performance has been maintained at 75% against an SPE target of 80%.
- Percentage of users from priority groups who agree that the content on the careers.govt.nz website is relevant to their needs - Performance has increased slightly from 69% in Quarter 1 to 71% in Quarter 2.

User testing will help TEC to understand and address performance in areas related to its careers website. TEC however is not confident that performance can be lifted to meet targets by year end.

We will monitor TEC’s performance related to its administration of and support for the careers system through the 2017/18 year.

3. SOI measures

TEC has eight SOI measures, four of which data is available for in Quarter 2. Its three capability measures are on track.

Its impact measure, Proportion of investment in tertiary education organisations with Category 1 and 2 NZQA external evaluation and review (EER) rating is tracking slightly behind and it not expected to meet target by the end of the year. Performance against this measure is not significant as EER ratings are just one of the considerations that inform TEC’s funding decisions. It is not expected to be included in TEC’s SOI for 2018/19 – 2022/23.

4. TEC’s performance measurement framework

TEC has undertaken a programme of work to revise its performance framework and measures. In particular, it has focused on TEC sector measures related to Tertiary Tuition and Training, and sought to move from an output to outcome-based approach.

We will be providing monitoring oversight of TEC’s performance measurement framework through our SOI and SPE advice. To date, we have been confident that the approach TEC has taken will deliver an improved set of measures for 2018/19.

As it progresses, it will be necessary for TEC to consider how it measures performance of new functions, such as fees free, as part of its performance measurement framework.
E. Future focus: Monitoring work

There are three areas related to the monitoring function that we will provide you with advice on, as set out below.

1. TEC Board appointments

You recently provided direction on the skills and expertise that could strengthen the TEC Board [METIS 1094883 refers]. We are currently advertising for suitable candidates, as well as working with nominations agencies and utilising other networks.

We will seek your direction on potential candidates to the TEC Board alongside the other Boards of Crown agents in April 2018.

You can appoint one to three members onto the TEC Board to meet requirements of the Education Act 1989 to have six to nine members.

2. Statement of Performance Expectations (SPE) and Statement of Intent (SOI)

TEC will be submitting its draft 2018/19 SPE and draft SOI 2018/19–2022/23 to you at the end of April 2018. You will receive our commentary on the draft alongside these documents. You must respond to TEC’s draft within 15 working days to comply with statutory requirements.

TEC has been engaging with stakeholders on changes to its performance measures framework, which will be outlined in its SPE, for several months.

3. 2018/19 Letter of Expectations (LOE)

As the responsible minister for TEC there is a convention that you provide an LOE to the Chair of the TEC Board each year around May.

The LOE will inform TEC’s strategy and business operations for the coming year.

The Ministry’s role is to engage with you and TEC to develop a draft LOE that reflects your priorities and the organisation’s strategic and operating environment. You can amend the LOE before sending it to the Board Chair.

The Ministry takes a transparent approach to the LOE. This involves the Ministry, TEC, and yourself and two stages of consultation. This approach is aligned with the State Services Commission’s guidance on Minister-Crown entity relationships 'It Takes Three'.

In the initial round of consultation we will provide you with a strategic assessment, a list of possible strategic and operational principles and the items TEC has capability to deliver in each area. In the second stage of consultation we provide a draft LOE Letter and request your feedback on it.