Purpose of report

This paper provides our assessment of the Quarter 3 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 and Ministry of Business, Innovation and Employment (MBIE) provide a joint assessment for TEC. This assessment covers Quarter 3 2017/18 (1 January to 31 March 2018) 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.

Our assessment finds that TEC continues to perform well in Quarter 3. Thirty-one measures are tracking to meet targets in Quarter 4. The majority of the 21 measures that are not on track are sector output measures.

As you are aware, TEC is currently reviewing and implementing a number of changes to its operating model. This work is progressing well and will enable TEC to better influence, fund and support learners and providers.

TEC is also making good progress with the Careers System Strategy. This is a complex process with many interdependencies. TEC is aware implementation will need to reflect the complexity, and flexibility is being built into the strategy to allow for this.

Consultation on a number of proposed improvements to the fees free system is underway. Updates on the existing model will be in place by September 2018 for the 2019 year, and initial Ministry-led policy work on larger changes for 2021 onwards has begun in consultation with TEC.

TEC is in a stable financial position. Over the last two years, it used accumulated operating reserves to finance planned deficits. It retains sufficient reserves to remain sustainable in the medium term, unless it is expected to fund significant new programmes from its balance sheet.
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 3 2017/18

   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

14 Oct 2018

Hon Chris Hipkins  
Minister of Education

10 July 2018

Annexes

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

Key points

- TEC has finalised changes to its operating model and decisions have been made on its new structure. Staff have been well informed and involved throughout the process.
- Consultation on a number of proposed improvements to the fees-free system is underway. Updates on the existing model will be in place by September 2018 for the 2019 year. Initial Ministry-led policy work on larger changes for 2021 onwards has begun in consultation with TEC.
- The Careers System Strategy is currently being finalised with key stakeholders and TEC’s Board.
- TEC is in a stable financial position. Over the last two years, it used accumulated operating reserves to finance planned deficits. It retains sufficient reserves to remain sustainable in the medium term, unless it is expected to fund significant new programmes from its balance sheet.

Focus areas for Quarter 4

- Delivery model for fees-free engagement with learners and sector for 2019.
- Migrant Futures – Work Connect, the work-readiness careers programme for eligible migrants that TEC is delivering on behalf of MBIE.

Upcoming monitoring and accountability reports

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<tbody>
<tr>
<td>Draft SPE and monitoring advice</td>
<td>Q3 report and monitoring advice</td>
<td>Finalise LOE</td>
<td>Annual Report and monitoring advice</td>
<td>Q4 monitoring advice</td>
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Non-financial performance

TEC continues to perform well in Quarter 3. Thirty-one measures are tracking to meet targets in Quarter 4. The majority of the 21 measures that are not on track are sector output measures. One further measure that is currently not on track is expected to be met by the end of the year. For Quarter 3:

- 13 of the 17 TEC operational output measures are on track.
- 12 of the tertiary education sector output measures will be met. 15 are not expected to achieve target.
- TEC is on track to meet six of its eight SOI measures.

Board overview

We are at the candidate selection stage of the process and preparing for candidate interviews. Overall we received 223 applications for appointments across three Boards.

<table>
<thead>
<tr>
<th>Candidate sourcing</th>
<th>Candidate analysis</th>
<th>Candidate selection</th>
<th>Candidate confirmation</th>
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<tbody>
<tr>
<td>Jan – Feb</td>
<td>March – April</td>
<td>May – June</td>
<td>July – Oct</td>
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</table>
B. Monitoring focus areas

1. Background

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

2. Operational areas of focus

Operating model

TEC has finalised changes to its operating model and made decisions on its new structure. Our engagement indicates that TEC has good processes in place to ensure fair and transparent decision making, and that staff have been well engaged throughout.

TEC is staggering the implementation of the new structure. Recruitment for key leadership positions (tier two and three) is underway and no major delays are foreseen in the short term.

Fully embedding the careers function into TEC requires a cultural shift. Change management and strategic management will be critical during this transition. TEC recognises the importance of this through the appointment of a Business Transformation Manager and comprehensive implementation and engagement plans.

The operating model has incorporated key functionality to support the ‘invest’ and ‘champion’ functions. This includes strengthening its risk management and creating an enterprise project management office to support the whole organisation.

Implementation of the operating model will be phased and recognises that this will take time to embed. We will continue to monitor progress as appropriate.

Data capability

TEC is exploring how it can improve data quality through changes to collection methods and measurement type.

TEC plans to build data stores which will enable it to adjust services to meet customer demand. It will also enable TEC to use data as a driver for change and to better inform its investment approach.

TEO monitoring

TEC is continuing to build its capability and strategic approach for monitoring performance. In particular it has recognised buy-in and support from the tertiary sector is critical. Its approach will encourage the sector to learn and build up its capability as part of monitoring best practice and sharing of information.

Overall we have seen matured enhancements and improvements to the monitoring function.
C. Snapshot: Developing the Careers Systems Strategy

1. Progress update

TEC continues to make good progress in developing the Careers System Strategy. The strategy is in development with key parties across the government sector and has been informed by customer and stakeholder engagement.

The strategy, through its six interventions, will provide a good platform to enable the system to deliver a careers service across key delivery areas. It will be implemented once the strategy has been agreed by key parties that have responsibilities for delivery.

As the strategy sits across organisations, there is a need to leverage and utilise existing channels and systems. This is a complex process with many interdependencies.

TEC is aware implementation will need to reflect the complexity, and flexibility is being built into the strategy to allow for this.

TEC will play an important enabling role in delivery of careers services. The operating model has reinforced this role through the ‘investment’ and ‘champion’ functions. While TEC has had a short term role in supporting careers services into secondary school, this is usually a Ministry function. Because of the short term nature of this work, it is considered to be outside the scope of our monitoring role.

2. Sector engagement

TEC continues to work in collaboration with the sector on the strategy. It intends for its final model to be robust and self-sustaining, informing customers with certainty around what to ask, who to ask, and where to go for assistance.

TEC is collaborating with other agencies, such as MBIE and the Ministry of Education, on the approach. It is working with the Ministry of Social Development to understand how services can be aligned to support customer care and transitions.

The strategy is designed to enable the system to work coherently in supporting the customers that require careers support. To achieve this agility and flexibility is being built into the design of the interventions that are part of the strategy.

3. Areas of Consideration

Through monitoring engagement to date, we have highlighted the following areas as being important for supporting the next stage of this work.

Stakeholder support is key for the successful design and implementation of the strategy and the associated TEC structural changes. TEC recognises this and is preparing proactive and comprehensive communication and engagement plans. TEC is continuing to enhance capability in key areas essential for implementing system changes such as governance, programme management, evaluation and risk management. This will be primarily through recruitment over the next few months.

It will be essential to put in place performance and monitoring frameworks. This will support an outcome based approach to evaluating the performance of the interventions and services provided. Qualitative and quantitative analysis will be needed to support this function with robust data and customer insight underpinning it.

Alongside this the accountability and responsibilities of delivery will be needed to ensure the system is working effectively.
D. Snapshot: Continuous improvement for the implementation of fees free

1. Progress update

TEC has a comprehensive plan for engaging with the sector about fees free. It has been collecting feedback from the sector on the 2018 fees free system and has now begun consultation with the Ministry of Education on a number of proposed operational and policy improvements for 2019. Feedback on 2018 implementation has generally been positive.

Updates on the existing model will be in place by September 2018 for 2019, and initial Ministry-led policy work on larger changes for 2021 onwards has begun.

TEC is also working with the Ministry of Education on education system policy changes which will have flow on effects to the implementation of fees free, such as those concerning vocational education and training.

In the next three months TEC will complete backend provider reports on funding and its financial reconciliation for the calendar year. Learnings from this will be used as part of TEC’s continuous improvement approach.

2. Improvements for 2019

Reporting and engagement will be a focus for improvements for the 2019 calendar year.

Enhancing reporting

3. Expanding its customer focus

Over recent quarters TEC’s customer base has expanded from being solely providers to include learners and their families and whānau. This shift has been primarily driven by TEC merging with Careers New Zealand. This change has been reflected in TEC’s new operating model and comprehensive engagement plans have been developed.

Customer engagement around fees free is likely to further drive this shift. TEC has acknowledged this and work is underway to explore how engagement can be managed effectively across the system.
E. 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. It retains sufficient reserves to remain sustainable in the medium term, unless it is expected to fund significant new programmes from its balance sheet.

Table 1: Financial performance

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<thead>
<tr>
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<th>YTD: FY18</th>
<th>YTD Budget</th>
<th>FY18 B</th>
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<tr>
<td><strong>Operating</strong></td>
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<tr>
<td>Revenue</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Government grants</td>
<td>49,218</td>
<td>46,444</td>
<td>62,186</td>
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<tr>
<td>Other</td>
<td>3,915</td>
<td>3,198</td>
<td>4,372</td>
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<tr>
<td><strong>Expenditure</strong></td>
<td></td>
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<tr>
<td>Personnel expenses</td>
<td>(31,107)</td>
<td>(29,565)</td>
<td>(40,601)</td>
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<tr>
<td>Other operating expenses</td>
<td>(14,755)</td>
<td>(16,105)</td>
<td>(23,448)</td>
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<tr>
<td>Depreciation &amp; amortisation</td>
<td>(3,892)</td>
<td>(4,233)</td>
<td>(6,011)</td>
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<tr>
<td><strong>Net surplus/(deficit)</strong></td>
<td>3,379</td>
<td>3,502</td>
<td>(551)</td>
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<tr>
<td><strong>Grants</strong></td>
<td></td>
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<tr>
<td>Revenue</td>
<td>2,335,128</td>
<td>2,197,817</td>
<td>2,938,457</td>
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<tr>
<td>Expenditure</td>
<td>(2,332,706)</td>
<td>(2,196,317)</td>
<td>(2,996,457)</td>
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<td><strong>Net surplus/(deficit)</strong></td>
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<td>1,500</td>
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<td><strong>Overall</strong></td>
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<tr>
<td>Net surplus/(deficit)</td>
<td>5,801</td>
<td>1,149</td>
<td>(1,502)</td>
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2. Quarterly financial performance

TEC's overall net surplus for the period ended 31 March 2018 (YTD) was higher than Budget. TEC had an operating surplus of $3.4m compared to a budgeted deficit of $0.4m. This higher surplus was driven by higher Crown revenue ($2.8m higher than Budget).

Crown revenue was higher than Budget as TEC recognised $3.0m of the $4.0m operating contingency for the CNZ transition.

As referenced above, there have been delays in implementing the CNZ transition and reorganisation. A significant expense which was anticipated to incur in the current financial year, will now be incurred next year. This has led to a large operating surplus in the Careers output.
s 9(2)(f)(iv) OIA, s 9(2)(g)(i) OIA.
F. Non-financial performance

1. Background

TEC sets out its performance measures against its 2017/18 Statement of Performance Expectations (SPE) and its 2015/16 – 2018/19 Statement of Intent (SOI). In Quarter 3 TEC reports against eight of 16 measures from its SOI and 44 of 64 measures from its SPE. The remaining 28 measures are annual and will be reported for the first time in Quarter 4.

TEC's SOI measures consist of Impact measures and organisational capability measures. Its SPE measures consist of Operational output measures, which are TEC specific, and Tertiary Education Sector output measures. TEC has an influencing role over the sector measures.

2. Performance summary

TEC continues to perform well in Quarter 3. Thirty-one measures are tracking to meet targets in Quarter 4. The majority of the 21 measures that are not on track are Sector Output measures (Figure 2).

3. SPE measures

**TEC Operational output measures**

Thirteen of the 17 TEC Operational measures are on track. The four measures that are not tracking to target sit within the Administration of and Support for the Careers System category. This is an improvement on Quarter 2, where 12 measures were on track.

The measure that is now tracking to target is Percentage of education organisations accessing career development resources and services. This increased to meet the 80% target from 77% in Quarter 2.

TEC achieved a significant improvement for the measure Percentage of employers or employers organisations participating in a careers initiative that agree the initiative has helped improve their connection with education organisations. The result increased from 61% in Quarter 2 to 72% in Quarter 3, towards a target of 80%. TEC will continue to monitor this in Quarter 4.

TEC is confident that it will be able to meet the year-end target for the usability of the careers.govt.nz website, which is currently tracking one percentage point behind target.

As mentioned in our Quarter 2 report [METIS 1111920 refers], TEC does not expect to meet the year-end target for the two measures on the relevance of information on the careers.govt.nz website.

We will continue to monitor TEC's performance related to its administration of and support for the careers system through the 2017/18 year.
Tertiary education sector output measures

Tertiary education sector output measures cover a calendar year. In 2017/18 TEC is measuring 2017 performance. TEC reports that 14 of the Tertiary education sector measures will be met, and that 13 are not expected to achieve target. TEC provides commentary for all measures that are tracking behind target.

TEC notes that results for both Māori and Pasifika are slightly below target, in part due to strengthening labour markets and a historical lack of parity in the education system. This applies to the measure Percentage of EFTS funded through Student Achievement Component fund that were Māori at NZQF level 4 and above. It is also an SOI measure.

Results for the measure Māori and Pasifika Trades Training – number of learners per calendar year, which appears in the Training for Designated Groups section under both the Access to Tertiary Education and Tertiary Sector/Industry Collaboration Projects categories, are also tracking behind. TEC is working on an operational redesign to enable it to better influence and fund consortia and tertiary education organisations to improve the service they deliver to these learners.

We are pleased to see the improvement in the measure Number of domestic equivalent full-time students in Information and Communications Technology (ICT) Graduate Schools per calendar year. The result for Quarter 3 has a variance of -25.65%, which is a dramatic improvement over the -64.71% end result from 2016-17. As noted in our Quarter 1 report [METIS 1091838 refers], due to the effects of establishment delays it was unlikely that this measure would be met. TEC is working with the schools in question and expects enrolments to increase for 2018.

4. SOI measures

TEC’s SOI measures relate to the impact of investment in the tertiary education sector, which TEC contributes to and TEC’s organisational capability.

TEC is on track to meet six of its eight SOI measures. For the two measures that are not on track:
- One has been discussed as part of the SPE measures Tertiary education sector output measures.
- The other, Proportion of investment in tertiary education organisations with Category 1 and 2 NZQA external evaluation and review (EER) rating, has been maintained at 92.4%, is not considered to be significant as EER ratings are one of many considerations that inform TEC’s funding decisions. It is not expected to be included in TEC’s SOI for 2018/19 – 2022/23

5. Performance measurement framework

TEC has been taking a continuous improvement approach to its performance measurement framework. Its recent draft SOI and draft SPE reflect a significant improvement through its shift towards outcome measures and its overall rationalisations of measures [METIS 1118317 refers]. We will continue to work with TEC on its performance measurement and provide updates throughout the financial year.
G. Future focus: Monitoring work

1. Background

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

2. TEC Board appointments

We received 223 applications for positions across the three Crown entity Boards. 144 were for the upcoming vacancies on the TEC Board.

One position must be filled in 2019 to meet the requirement under s159D of the Education Act 1989 to have between six and nine members, though it is possible to appoint up to three positions.

You recently met with Ministry officials about our advice on potential candidates for shortlisting. We will continue to progress the appointment work which will incorporate your views.

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

TEC submitted its draft 2018/19 SOI and SPE to you on 30 April 2018. We submitted our advice on the draft SPE alongside [METIS 1118317 refers]. TEC is working on the feedback that you provided as they finalise their SOI and SPE.

4. 2018/19 Letter of Expectations (LOE)

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

The Ministry has been engaging with TEC to develop a draft LOE that reflects your priorities and TEC’s strategic and operating environment.

You will receive the draft LOE for comment in June. We will subsequently provide you with the final letter for the Board Chair which will incorporate your feedback.
Dear Nigel,

I have received the Tertiary Education Commission’s Quarter 3 Report for 2017/18, alongside the Ministry of Education’s assessment. Thank you for providing me with this information.

I am pleased to hear the development of the Careers System Strategy (the Strategy) is progressing well. I encourage you to continue engaging with stakeholders within the sector to strengthen and improve the Strategy, especially as the implementation phase draws near.

I would also like to acknowledge the significant work underway to implement changes to TEC’s operating model. I am encouraged by the emphasis being put on keeping staff and stakeholders informed throughout this process and look forward to further updates.

Finally, I once again want to acknowledge the support and sector leadership TEC has shown over the past few months in implementing fees free tertiary education and training. As you work to improve fees free delivery for 2019, seeking and incorporating feedback will be important as you continue to build support from learners and throughout the sector.

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