Tertiary Education Commission
Te Amorangi Mātauranga Matua

Aide-Memoire: Te Pūkenga quarterly monitoring report – March 2021 quarter

To:	Hon Chris Hipkins, Minister of Education
From:	Gillian Dudgeon, Deputy Chief Executive – Delivery, Tertiary Education Commission
Date:	16 May 2022
Reference:	AM-22-00207

Purpose

1. This aide-memoire provides an assessment of Te Pūkenga's performance following receipt of its quarterly report for the March 2022 quarter. It also considers other information obtained through our wider monitoring activity, including information received since Te Pūkenga submitted its quarterly report on 29 April 2022, so that it provides the most up-to-date picture possible.

Executive Summary

2. In February 2022, a strategic review of Te Pūkenga's transformation programme was undertaken to identify the key risks and issues and outline practical measures that were likely to improve the programme's success. The review was led by Murray Jack and supported by Sir Brian Roche and Belinda Clark. Seven recommendations were made as part of the review. A key focus of this report is on the progress being made against these recommendations. To date, good progress has been made on implementing several of the recommendations with ongoing work required to implement others.

3. Over the March 2022 quarter, Te Pūkenga has been focussing its effort on delivering its four operating model workstreams, continuing to refine and prioritise its integrated work plan, and developing a Programme Business Case (PBC) to submit to you in mid-2022. Of particular importance is the ongoing development of its new organisational structure and adding detail to how its proposed operating model will work in practice. Progress is being made with specialist contractors engaged and additional staff employed over the quarter. Nevertheless, a considerable amount of work is needed to finalise the design of its new structure and operating model, consult with staff and stakeholders, and then implement the changes required.

4. With Te Pūkenga still very much in the design phase, the tight timelines continue to be of concern to the TEC. Te Pūkenga's ability to deliver the recently agreed minimum viable product (MVP) for 1 January 2023 remains high risk, and one that Te Pūkenga will need to manage closely. We consider the degree to which Te Pūkenga can successfully execute its critical path over the next seven months, and the subsequent delivery of the MVP, will be decisive for Te Pūkenga's long-term success.

5. Financial performance also remains a significant concern, with the Te Pūkenga group forecasting a $110.0 million full-year deficit. This is $53.5 million worse than budget ($56.5 million deficit) and is predominantly due to lower provider-based enrolments across Te

Pūkenga in 2022. The April 2022 Single Data Return (SDR) reported that student achievement component (SAC) and Youth Guarantee (YG) funded enrolments were down by 10 percent compared to a year ago with overall enrolments down 12 percent. This decline is in strong contrast to Te Pūkenga's 2022 budget which assumed a 4 percent increase in enrolments. Furthermore, Te Pūkenga has indicated rising cost pressures could result in the full-year deficit increasing to 9(2)(b)(ii) [redacted]. The forecast deficit is almost entirely driven by the ITP subsidiaries with Te Pūkenga's Work-Based Learning (WBL) subsidiary having a positive financial impact.

6. 9(2)(b)(ii) [redacted] We continue to be concerned that little work has been undertaken by Te Pūkenga to improve its financial position while a strategy to improve its long-term sustainability has yet to be put in place. This work urgently needs to be undertaken to support Te Pūkenga's bid for Crown funding and to provide assurance to Ministers that its planned transformation programme is affordable. As part of this quarterly report, we have provided a more in-depth view of Te Pūkenga's financial situation.

Summary – RAG status

Key:

- Green: Low risk
- Orange: Medium risk
- Red: High risk – plan required to get back on track
- ↑ Improved since previous quarter
- → Unchanged since previous reporting period
- ↓ Worsened since previous quarter

Work stream or focus area	TEC assessment of where Te Pūkenga should be	TEC assessment based on current activity	Commentary
Operating model	Orange	Orange ↑	Te Pūkenga is currently in the process of developing a 'functional' view of its proposed new operating model. This functional view will better define how the six or seven Ako Networks and the proposed regional structure will operate as part of a matrix model and the accountabilities/responsibilities of each (e.g. how staff will operate both within a national Ako network and within a local region). A plan for developing the detailed organisation design process has recently been completed, with staff to be consulted on a draft organisational structure (covering tiers two to five) over July 2022. Te Pūkenga is committed to ensuring all staff know where they belong in the new structure by November 2022. High-level timelines will be provided to staff shortly, which should provide greater certainty of upcoming changes although staff retention remains a key risk. Over the past quarter, there has been a significant increase in capability and effort to drive this work stream which is pleasing. However, there remains a considerable amount of work to undertake in a short period of time with the compressed timeline making it harder to drive transformational change at an organisational design level for 2023. By the end of 2022, Te Pūkenga needs to have designed its new organisational structure, begun its implementation, and started to move to a new way of working.
Programme Business Case	Green	Orange ↑	Te Pūkenga has engaged specialist expertise to help deliver the PBC but the timelines remain tight to achieve the targeted submission date of mid-2022. The quality of the PBC will be determined by the progress made on Te Pūkenga's work programme, particularly the development of its new organisational structure and operating model, and the quality of information available. The PBC needs to provide clarity on Te Pūkenga's work programme, why it is the optimal approach to deliver the proposed benefits, whether it is affordable, and how the programme will be managed to ensure its successful delivery. From our engagements, we consider that further work is needed to achieve these objectives and for the investment proposal to be robust so that Ministers can make informed decisions regarding any additional Crown funding. This includes Te Pūkenga clearly demonstrating how the programme is affordable and what changes Te Pūkenga plan to make to move the organisation towards a financially sustainable position.

The PBC needs to identify the synergies and efficiencies possible with the networked approach and how these will be realised. The case for additional investment needs to be based on supporting transformation, not an unsustainable status quo.

TITO Transitions		↑	On 1 January 2022, MITO successfully transferred its arranging training activities into Te Pūkenga's WBL subsidiary – the fourth TITO to do so. Preparations are underway for the transfer of Service IQ in July 2022 9(2)(j) [redacted]
Capital asset strategy		→	Te Pūkenga awaits a decision as part of Budget 2022 on its high-priority buildings business case. The business case sought 9(2)(b)(ii) [redacted] in Crown funding to support a range of remediation work that is required to meet regulatory and compliance issues. Te Pūkenga has initiated work to examine space optimisation and strategic space planning across the network, including the wider issue of the cost of ownership of assets and potential options for divestment. This work has potential and will impact on Te Pūkenga's future delivery model and finance strategy.
Network collaboration		→	Collaboration and integration initiatives continue across Te Pūkenga, particularly in academic delivery and learner support. 800 staff from across Te Pūkenga are supporting the unification of programmes project, which is progressing well. Work has also begun to pilot and scale initiatives to provide greater support for under-served learners from 1 January 2023 based on existing best practise.
Māori partnerships and equity		→	Te Pūkenga's Te Pae Tawhiti Tiriti Excellence Framework, which was launched in late 2020 in draft form, is now going through a review and finalisation process. The framework provides Te Pūkenga with internal guidance on what it must do to achieve Te Tiriti o Waitangi excellence. As part of the review and finalisation process, Te Pūkenga is engaging with staff, Tiriti partners, Komiti Māori, the Mātauranga Iwi Leaders Group and unions. Reporting against equity outcomes is now underway across the network with measures focussed on accessibility, wellbeing, learning environment, and voice. Work is also being undertaken on equity of access for under-served learners, which has been embedded in Te Pūkenga's draft academic regulatory framework.
Financial performance		↓	Te Pūkenga budgeted for a group deficit of 9(2)(b)(ii) [redacted] in 2022. Te Pūkenga is now forecasting a group deficit of $110.0 million due to lower-than-expected domestic enrolments across the ITP subsidiaries. If achieved, this would be larger than any deficit recorded across the ITP sector. We continue to be concerned that little work has been undertaken to improve Te Pūkenga's financial position and a strategy to improve its long-term sustainability has yet to be put in place. Te Pūkenga note that a strategy is expected to be developed in the third quarter of 2022. It is important that this work is closely linked into the development of the new operating model and organisational structure, as this is a major opportunity to drive efficiencies. The finance strategy will be a key piece of work to support Te Pūkenga's bid for Crown funding and for outlining the affordability of its planned transformation programme. Significant effort is required in this area.
Enrolments		↓	Te Pūkenga's total EFTS fell by 12 percent between April 2021 and 2022. This was driven by a 10 percent decline in SAC and YG funded EFTS and a 45 percent decline in full-fee international EFTS. 9(2)(b)(ii) [redacted] Based on delivery at the April SDR, we expect Te Pūkenga to deliver 93 to 96 percent of its funding allocation. Te Pūkenga report student numbers within WBL are 9(2)(b)(ii) [redacted] compared to a year ago, 9(2)(b)(ii) [redacted]
Reporting		↑	Te Pūkenga implemented a new reporting format for its March 2022 quarterly report. While it remains a work in progress, it is an improvement on previous versions with more focussed commentary on the progress of its overall work programme, greater discussion of next steps, and better risk reporting. However, further work is needed – in particular, we need to agree future focussed targets that Te Pūkenga report against each quarter so that overall performance can be held to account. Following the agreement of a minimum viable product (MVP) for 1 January 2023, Te Pūkenga is in the process of further prioritising and refining its work programme to ensure it is focussed on delivering the MVP. It is important that a critical path, which is aligned to the MVP, is developed which focuses clearly on the key activities that needs to occur over the remainder of 2022. Overall reporting to the Council and TEC should improve as this work progresses.
Management		→	Te Pūkenga continues to bring on new capability to help drive its transformation programme. Over the March 2022 quarter, FTE numbers increased by 25 bringing total FTE numbers in the head office to 146. This increase in capability, particularly in the transformation and programme management space, was urgently needed. In addition, a new DCE Transformation began on 28 March 2022, who will also be the Senior Responsible Officer for the transformation. It is important that the new DCE has the mandate and decision rights to drive the successful implementation of the transformation programme. Te Pūkenga needs to continually review and assess its capability needs over coming months to ensure it has the skills required to deliver.

A focus on FTE isn't that helpful. I'm more interested in what these people are achieving than how many of them there are.

Governance		⬆	Given the large amount of activity and decisions that need to be made over 2022, Te Pūkenga needs to ensure its governance mechanisms are streamlined and that it has strong oversight of its transformation programme. Issues need to be identified and resolved quickly as they arise, and decisions need to be timely. The establishment of a Transformation sub-committee of Council, supported by independent members, will assist in this regard. There remains an ongoing need for improved reporting to Council to ensure they can make high-quality decisions. Specifically, we consider further improvements could be made in reporting against the transformation programme while significant gains need to be made in financial reporting. The external review of Te Pūkenga's governance arrangements, undertaken by Belinda Clarke and Dame Karen Sewell is nearly finalised, with a final copy of the report expected during May.

Strategic review

A strategic review of the transformation programme was undertaken in February 2022…

7. Due to concerns around a lack of progress, the TEC and Te Pūkenga jointly commissioned a strategic review to be undertaken of Te Pūkenga's transformation programme. The review was led by Murray Jack and supported by Sir Brian Roche and Belinda Clark. The purpose of the review was to identify the strategic risks and issues within Te Pūkenga's transformation programme and outline any practical measures that were likely to improve the programme's success.

8. The review was undertaken during February 2022. It involved a document review and a range of interviews with key staff from Te Pūkenga, the TEC, the Ministry of Education, the New Zealand Qualifications Authority, the RoVE Programme Board, and other stakeholders. The report was finalised in March 2022.

9. The overall conclusion of the strategic review was that "*the programme as currently configured will not meet the Minister's expectations, as we understand them, for 1 January 2023, unless there is a clear intervention of additional resources with an appropriate mandate*".

…with seven recommendations made by the review team…

10. Seven recommendations or practical measures were made by the review team to help improve the likelihood of Te Pūkenga's transformation programme being a success. Since the review was finalised, we have been engaging closely with Te Pūkenga regarding the implementation of the recommendations.

11. The implementation of recommendations 1, 5, and 7 were prioritised because we considered they would have the biggest impact in the short-term. Good progress has been made on these three recommendations with Te Pūkenga largely responding positively. Further work is needed on several of the other recommendations.

12. The table below provides an overview of the progress made and what outstanding actions are required. A '*green*' assessment is provided where a recommendation has been completed or is expected to be completed soon. An '*amber*' assessment is provided where additional work is required to implement the recommendation, but the risks appear manageable and there is a relatively clear pathway to completing it. A '*red*' assessment is provided where we have ongoing concerns that the recommendation cannot be implemented easily or to a high-quality, and significant effort will be required.

13. Specifically, we consider there is ongoing risk surrounding Te Pūkenga's ability to develop a critical path, plan and implement a new organisational design, and develop a high-quality Programme Business Case to submit to Ministers in mid-2022 (recommendations 4 and 6). To implement these two recommendations will require active management and ongoing, focussed effort.

Recommendation	RAG status	Actions taken to date	Issues/outstanding work required
1. Align expectations of the Minimal Viable Product (MVP) to be delivered by 1 January 2023, adjusting the programme plan as needed		• Following several engagements between the TEC and Te Pūkenga, an MVP for 1 January 2023 was agreed in late March 2022. • The new Transformation sub-committee of Council considered and agreed the MVP on 5 April 2022, which was then endorsed by Council on 27 April 2022.	• Te Pūkenga is still in the process of adjusting its work plan to ensure it appropriately accounts for delivery of the MVP by 1 January 2023. This is an urgent task that needs to be completed given timelines remain tight. • Te Pūkenga need to develop how it will report progress against the MVP. • Given key design work is still ongoing, we recommend the MVP is revisited in 2 to 3 months to ensure it remains appropriate.
2. Accelerate dissolution of ITP Boards and appoint Te Pūkenga candidates as acting leaders to enable effective direction in preparation for transformation		• On 8 April 2022, it was announced that Toi Ohomai and Wintec will formally dissolve on 31 May 2022. • All staff and current structures will remain unchanged as part of the transfer into Te Pūkenga with the only change being made at the CE level. Te Pūkenga Council will be ultimately responsible for the two new business units, but a reference group of two Council members and two iwi representatives will help oversee and guide operations Simply dissolving subsidiary boards without a clearly defined new org structure won't achieve much.	• The transfer is essentially a 'lift and shift' of current operations, 9(2)(g)(i) [redacted] We are also concerned about how the regional voice will be retained. Communications to stakeholders, especially staff, will be important. • The reference group membership is still to be finalised. • The status of this recommendation is dependent on the success of the transition planned for 1 June 2022. • Further consideration is being given to other early movers over the next few months, 9(2)(j) [redacted]
3. Clarify roles, responsibilities, and accountabilities for Te Pūkenga, TEC and ROVE Board		• We plan to meet with Te Pūkenga to discuss and clarify the roles, responsibilities, and accountabilities for Te Pūkenga, the TEC, and the RoVE Programme Board. • However, Te Pūkenga wants to complete a review of its internal Programme Board before it engages further on this recommendation. • The recent Gateway Review endorsed the role of the RoVE Programme Board overseeing the Te Pūkenga transformation in the same way it oversees all aspects of the RoVE programme.	• We consider that in conjunction with Te Pūkenga, we will be able clarify the roles, responsibilities and accountabilities of the different agencies and governance structures over the next month before closing this recommendation.
4. Target ITP and regional organisation structures to be implemented by 1 January 2023		• Te Pūkenga continue to put significant effort into the design of its new organisational structure and how the operating model will work in practise. • Additional capability has been brought in to help deliver on this recommendation. • Te Pūkenga plan to consult on the new organisational structure over July before finalising it in November 2022. This is my #1 area of concern.	• There continues to be substantial risk around the operating model work stream with a considerable amount of work to be undertaken in a short time-period. • While the new operating model will be centred around six or seven Ako networks, further work is needed to outline how regional delivery will work in practise. • We are concerned that there appears to be minimal rationalisation/transformation planned as part of the organisational changes which will see financial performance remain poor. Te Pūkenga consider more restructuring will occur later as part of system rationalisation.
5. Appoint a DCE level Transformation Director as the Senior Responsible Officer with the mandate and decision rights to		• Te Pūkenga has appointed Tamati Shepherd-Wipiiti as its DCE Transformation and the Senior Responsible Officer for the transformation. He began in his role on 28 March 2022. • Tamati has brought additional resource from PwC with him,	• It will be important that Tamati has the mandate and decision rights to drive programme execution as per the recommendation. There is a risk that his mandate is not wide enough, given Te Pūkenga has a narrow view of what is included in the 'transformation' programme and the model Te Pūkenga

drive programme execution		including some which helped with the establishment of Te Pūkenga over 2018 to 2020.	operate where each ELT member is responsible for a separate part of the overall work programme.
6. Complete delivery of the programme plan (with the critical path) and Programme Business Case as planned		• Te Pūkenga continue to review and rationalise its work programme, with further refinement now underway to align with the MVP. • A critical path for the period to 1 January 2023 is due to go to the May Te Pūkenga Transformation sub-committee. • The TEC continue to engage constructively with Te Pūkenga on the development of its PBC, which Te Pūkenga plan to submit in July 2022. To date, we have received drafts of the Strategic and Economic Cases with drafts of the other three cases to be received in coming weeks.	• An ongoing issue remains that Te Pūkenga is trying to rationalise and deliver a work programme that includes transformation and BAU delivery, and activity that is wider than the MVP. This has made the completion of a critical path difficult. There needs to be a clear focus on the activity that needs to occur to achieve the MVP for 1 January 2023. • There remains a risk that Te Pūkenga is unable to submit a PBC to Ministers in mid-2022 that shows a proposed programme of work that is achievable and affordable. Te Pūkenga also need to be clear on what it is asking the Crown to invest in and why this is the option that best minimises costs and maximises benefits. This is made difficult by the fact that key transformation activities are still being scoped in terms of cost, timing, and benefit and that there are ongoing concerns with regards to the financial sustainability of Te Pūkenga.
7. Complete programme management strengthening enabling effective governance (Te Pūkenga Council and Programme Board) and monitoring (TEC and Minister), including establishment of a small sub-committee of Council, augmented with independent expertise to provide focus and oversight of execution		• Following engagement between the TEC and Te Pūkenga, the Council resolved to establish a Transformation sub-committee of Council in late March 2022 which will oversee all transformation activities. • Murray Jack chairs the Committee with Sir Brian Roche being the other independent member. Council members Murray Strong, Peter Winder and Kim Ngarimu are also on the Committee. • The Transformation Committee held its first meeting on 5 April 2022 and will meet at least monthly. • Te Pūkenga is considering whether its internal Programme Board is required, which is currently being reviewed for how it can best support the transition to 1 January 2023.	• The Transformation Committee has asked management to focus on improving and streamlining transformation reporting, as well as developing an assurance plan. • We are continuing to engage with Te Pūkenga on their wider programme management and governance structures. This includes assisting Te Pūkenga to be clear on the demarcation of responsibility between the Council, the Transformation Committee, ELT, and the Te Pūkenga Programme Board. We want to ensure effort is being focussed in the right areas and decision-making is optimal. In our view, the Te Pūkenga Programme Board is unnecessary given the establishment of the Transformation Committee.

…and we will continue to work closely with Te Pūkenga on the recommendations

14. We will continue to engage closely with Te Pūkenga senior management and project leads on the implementation of the seven recommendations. Te Pūkenga is reporting actions against the recommendations on a regular basis as part of its reporting to you and we have established regular meetings to monitor key pieces of work associated with the above recommendations (e.g. the Programme Business Case).

Financial performance

Te Pūkenga reported a surplus in 2021…

15. The Te Pūkenga group reported a draft surplus of $7.6 million (0.7 percent of revenue) for 2021. This was significantly better than the $45.6 million deficit that had been budgeted. The group result was driven by:

- An $11.2 million surplus for Work-Based Learning Limited (WBL) compared to a budgeted surplus of $5.6 million.

- A $1.2 million deficit for the Te Pūkenga parent compared to a budgeted deficit of $10.6 million.
- A $2.4 million deficit for the former ITP subsidiaries compared to a budgeted deficit of $40.6 million.

16. Group revenue was $28.7 million higher than budget due to higher-than-expected domestic enrolment growth through the former ITP subsidiaries. Te Pūkenga reported a 13.7 percent (7,050 EFTS) increase in SAC and YG funded EFTS in 2021. This was partially offset by a 51.8 percent decline (4,820 EFTS) in full-fee international EFTS.

17. Group expenditure was $24.5 million below budget in 2021. The main driver was expenditure by the Te Pūkenga parent being $11.7 million below budget as projects were delayed or not initiated. In total, only 74 percent of the budgeted expenditure by head office was undertaken, which aligns to our concerns regarding the lack of progress to date from Te Pūkenga implementing its transformation programme. The former ITP subsidiaries' reported expenditure was $7.9 million below budget due to lower personnel and operating costs while WBL expenditure was $4.9 million below budget.

…but has budgeted to return to a [redacted]

18. The overall 2021 result was positive compared to historical performance and the original budget. However, Te Pūkenga's budget for 2022, which was adopted by the Council at the end of 2021, is for a group deficit of [redacted] This assumes a [redacted] from the ITP subsidiaries as well as a[redacted] from the Te Pūkenga parent. WBL has budgeted for a [redacted].

19. [redacted]

20. The [redacted] deficit for the Te Pūkenga parent is due to it budgeting for expenditure to [redacted] greater than the Crown funding it receives. This additional expenditure represents a catch up from the underspends reported over 2020 and 2021 where Crown funding was greater than head office expenditure and the head office reported surpluses. It should be noted that the integration and transformation funding provided under the Crown funding agreement must be spent before the end of 2022 or be returned to the Crown.

…despite expectations of further enrolment growth…

21. Te Pūkenga budgeted for revenue to [redacted] in 2022 on the back of a [redacted] in total EFTS. Domestic enrolments were budgeted to continue to rise strongly, increasing by [redacted], while international EFTS were expected to continue to decline.

22. Expenditure was budgeted to [redacted], largely on the back of increased personnel costs with FTE numbers budgeted to [redacted] and [redacted] Given current inflation, Te Pūkenga has indicated that there is likely to be pressure on the budgeted costs.

23. [redacted]

…but enrolments are down sharply in 2022…

24. Data from the April 2022 SDR shows that SAC and YG funded EFTS are down 10.0 percent (4,301 EFTS) compared to a year ago with 14 out of the 16 subsidiaries reporting declines. This compares to a 6.3 percent increase assumed in the budget. If the April SDR result holds true and a 10 percent fall in domestic EFTS occurs for the full year, Te Pūkenga will have around 9,500 fewer SAC-funded EFTS than assumed in its budget. Full-fee international EFTS

also fell further in the first few months of 2022, down 44.9 percent (1,377 EFTS) compared to a year ago.

…and Te Pūkenga is forecasting the [redacted]

25. Based on performance for the year to March 2022, Te Pūkenga is now forecasting a full-year deficit of $110.0 million (8.9 percent of revenue) – [redacted] Revenue is expected to be [redacted], largely due to lower than expected enrolments, while expenditure is only expected to be [redacted] It should be noted that Te Pūkenga is currently reviewing its full-year forecast to ensure it is accurate.

26. While Te Pūkenga's 2021 result showed improved performance, it is increasingly looking like this was a temporary effect from increased domestic volume and a decision to delay spending. As that volume comes back out of the system (and is not assisted by a COVID-19 funding guarantee as occurred in 2020), larger deficits have re-emerged, consistent with those being reported prior to Te Pūkenga's establishment.

27. Te Pūkenga will need to implement a range of both cost saving and additional revenue earning mitigations over 2022 to help manage the significantly lower than budgeted enrolments. We expect Council and management to take decisive action in this area. In March 2022, Te Pūkenga wrote to subsidiaries stating that all recruitment should be delayed or suspended unless approved by the subsidiary chief executive. However, further actions will be needed and Te Pūkenga has engaged a contractor to undertake a detailed review of the forecasts. Even with significant changes, it is unlikely that the forecast deficit for 2022 can be notably reduced, but best efforts should still be made. Te Pūkenga will also need to assess any structural impacts this financial result may have as it begins financial planning for 2023.

…with cash reserves expected to fall…

28. As at the end of December 2021, the Te Pūkenga group had cash reserves (including short-term investments) of $326 million. The 2022 budget assumes cash will fall to [redacted] by the end of 2022 (which includes [redacted] of ring-fenced reserves). With performance now forecast to be [redacted] The existing Te Pūkenga borrowing consent, which allows Te Pūkenga to borrow up to [redacted], expires on 31 December 2022. Given a lack of projected near-term profitability, it will be hard to justify the substantial borrowing limits that Te Pūkenga is likely to seek to assist it to deliver its transformation programme.

…and overall financial reporting remains poor…

29. With a significant and costly transformation programme to implement and poor underlying performance, we would have expected Te Pūkenga to have placed greater attention on improving financial reporting over the past two years. This was a key area of concern for many ITPs leading into the establishment of Te Pūkenga and a focus of our monitoring activity.

30. [redacted] Improving financial reporting needs to be a key of focus for Te Pūkenga, especially given 2022 performance is forecast to be worse than budget. Without reliable financial reporting, we question whether the Council can appropriately hold management to account and make well-informed decisions.

31. Of further concern is that there appears to be little overall reporting and monitoring of Te Pūkenga's forecast cash position. Given its financial position, and with a large deficit forecast for 2022, we would expect management to be preparing information for Council which shows when cash reserves are expected to go below minimum levels as well as a future debt track. This is an urgent area which needs to be remedied. This information will form a critical part of our analysis of Te Pūkenga's PBC as well as its application for a new borrowing consent.

More info please

32. As part of improving its forecast cashflows, greater consideration should be given to how ring-fenced reserves are used so that Te Pūkenga's projected bank borrowing is minimised in future. At the end of December 2021, ring-fenced cash reserves 9(2)(b)(ii) [redacted] since Te Pūkenga was established. At the end of 2021, 9(2)(b)(ii) [redacted] This is despite a number of these subsidiaries undertaking capital projects and other expenditure that would appear to meet the requirements of Te Pūkenga's ring-fencing policy. From our point of view, a mechanism has been put in place to allow these funds to be utilised, but Te Pūkenga has chosen not to implement it. The use of ring-fenced reserves in these instances would have preserved financial resources for other operational purposes.

…as we continue to have serious concerns about Te Pūkenga's future sustainability…

33. 9(2)(g)(i) [redacted]

34. In the early stages, Te Pūkenga focussed on centralising reporting and providing guidance and operating parameters to subsidiaries, although these were not always adhered to. More recently, Te Pūkenga has engaged consultants to develop a financial model and financial strategy for the group which remain in progress. Te Pūkenga is also currently recruiting for a permanent Chief Financial Officer. To date, these actions appear to have had minimal impact on overall financial performance. The recruitment of a high-quality, permanent CFO should help drive improvements and ensure accountability for improving the financial sustainability of the group. It is therefore important that the right person is appointed.

35. Over the 2017 to 2019 period, prior to the establishment of Te Pūkenga, the ITP sector reported an average deficit of $60 million. Te Pūkenga is now forecasting a $108 million deficit for its ITP subsidiaries in 2022. The increase in the deficit between 2019 and 2022 has been driven by both decreased revenue and increased expenditure. While forecasts for 2023 and beyond are still being developed, it will require major changes to return Te Pūkenga to surplus, let alone a surplus strong enough to fund transformation costs and allow re-investment back into the network. Over the past two years, Te Pūkenga's capital spend only just covered depreciation expenses and there is a reliance on its 2022 Budget bid to fund high-priority remedial work. To achieve a surplus equivalent to three percent of revenue at the group level (a $37.2 million surplus), it would require a $147 million turnaround.

36. Despite being raised in our last three monitoring reports, we have yet to see a financial management plan or strategy put in place by Te Pūkenga and there is no reporting against financial sustainability actions. Through our engagements and overall monitoring, it is clear that Te Pūkenga has not been able to drive any significant changes in subsidiary performance. This is reinforced by 12 out of the 16 subsidiaries budgeting for deficits in 2022 despite assumptions of continued domestic enrolment growth and 15 out of 16 subsidiaries now forecasting deficits. There has also been a lack of progress on known issues – such as Tai Poutini Polytechnic –which has continued to report large deficits over the past two years ($9.9 million collectively) and is s9(2)(i) [redacted] There has been no progress made on reducing the negative financial impact it is having on the wider group.

…and we continue to assess the Te Pūkenga group as 'high risk'…

37. We consider that the Te Pūkenga group remains 'high risk' given its current structure is unprofitable and it has yet to develop a plan to return to financial sustainability. Even more concerning is that we have yet to see any finalised financial modelling or analysis undertaken on the cost of implementing and running its new organisational design and operating model. This is a major risk for Te Pūkenga and its ability to deliver on its intended outcomes. The Council need this information to make high-quality decisions.

38. Financial modelling is currently being undertaken as part of the development of Te Pūkenga's PBC, which is expected to be submitted to Ministers in mid-2022. However, this work has only started to gain momentum in the past few months, and we have concerns with regards to what can be completed in the short-term. Data quality across the wider group remains varied and many key transformation activities are still being scoped in terms of cost, timing, and benefits (e.g. the development of an organisational structure). We understand that a financial strategy will be developed off the back of the financial model being developed for the PBC.

…with focus needed on how Te Pūkenga will move towards financial sustainability…

39. As part of the Crown's $121 million investment in Te Pūkenga in 2020, you made your expectations clear that Te Pūkenga head office needs to be self-funding from the beginning of 2023. Given the slow progress to date on the transformation and on improving financial performance, we have concerns around whether this can be achieved. Te Pūkenga's ability to achieve this goal will be highly dependent on the degree of efficiency improvements that can be driven through the design and implementation of its new organisational structure. With little progress made in this area to date, we are concerned that any efficiency gains banked in the short-term will be minor. If little rationalisation or cost-reduction is implemented, we expect another large deficit in 2023. Furthermore, ongoing head office costs will need to be funded by the wider network, which will negatively impact the group's overall financial position.

40. Over the medium-term, we consider there are three key transformation changes that Te Pūkenga must leverage to deliver efficiencies across the network. The first is through the organisation design and centralisation of some functions. The second is through implementing common systems across the network. The third is through identifying and implementing productivity gains in core delivery. We expect the PBC to begin to outline how these changes will contribute towards its financial viability and the timing of when changes are able to be implemented and when efficiencies will be realised. However, there are a range of other changes which Te Pūkenga will need to explore, such as property divestment. Te Pūkenga's future sustainability will also be dependent on the positive impact of the new unified funding system and the level of any potential future Crown support provided to implement its transformation.

…but there are several challenges Te Pūkenga will face going forward

41. In addition to implementing its new operating model, there are two other key risks that will potentially negatively impact on Te Pūkenga's overall financial performance over the next few years. The first major risk relates to the degree to which international enrolments recover. While border restrictions are due to be relaxed later in 2022, the Government is proposing a rebalance of immigration priorities which are likely to negatively impact sub-degree international education.

42. The second major risk is that domestic enrolments continue to fall. Historically, there has been a strong correlation between the unemployment rate and SAC-funded delivery in the ITP sector. With the current unemployment rate at a record low, there is a high possibility that domestic EFTS will continue to fall in 2023 and possibly below pre-COVID-19 levels. Uncertainty also surrounds work-based enrolments given the Targeted Training and Apprenticeship Fund is due to cease at the end of 2022. Te Pūkenga will need to ensure it is undertaking sensitivity analysis for these challenges so that it can be appropriately planning for these key risks.

Key strategic risks

43. Te Pūkenga's key strategic risks and mitigations (as identified by Te Pūkenga) are outlined in the following table. These align with those presented last quarter. However, Te Pūkenga has now added both a pre-mitigation risk assessment and a post-mitigation risk assessment which is a pleasing addition. We encourage Te Pūkenga to continue to review its mitigations to ensure they best manage the stated risk.

44. While we agree with the risks identified by Te Pūkenga, we consider there are two key additional risks that are not mentioned. The first is the risk that deadlines are missed as part of Te Pūkenga's transformation programme, resulting in employers losing confidence in Te Pūkenga's ability to deliver, students choosing pathways outside of vocational education and training, and lower staff morale. Secondly, there is considerable uncertainty around both domestic and international student enrolments in 2022 and 2023 which will have an impact on Te Pūkenga's overall financial position, and therefore its ability to implement its transformation programme.

Risk	Pre-mitigation assessment	Mitigation	Post-mitigation assessment
Te Tiriti o Waitangi - the management of and delivery on Te Tiriti o Waitangi expectations and obligations.	**Very high**	• Ownership of this risk is shared across Te Pūkenga. Each department and division have contextualised Te Tiriti o Waitangi obligations. • Embedding of Te Pae Tawhiti in the Operating Model Design. • Draft Te Pūkenga engagement framework completed January 2022. • Te Tiriti o Waitangi organisational blueprint applied to Operating Model workstreams from February 2022 outlining principles for engagement.	High
Dissolution of ITP Subsidiaries and integration of their operations into Te Pūkenga - Te Pūkenga is prepared to receive the ITP subsidiaries on dissolution; provision of clear direction as to how the individual institutions are to be managed at the date of dissolution.	**Very high**	• A dedicated Senior Programme Manager appointed to support day 1 activities. • Establishment of Committee of Council for transformation programme implementation made up of independent members who bring significant transformation experience. • Prioritisation work plan carried out by ELT and work underway across programmes to review and update plans. • "Early movers" dissolution of two subsidiary boards 31 May 2022 to enable Operating Model workstream. • Cyber Security Report. • Network wide communications.	High
Continuation of BAU through the dissolution of ITP Subsidiaries into Te Pūkenga - educational delivery is transitioned in a smooth and efficient manner, including the transition to unified programmes of study	**Very high**	• Te Pūkenga and ITP subsidiaries to align strategy and objectives to inform decision-making. Strategy and objectives of each ITP subsidiary, analysed and compared to Te Pūkenga. • Identified significant project risks to incorporate into Te Pūkenga Risk Register.	High
Reduction in work-based learning capability due to transition impacts - the continuation of BAU for staff/learners /employers within TITOs through transition period and beyond	**Very high**	• WBL Board approved funding trials to enable exploration of different elements of the proposed Operating Model via WBL and other subsidiaries working in co-ordination on different projects. • WBL capability is growing as each TITO transitions. • Lift and shift for TITOs for early movers (4)	High
Interdependencies with external parties - interdependencies with Workforce Development Councils (WDCs), Regional Skills Leadership Groups	**Very high**	• PMO provision of report summarising each project with analysis of progress risk. • Collaboration with TEC (Treasury/MoE) on PBC. • Collaboration with NZQA, WDCs on programme endorsement for unification. • Data insights from TEC, WDCs and RSLGs are being gathered for 2023 network of provision and investment planning.	High

(RSLGs), NZQA, TEC, other providers.		• Collaboration with TEC and NZQA for early mover ITP transitions for 1 June 2022. • Collaboration with key agencies regarding data sharing. • Targeted engagement underway on the 4 workstreams of the Operating Model. • Technical solution in place to enable direct communication with all staff in the Network. • Dashboard reporting of projects. • PMO carried out desktop analysis to evaluate confidence in the project and programmes.	
Talent management - the retention of key staff and strategic recruitment of new staff at Te Pūkenga and subsidiaries	**Very high**	• Aromātai Kaimahi survey sent February 2022. • Operating Model adoption to provide some certainty for staff about their jobs. • Change management work underway to manage this risk with ITP subsidiaries.	High
Financial sustainability - receiving insufficient funding and effectively and efficiently controlling spend and allocation or resources.	**Very high**	• Subsidiary accountants to present monthly rolling forecasts to Te Pūkenga for accurate and timely information to mitigate the variability between forecasts and actuals. • Enhancement of budget model and monitoring of results. • Enhancement of network monitoring ratios and reporting. • The metrics from the PBC financial model is the starting point, with additional ratios that are agreed from the finance strategy.	High
Priority Learner Journey Equity - authentic and real transformation in equity for priority learners.	Medium	• Timelines developed for Phase 2 engagement of Operating Model around detailed design and organisation structures. • Te Rito Outcomes Framework is setting the baseline measures for the network who are developing action plans to achieve more equitable outcomes for learners. First reporting was due back from subsidiaries at the end of March 2022 however is lagging due to COVID-19. • Research and data analysis (integrated data infrastructure) is informing the development of the Learner and Whānau Success Strategy (L&WSS).	Medium

Next steps and future reports

45. Our next formal quarterly update to you will be in August 2022 following Te Pūkenga's quarterly report for the June 2022 quarter which will be provided to the TEC at the end of July 2022.

46. We recommend that this aide-memoire is proactively released with information withheld that is commercially sensitive and to maintain the effective conduct of public affairs through free and frank expression of opinions.

Gillian Dudgeon

Deputy Chief Executive – Delivery
Tertiary Education Commission

16 May 2022

Hon Chris Hipkins

Minister of Education

29 / 05 / 22

I'm concerned the MVP doesn't have enough emphasis on immediate financial sustainability issues. I'd like an urgent update on what Te Pukenga is doing to trim costs now in response to lower enrolments. I'd like to see a plan for some early wins re network efficiencies ASAP. And I would like reassurance the regularity and quality of financial reporting has been resolved.