
To: Minister of Education

Date: 2 May 2018

Security Level: In Confidence

Drifter: Sarah Day

Key Contact: Fiona O'Leary

Messaging seen by Communications team: No

Priority: Medium

METIS No: 1118317

Purpose of report

This paper provides our advice on the following documents from the Tertiary Education Commission (TEC):

- draft Statement of Intent 2018-2022

You are required by statute to give your feedback to TEC within fifteen days of receiving the documents from them.

Summary

Our report sits alongside TEC's draft SOI and SPE which your office will receive at the same time as our report. The Ministry of Education and Ministry of Business, Innovation and Employment (MBIE) provide a joint assessment of the strategic documents for TEC.

Both documents meet statutory requirements for content and are expected to meet the statutory requirements for timing.

TEC’s draft SOI provides an improved strategic framework under which TEC can deliver both its priority as well as business as usual and continuous improvement activities. We expect that TEC’s revised SOI in 2019 will more fully align to the Education Work Programme and the updated Tertiary Education Strategy.

TEC’s draft SPE reflects the updated operational strategy, values and operating model set out in its SOI. It also integrates its careers functions.

The financial forecasts in the draft SPE reflect that TEC is budgeting for a net deficit in the 2018/19 year. This deficit is planned and is driven by differences in timing of revenue and expenditure.
Proactive release

We recommend this report is proactively released, once TEC has published its final SOI and SPE. 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 that you:

a. **note** that you are being provided with a draft Statement of Intent 2018-2022 and draft Statement of Performance expectations 2018/19 by the Tertiary Education Commission (TEC) for your consideration and feedback as required by the Crown Entities Act 2004 (the Act), s146

   ![Noted]

b. **note** our assessment that TEC’s draft SPE and SOI meet reporting requirements in the Act, s141 and s149E

   ![Noted]

c. **forward** any comments to TEC on its draft SOI and SPE within fifteen working days of receipt, to meet the requirement in the Act, s149(b)

   ![Noted]

d. **release** this Education Report as part of proactive release, once TEC has published its final SOI and SPE.

   **Release / Not release**

Emily Fabling  
Deputy Secretary  
Strategy, Planning and Governance  
02/05/2018

Hon Chris Hipkins  
Minister of Education  
2015/18.

Annexes

Annex 1:   TEC budgeted financial performance  
Annex 2:   Draft letter to the TEC Board Chair
Background and statutory requirements

1. The Crown Entities Act 2004 (the Act) sets out the statutory requirements that a Crown entity must comply with when preparing and publishing its SOI and SPE.

2. TEC sent its draft SPE and SOI to you on 30 April 2018. Under the Crown Entities Act 2004, you have 15 working days from this date to provide your comments to TEC. A draft letter is provided for this purpose.

3. This report has been written in consultation with the Ministry of Business, Innovation and Employment as joint monitor of TEC.

Requirements for timing

4. Crown entities must prepare an SOI at least once in every three-year period (s139). Crown entities also have to prepare an annual SPE which relates to the forthcoming financial year (s149C).

5. In 2018, TEC is required to prepare an SOI and an SPE because its current SOI is almost three years old.

6. TEC’s draft SOI and SPE are provided to you alongside this report, meeting the first statutory deadline\(^1\). We expect TEC will meet the remaining statutory deadlines for its SOI and SPE\(^2\).

Requirements for content

7. The Ministry considers TEC’s draft SOI and SPE to meet statutory requirements in respect of content.

8. Requirements for content are set out in s141 (SOI) and s149E (SPE) of the Act. In summary:

   - An SOI must set out the strategic objectives that the entity intends to achieve or contribute to (strategic intentions); the nature and scope of its functions and intended operations; how it intends to manage these to meet its strategic intentions; and how it proposes to manage its organisational health and capability.

   - An SPE must identify each reportable class of outputs, explaining what the class of output is intended to achieve, the expected revenue and expenses and how performance will be assessed. It must also contain forecast financial statements, prepared in accordance with generally accepted accounting practice.

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\(^1\) Draft SOI and SPEs must be provided to the responsible Minister no later than two months before the start of the financial year to which they relate. The responsible Minister must provide comments on the drafts within 15 working days of receipt.

\(^2\) The entity must consider the comments (if any) on the draft and provide the final SOI and SPE to its responsible Minister as soon as practicable after receiving the comments but before the start of the financial year. It must also publish the documents online.
Comment on draft Statement of Intent

9. The draft SOI sets out TEC’s strategic intentions related to its expanded functions, which were updated in 2017 to include careers services. It also reflects the objectives in the Education Work Programme to the extent that it is able, given the statutory timeframe.

10. TEC intends to develop a revised SOI for 2019/20 onwards to better reflect the forthcoming 30 year vision for education.

11. Noting this, we consider TEC’s draft SOI is fit for purpose for the 2018/19 year. It provides an improved strategic framework under which TEC can deliver both its priority as well as business as usual and continuous improvement activities. TEC has informed us that the revised SOI will fully align to the Education Work Programme and the updated Tertiary Education Strategy. TEC’s work on its revised SOI will also be informed by the 2018/19 Letter of Expectations.

Detailed commentary

12. In its draft SOI, TEC has updated its impact areas, increasing the number from three areas to four:

<table>
<thead>
<tr>
<th>Previous impacts</th>
<th>Updated impact areas</th>
</tr>
</thead>
<tbody>
<tr>
<td>An increased proportion of the population with a tertiary qualification</td>
<td>Supporting all learners to succeed</td>
</tr>
<tr>
<td>A tertiary system that is more responsive to the needs of employers and learners</td>
<td>Connecting educators to employers</td>
</tr>
<tr>
<td>High quality and more relevant research</td>
<td>Monitoring provider performance</td>
</tr>
<tr>
<td></td>
<td>Increasing research quality and capability</td>
</tr>
</tbody>
</table>

13. We consider TEC’s updated impact areas and the descriptors of success relating to each to be more learner and customer focused than its current document. This is a necessary first step as TEC works to shift its business model to support its changing customer profile and evolving customer needs.

14. Its work programme on Māori and Pasifika parity is a priority activity for TEC and has been well reflected in its SPE changes and in its SOI.

15. The four impact areas in TEC’s draft SOI are underpinned by its organisational strategy, its values and its operating model.

16. TEC’s updated its organisational strategy to support:

a. TEC’s new role in delivering careers services and the fees-free tertiary policy

b. components of the Education Work Programme that relate to the institute of technology and polytechnic subsector (ITP) and the Performance Based Research Fund.

17. The updated strategy consists of the two external functions (Champion and Invest) and three internal enablers (People, Knowledge and Partnership). The Knowledge enabler will
become increasingly important as TEC strengthens its data, analytics and evaluation capabilities to respond to the changing environment.

18. We welcome the changes TEC has made to operating model to support its Knowledge area and look forward to seeing how this area will be further developed in its revised SOI.

19. We will provide monitoring oversight of TEC’s work to revise its strategic intentions over 2018/19, in the lead up to its revised SOI.

Comment on Statement of Performance Expectations

20. TEC’s draft SPE reflects the updated operational strategy, values and operating model set out in its SOI. It also integrates its careers functions under the new appropriation entitled Administration of and Support for the Tertiary Education and Careers Systems.


Comment on forecast non-financial performance

22. TEC has undertaken a significant programme of work to revise and rationalise its non-financial performance measures. We have provided monitoring oversight of this work over the 2017/18 year.

23. While significant changes have been made to TEC’s non-financial performance measures for 2018/19, its performance work programme is part of a continuous improvement approach which will support changes over a multi-year time horizon.

24. We support TEC’s approach and consider the work completed in 2017/18 will create a robust platform from which it can further develop its performance framework, in light of its changing internal and external environment.

25. We provided extensive analysis over TEC’s non-financial performance in our advice on its 2016/17 Annual Report. This analysis contributed to TEC’s development of its draft SPE. We will continue to provide analysis for the 2017/18 year through our quarterly monitoring and Annual Report advice.

26. The level of change represented in the draft SPE means however that it will be difficult to assess how TEC is performing through the 2018/19 year while TEC establishes baselines. We will need to work closely with TEC to understand its performance data and the activities and work programmes which support its measures.

27. We have provided specific comments against the two main categories of measures, as set out below.

Operational measures

28. The appropriation, Administration of and Support for the Tertiary Education and Careers Systems, comprises 10 measures. This has been reduced from 20 in TEC’s current SPE. Five of the 10 measures are new.

29. Through the rationalisation of its measures, TEC has retained those which are most relevant and meaningful to its performance story. It has replaced activity-based output measures with metrics more focused on outcomes. Overall, this has resulted in a much greater focus on customer satisfaction and measures which demonstrate quality (opposed to quantity or timeliness). We see this as a positive change.
30. There is one measure which relates specifically to Māori and Pasifika students\(^3\) and this is in the context of TEC's information and engagement with tertiary education organisations (TEOs). TEC may need to consider how it supports the Education Work Programme focus on improving transitions for Māori and Pasifika learners as part of its careers role through management measures and future SPEs.

31. TEC has previously met targets for a high proportion of measures relating to its operational outputs. In its draft SPE:

- Targets have been maintained from 2017/18 for the five measures that are existing. TEC reports all are on track to be met this financial year and only one measure was not met in the 2016/17 year\(^4\), though was very close.
- Targets will be set in future years for the five measures that are new. 2018/19 will be a baseline year.

32. As a result, it will not be possible to fully monitor TEC's performance against this appropriation until 2019/20, when TEC is able to take a more comprehensive approach to target setting.

33. Measures related to this appropriation have been organised to reflect the four areas of TEC's operating model. This is helpful.

**Tertiary sector measures**

34. Measures related to the performance of the tertiary education sector are typically based on a calendar year and fall under the following appropriations:

- Tertiary tuition and training - multi-category appropriation (MCA)
- Access to tertiary education
- Centres of Research Excellence
- Tertiary sector/industry collaboration projects
- Tertiary education research and research-based training
- University-led innovation

35. For 2018/19, TEC has concentrated its efforts on revising measures under the MCA.

36. One of the most significant changes in TEC's draft SPE is to increase its focus on achieving parity for Māori and Pasifika, alongside lifting overall achievement, in its tertiary sector measures. This is in line with its first SOI impact – **supporting all learners to achieve** and is a welcome addition to its current approach.

37. Specifically, TEC has:

- changed targets for Māori and Pasifika learners under the Student Achievement Component to improve relative to non-Māori and non-Pasifika
- replaced volume-based industry training measures with measures relating to completion and added measures with targets to improve completion for Māori and Pasifika relative to non-Māori and non-Pasifika
- added measures related to the increase in first time learners (to measure the impact of fees-free), which include performance for Māori and Pasifika relative to non-Māori and non-Pasifika.

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\(^3\) Target: Percentage of TEC-funded tertiary education organisations who agree that TEC information and engagement helps them to support Māori and Pasifika students to succeed.

\(^4\) This was a Careers New Zealand measure relating to Percentage of users who agree that the content on the careers.govt.nz website is relevant to their needs. Performance in 2016/17 was 79% against a target of 80%.
38. Typically TEC’s has found it challenging to meet its performance target for course and qualification completion rates for Māori and Pasifika students. With its increased emphasis on parity in this year's SPE, it will be important for TEC to ensure its corresponding parity work programme is able to deliver the ambitious shifts it wants to achieve. We will engage with TEC to provide monitoring oversight of this work through 2018/19.

39. While TEC has revised its performance expectations across the multi-category appropriation, it is able to provide data for the current year (and therefore set targets) across most categories. The exceptions are measures related to community education and the fees-free programme.

40. Measures related to community education which have been revised from funded learners or funded hours to the percentage of learners accessing the desired range (hours) of provision. This is a better indicator than an activity measure of whether community education is likely to achieve the desired outcomes.

41. Baseline data will be collected in 2018/19 to support measures related to the fees-free programme, with targets set in future years. As the long-term approach to the fees-free programme is developed, we expect TEC to continue to develop and test appropriate performance metrics in this area.

42. TEC has retained the measure relating to the BPS target\(^6\). It has also retained the outcome-based measures relating to Māori and Pasifika Trades Training (MPTT)\(^6\) but removed the volume-based measure.

Next steps

43. Under the Act, your comments need to be forwarded to TEC within 15 working days of TEC submitting the draft SOI and SPE. We have provided a draft letter from you, as Minister of Education for this purpose.

44. TEC must consider your comments. It then provides the final SOI and SPE to you as the responsible Minister no later than start of the financial year. After providing the final document, the Crown entity must publish the SOI and SPE on its website as soon as practicable.

45. The SOI and SPE must be tabled in the House by the responsible Minister. This can be done before the Annual Report for the previous year is presented or at the same time (s.149L).

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\(^5\) Measure: Proportion of 25-34-year-olds with advanced trade qualifications, diplomas and degrees (at level 4 or above).

\(^6\) Measure: Percentage of learners per calendar year progressing from MPTT to trades-related employment (including NZ Apprenticeships and managed apprenticeships) or other industry training at level 3 and above or further study at NZQF level 4 and above.
Annex 1: TEC budgeted financial performance

1. Summary

TEC is budgeting for a net deficit in the 2018/2019 financial year (FY19) of $3.395m. This is driven by an operating deficit of $5.415m, counter balanced by a grant surplus of $2.020m.

The operating deficit is a reverse of the surplus forecast for the current financial year.

TEC is able to fund the operating deficit from accumulated operating reserves on its balance sheet and there are no concerns surrounding its financial sustainability.

2. Budgeted financial performance

TEC has budgeted an operating deficit of $5.415m for FY19, driven by lower Government grants and increased other expenditure compared to the forecast performance for FY18.

The lower Government grants are a result of reduced careers funding (both transitional and operational), one-off Performance Based Research Fund (PBRF) funding in FY18 and several other small adjustments.

Other operating expenditure is higher due to several streams of work, including:
- fees-free
- PBRF Quality Evaluation
- Centres of Research Excellence.

With the onset of fees-free in FY18, some projects which funding was either received for or allocated to in FY18, were delayed into FY19. This results in a higher forecast operating net surplus in FY18 and a higher budgeted operating deficit for FY19. This is not a cause for concern and is just a timing issue.

TEC’s operating performance is cyclical in nature, it is unlikely to record an operating surplus/(deficit) close to zero every year. When combining the last five years of operating performance, including the budget for FY19, TEC has a net surplus of $1.858m.

While a small Grant surplus has been budgeted for FY19, this figure is dependent on demand. If there is an element of Grant overspend which results in a Grant deficit, TEC is able to absorb this given the accumulated Grant reserves on its balance sheet.

<table>
<thead>
<tr>
<th>Table 1: Financial performance</th>
<th>$000</th>
<th>FY15</th>
<th>FY16</th>
<th>FY17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government grants</td>
<td>48,665</td>
<td>46,657</td>
<td>46,809</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>1,964</td>
<td>1,948</td>
<td>3,977</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>50,629</td>
<td>48,605</td>
<td>50,786</td>
<td></td>
</tr>
<tr>
<td>Expenditure</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personnel expenses</td>
<td>(24,516)</td>
<td>(27,040)</td>
<td>(30,514)</td>
<td></td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>(17,719)</td>
<td>(17,786)</td>
<td>(17,598)</td>
<td></td>
</tr>
<tr>
<td>Depreciation &amp; amortisation</td>
<td>(4,592)</td>
<td>(4,430)</td>
<td>(4,315)</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>(46,817)</td>
<td>(49,262)</td>
<td>(52,427)</td>
<td></td>
</tr>
<tr>
<td>Net surplus/(deficit)</td>
<td>3,812</td>
<td>(657)</td>
<td>(1,641)</td>
<td></td>
</tr>
<tr>
<td>Grants</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>2,813,325</td>
<td>2,873,697</td>
<td>2,901,285</td>
<td></td>
</tr>
<tr>
<td>Expenditure</td>
<td>(2,797,932)</td>
<td>(2,824,259)</td>
<td>(2,845,570)</td>
<td></td>
</tr>
<tr>
<td>Net surplus/(deficit)</td>
<td>15,693</td>
<td>49,438</td>
<td>55,716</td>
<td></td>
</tr>
<tr>
<td>Overall</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net surplus/(deficit)</td>
<td>19,505</td>
<td>48,781</td>
<td>54,074</td>
<td></td>
</tr>
</tbody>
</table>

![Figure 1. Operating performance](image-url)
21 MAY 2018

Nigel Gould
Chair
Tertiary Education Commission (TEC)
WELLINGTON 6140

Dear Nigel

I have received the Tertiary Education Commission’s draft Statement of Intent 2018-2022 and draft Statement of Performance Expectations 2018/19.

I consider the documents to be fit for purpose in setting out your strategic intentions and performance expectations for the coming year.

Your draft Statement of Intent appropriately signals how TEC will support the Government’s Education Work Programme. I look forward to working with you in the coming year as the Tertiary Education Strategy is developed, and as you progress other components of the Work Programme, with a view to these being incorporated in your revised strategic intentions in 2019.

I would appreciate it if you could make changes to impact three of the Statement of intent, broadening the impact area on “monitoring provider (and ITO) performance” to building the capability of the TEO network. I would also like to include a reference to TEC ensuring that public funds are directed towards tertiary education provision that meets the needs of society and the economy. This should also be reflected as part of your focus on improving measures.

I note the improvements you have made to your non-financial performance measures in your draft Statement of Performance Expectations. I welcome the increased emphasis on outcomes, as well as your focus on parity for Māori and Pasifika learners.

I will take a keen interest in these measures, and the work programmes to support them, through your quarterly performance reports.

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