

Aide-Memoire: Te Pūkenga quarterly monitoring report

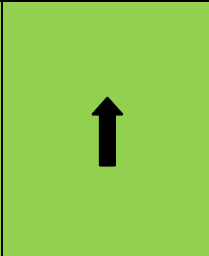
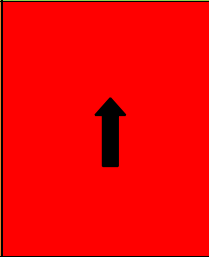
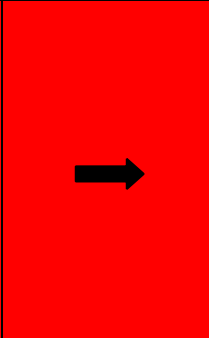
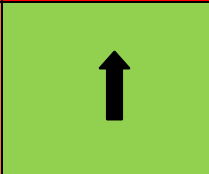
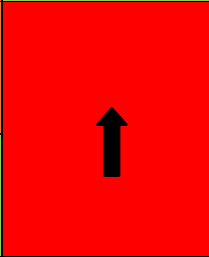
To:	Hon Chris Hipkins, Minister of Education
From:	Gillian Dudgeon, Deputy Chief Executive – Delivery, Tertiary Education Commission
Date:	22 April 2021
Reference:	AM-21-00173

Purpose

1. This aide-memoire provides an assessment of the performance of Te Pūkenga following receipt of its first quarterly report for the December 2020 quarter. Recognising the high tempo of business-as-usual and transformation projects at Te Pūkenga, this report has also taken into account information available since then to provide the most up to date picture possible.
2. This is our first formal monitoring report on Te Pūkenga and we would appreciate your feedback on the approach and style of the report to ensure you are receiving the information most valuable to you. It is a fairly wide-ranging report given Te Pūkenga is still in establishment phase and has not formalised its own reporting to the Tertiary Education Commission (TEC). Over time, we expect our reporting to you to evolve and become more succinct and timely, with a focus on complementing Te Pūkenga’s reporting.

Overview

Work stream or focus area	Assessment of where Te Pūkenga should be	Current assessment (Arrow = trend)	Commentary
Operating model		➔	Good progress is being made through the co-design approach with three co-design sessions held recently. Analysis from the ākonga at the centre engagements and the employer journey and experience work is also inputting into design. Significant challenges exist to manage the extensive planned engagement with stakeholders within a short period of time and to translate that into a model which is affordable and achievable. Implementation will also be challenging. These risks need to be monitored and managed closely by Te Pūkenga, given its interdependencies with other parts of RoVE and its wider transformation programme.
TITO Transitions		➔	Four TITOs have signed a letter of intent to transfer arranging training activity into Te Pūkenga in 2021. Te Pūkenga is establishing a work-based learning subsidiary company to receive the activity. Aligned with the legislative intent, the four TITOs are also engaging with TWOA and a small number of PTEs. Te Pūkenga and TWOA are in the final stages of establishing an MOU to work together. Key risks for Te Pūkenga continue to exist around transition timing (linked to the establishment of WDCs) and maintaining existing employer support and capability during the transition.
Māori partnerships and equity		➔	Te Pūkenga has been working on embedding Te Pae Tawhiti, its Tiriti Excellence Framework, and how it will shape engagements. It is currently identifying best practice initiatives across its network which other subsidiaries can adopt and which will inform the operating model work stream, the 2022 Investment Plan and capability development during the transition phase.

<p>Capital asset strategy</p>			<p>Good progress has been made with a physical site assessment undertaken for each subsidiary. This has provided information on utilisation, excess capacity, and seismic and maintenance issues. A number of projects are to be implemented in the near future to lift capability. However, a longer-term capital asset strategy will not be available until 2022 following the completion of the operating model design. There are significant opportunities through this work to improve capital asset management capability, asset utilisation, and to make more informed investments based on needs across the network, rather than on an individual subsidiary basis.</p>
<p>Network collaboration</p>			<p>Some collaboration between subsidiaries is occurring, especially around responding to COVID-19 and there are encouraging plans to set up national approaches to the recognition of prior learning and micro credentials. 9(2)(g)(i) [redacted] However, Te Pūkenga needs to continue to set high expectations and implement initiatives that support changing the culture from competition to collaboration. The realisation of this expectation is a key challenge.</p>
<p>Financial performance</p>			<p>The subsidiaries reported an overall unaudited draft deficit of \$20 million for 2020. This rises to \$56 million had the TEC recovered under-delivery against funding allocations. We understand that the \$20 million deficit has flipped to a small surplus through the audit process but we will advise on this in our next quarterly report. The subsidiaries are budgeting for a s9(2)(j) [redacted] in 2021 and forecasting further deficits in 2022, inclusive of strong domestic EFTS growth. While there has been sound progress around implementing a group treasury strategy and centralised borrowing, 9(2)(g)(i) [redacted] [redacted] t clearly has this intent and so strong leadership and action is needed.</p>
<p>Enrolments</p>			<p>Te Pūkenga EFTS declined by 4 percent in 2020. This was driven by a 0.5 percent decline in SAC and YG funded EFTS and a 14.5 percent decline in full-fee international EFTS. Indicative enrolment information shows Te Pūkenga EFTS are up by 8 percent compared to a year ago, with 20 percent domestic growth and a 64 percent decline in international EFTS. The growth provides some potential upside to the forecast deficit for 2021.</p>
<p>Reporting</p>			<p>Te Pūkenga is yet to develop a set of milestones and targets as part of its quarterly reporting to the TEC as required under the Crown funding agreement. It is crucial that Te Pūkenga develops key indicators so its overall progress and performance can be measured and assessed, not only by the TEC but also by itself. We note that there is no overall transformation programme reporting provided to the Council on a monthly basis and improvements need to be made on financial and risk reporting. These need to be key areas of focus. We understand that Te Pūkenga is implementing reporting on its critical path and overall transformation programme in the near future.</p>
<p>Management</p>			<p>The remaining Deputy Chief Executives commenced in their roles in late 2020 to create a fully operational leadership team. However, Merran Davis, DCE Transformation and Transition, has recently resigned. 9(2)(g)(i) [redacted] Furthermore, the leadership team and other senior staff are still getting up to speed with the sector and the size of Te Pūkenga’s planned work programme. Given the significant changes that need to be made and the tight timelines, this represents a risk for the organisation. Te Pūkenga needs to continue to build capability to provide the leadership for developing a new operating model while also managing business-as-usual.</p>
<p>Governance</p>			<p>9(2)(g)(i) [redacted] More generally, we consider Te Pūkenga can make improvements in the way it identifies, monitors and manages risk and on ensuring all of its separate projects are managed as a cohesive, coherent programme rather than individual pieces of work. Related to this is an urgent need by Te Pūkenga to improve the quality of its reporting. These improvements need to be a focus for the Council so that it can ensure it is delivering on its work programme, the Charter and your Letter of Expectations. As above, we understand improved reporting is due to be implemented for the May Council meeting and we will analyse this in our next quarterly report. The Council also needs to ensure that it is well across subsidiary performance, and that subsidiary boards are making decisions aligned with Te Pūkenga’s strategic direction.</p>

Quarterly reporting and targets

Te Pūkenga is required to submit quarterly reports to the TEC...

3. The funding agreement between the Crown and Te Pūkenga, which covers the terms and conditions of the Government's \$121 million investment in Te Pūkenga, requires that it submit quarterly reports to the TEC. These reports will form the basis of our monitoring and reporting to you on a quarterly basis.
4. The Crown funding agreement, signed on 31 August 2020, did not outline any targets as Te Pūkenga was still being established and needed to undertake further work to develop an appropriate set of targets and milestones. The agreement requires Te Pūkenga to develop and agree a set of targets and milestones with the TEC as soon as possible. This information will form the basis of the quarterly reporting to the TEC, and be used by us to monitor Te Pūkenga's performance – including against its Statement of Intent (SOI) and Statement of Performance Expectations.

...and is yet to develop a set of targets and milestones...

5. Unfortunately, we have not agreed a full set of targets and milestones with Te Pūkenga. We would have expected Te Pūkenga to have developed a comprehensive set of targets and milestones as a matter of urgency so that Council and management could closely monitor its own performance and ensure its work programme is on track.
6. Te Pūkenga has recently begun holding workshops to develop a comprehensive set of new indicators to measure its performance. It wants to move away from measures previously used by ITPs and develop new indicators which better incentivise and measure the desired outcomes and show greater accountability to stakeholders. While this is a commendable goal, Te Pūkenga may want to consider developing a range of targets and milestones in two stages. It is important that at least an interim set of targets and milestones are developed urgently so that Te Pūkenga's performance over the transition period can be measured while long-term performance measurement is worked on. We have been clear with Te Pūkenga that key targets will need to form part of its next quarterly reporting.
7. As such, this aide-memoire does not provide analysis against agreed targets. It uses information provided by Te Pūkenga's interim report and is complemented by a range of other information including Te Pūkenga Council papers, the Single Data Return (SDR), financial returns, and our engagements. Our next report in June 2021 will include the agreed targets and milestones, and a more complete quarterly report from Te Pūkenga.

...but overall Te Pūkenga is making progress in a number of key areas

8. Considering that Te Pūkenga was established a year ago and the scale of the overall transformation work programme it is undertaking, there has been some good progress made during 2020 with indications that activity is ramping up in 2021. Two positive indicators are the approach and progress on establishing new frameworks to support strong Māori partnerships across the network and the significant increase in enrolments for 2021. The importance of the latter should not be under-stated.

Delivery of transformation work programme

8. Te Pūkenga has developed a transformation programme that has nine work streams, which are aligned to your Letter of Expectations. These work streams were outlined in Te Pūkenga's SOI which was finalised in early February 2021 (AM-21-00025 refers). Of the nine work streams, the first six relate to transformation while the last three are core capability and enabling projects. The work streams are:
 - Māori Partnerships and Equity
 - Ākonga at the Centre

- Employer Aligned
- Operating Model
- TITO Transition & Work-based Learning
- Academic Delivery Innovation
- Network Collaboration
- Governance and Accountability Framework
- Capital Asset Strategy and Network Stabilisation

9. Key developments of the transformation projects are noted below.

Work is progressing on Te Pūkenga’s new operating model...

10. In November 2020, Te Pūkenga appointed EY and EY (Tahi) to partner it in the development of its operating model. The operating model will cover all aspects of how Te Pūkenga operates and interacts with learners and stakeholders, including how it will give effect to its Charter.
11. A co-design group has been formed which includes learners, employers, and thought leaders. Māori and priority learner group representation comprises 50 percent of the group. This group will play a core role in testing and deciding the direction of the operating model work. Supporting the co-design group will be a large number of reference groups which will provide ideas and feedback to the co-design group.
12. The co-design process has been designed to move beyond collaboration to power-sharing, meaning that decisions on design will be made between Te Pūkenga and its Te Tiriti partners. Three co-design sessions have already been held, as well as a two-day workshop with the Tertiary Education Union and a workshop with Transitional Industry Training Organisations (TITOs). A further two co-design sessions are planned over coming months. Significant analysis that has been undertaken on the ākonga at the centre engagements as well as ongoing work on the employer journey and experience work stream will also input into the operating model development.
13. It is planned that the co-design process will deliver a high-level conceptual design of the operating model in the middle of the year. Te Pūkenga then expect to have a draft operating model designed by the beginning of September, which will be consulted on before being finalised by November. We consider there are significant risks to these timelines given the enormity of the task and the co-design approach being taken.
14. The operating model work will be the cornerstone of a Programme Business Case (PBC) to be submitted to you later this year. Implementation of the operating model is expected to occur over 2022 with the Education and Training Act 2020 (the Act) requiring all previous ITP subsidiaries and TITOs to cease by the end of 2022.
15. The operating model will underpin nearly everything Te Pūkenga does. To truly deliver on the objectives of the reforms and its Charter, Te Pūkenga are being ambitious. However, there are significant challenges to manage the extensive planned engagement with stakeholders within a short period of time and to then translate that into a model which is affordable and achievable. There also needs to be close alignment with the wider system changes. There will need to be a strong focus on implementation as the timelines will be challenging.

...and on an accompanying Programme Business Case...

16. The submission of a PBC to Joint Ministers is a requirement of the Crown funding agreement. It will need to outline the projects that comprise Te Pūkenga’s work programme, how they will be managed and deliver the proposed benefits, the indicative costs to deliver the programme, and how the projects will be funded. It will also need to outline when it may submit future business cases which are expected to seek additional Crown funding.

17. A key aspect of the PBC needs to be how the programme of work will be managed, governed, and resourced to ensure it delivers on the proposed benefits. There is a risk that the nine work streams are worked on as individual projects rather than being part of a larger, cohesive programme of work that has significant inter-dependencies. This will be a key area of focus for the TEC in reviewing the PBC.
18. Te Pūkenga is expecting to submit the PBC to you in November 2021 following the finalisation of the operating model design. The PBC must undergo an independent quality assurance process before being submitted to Joint Ministers. As with the development of the operating model, we consider there are significant risks to these timelines.

...while four TITOs are seeking to transfer arranging training into Te Pūkenga in 2021...

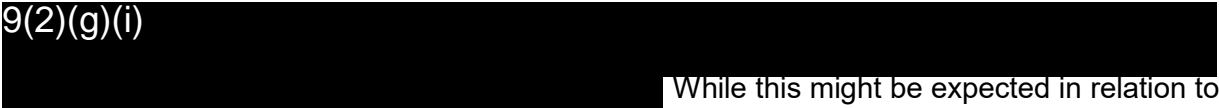
21. Competenz, BCITO, Connexis and MITO have signed a letter of intent to transfer arranging training activity into Te Pūkenga in 2021 and collectively held 45 percent of the 2021 TEC allocation to TITOs for trainees and apprentices. Competenz, BCITO and Connexis are targeting a transition date of between August and October 2021 while MITO is targeting the end of the year. However, Te Wānanga o Aotearoa (TWOA) has also confirmed its interest in taking on arranging training and TITOs have commenced engagement with TWOA on their transition plans as well as with some PTEs. Te Pūkenga and TWOA are expecting to have established a Memorandum of Understanding (MOU) by the end of May which will include the role of TWOA in supporting apprentices and trainees in the future.
22. Te Pūkenga is establishing a work-based learning subsidiary company to receive arranging training activity from the TITOs. You recently approved the establishment of this subsidiary as required under the Act (B-21-00074 refers). Subject to the TEC Board approving the individual transition plans, Te Pūkenga plan on transferring the arranging training activity from these TITOs to the new work-based learning subsidiary with each TITO functioning as a discrete business unit. The transition of activities represents the first step towards enabling the integration of on-job, on-campus, and online training to occur.
23. This approach has been chosen to minimise the impact on learners and the risk of key staff attrition during the transition as well as ensuring that capability is preserved during the transition. It also allows time for the establishment of the operating model, including the information systems best suited to support the business units.
24. The remaining TITOs are required to submit final transition plans to the TEC by the end of September 2021 for approval. This may outline a proposed transition to Te Pūkenga, a private training establishment or wānanga. Service IQ and the Skills Organisation have signed partnership agreements with Te Pūkenga which outline at a high-level how the TITOs will work collaboratively with Te Pūkenga to plan their transition pathway.
25. The success of the transfer of arranging training is linked to the success of the wider RoVE reforms, particularly the establishment of the Workforce Development Councils (WDCs). Key risks for Te Pūkenga exist around transition timing (which is linked to the establishment of WDCs) and maintaining existing employer support and capability during the transition.

...and good progress has been made on the capital asset strategy work stream...

25. In 2020, Te Pūkenga engaged KPMG to assist in the development of a capital asset strategy. As part of the Crown funding agreement, \$5 million was provided to Te Pūkenga to support this work and you identified it as a key area you wanted to see progressed quickly.
26. Over recent months, KPMG has undertaken a physical site assessment for each subsidiary. This has been a massive undertaking, involving surveying over 1,000 buildings across the network. This work has provided a range of information on utilisation, excess capacity, and seismic and maintenance issues. Assessments have also been made on asset management maturity across the network.

27. KPMG is currently providing its initial findings and recommendations to Te Pūkenga. This includes recommendations for projects to implement immediately to lift capability. The projects include: improving the governance framework for capital expenditure decisions across the network; improving processes around asset management; improving asset utilisation and optimisation; implementing initiatives to ensure the asset base meets the needs of regional stakeholders; a strategy for addressing seismic issues across the network; and, stewardship of Māori taonga.
28. While this will allow Te Pūkenga to identify priority areas for investment, a longer-term capital asset strategy and plan is unlikely to be available until 2022 following the completion of the operating model design work. However, given the significant amount of deferred maintenance over recent years and that considerable investment will be needed to develop facilities that are fit for modern teaching and learning, we expect that Te Pūkenga will seek Crown funding for this purpose over the next year. We have previously raised the possibility of a capital investment fund for Te Pūkenga with you (AM-20-00767 refers).
29. Overall, we are impressed with the progress and work being undertaken on this work stream. There are significant opportunities to improve asset utilisation and capital asset management capability (which is weak in some subsidiaries) and to make far more informed investments based on needs across the network, rather than on an individual subsidiary basis.

...while some work is being done on network collaboration...

30. There are some areas where Te Pūkenga's subsidiaries are collaborating – for example, as part of the COVID-19 recovery, working groups have been established to respond to industry needs in particular sectors. The working groups are currently identifying areas for early pilots into shared national curriculum development. Projects have also been established to develop a national accreditation and approval process for micro-credentialing, and on the recognition of prior learning (RPL) with the aim that a national RPL service is available later in 2021.
31. 9(2)(g)(i)  While this might be expected in relation to its stage of development, Te Pūkenga needs to continue to set high expectations and implement initiatives that support changing the culture from competition to collaboration.
32. We consider there is considerable potential to improve efficiency and effectiveness through greater collaboration and to begin to implement the required culture change through this work. The culture change from competition to collaboration will be a slow process, and it needs to begin urgently – network collaboration is an underlying principle for Te Pūkenga and progress in this area should not need to wait for the operating model work. The longer the subsidiaries continue to operate in competition, the harder the culture change will be to implement. Continuing the work on shared curriculum development and moving towards a key set of programmes is an obvious area to focus on.

...and the Māori partnerships and equity work remains a priority

33. Te Pūkenga has been working on embedding Te Pae Tawhiti, its Tiriti Excellence Framework, and how it will shape engagements. Over the December 2020 quarter, a stocktake was undertaken on what activity subsidiaries were undertaking with Te Tiriti partners and self-reflective reports from subsidiaries against Te Pae Tawhiti were completed earlier this year. Analysis of this work will identify best practice initiatives which other subsidiaries can adopt and which will inform the operating model work stream.

EFTS and financial performance

Enrolments at Te Pūkenga fell by 4 percent over 2020...

34. Te Pūkenga EFTS declined by 4.0 percent (2,728 EFTS) in 2020. This was driven by a 0.5 percent decline (245 EFTS) in SAC and YG funded EFTS and a 14.5 percent decline (1,574 EFTS) in full-fee international EFTS. The funding allocations provided to subsidiaries in 2020 assumed growth in enrolments so there was significant under-delivery in 2020 of \$35.7 million (excluding fees free). However, this funding was not recovered due to the decision not to recover under-delivery in 2020 due to COVID-19.

Table 1: EFTS change between December 2019 and 2020 SDRs

	SAC and YG		Full-fee international		Total	
	# change	% change	# change	% change	# change	% change
WITT	98	9.0%	169	69.2%	259	17.7%
Open Polytechnic	717	13.8%	37	124.7%	655	11.6%
SIT	231	6.3%	-47	-5.9%	145	3.0%
Ara	284	4.9%	-127	-13.0%	92	1.3%
Otago	376	9.2%	-385	-33.2%	14	0.3%
UCOL	-66	-2.6%	-2	-1.0%	-28	-0.9%
Toi Ohomai	-391	-9.0%	322	29.2%	-106	-1.8%
Wintec	-141	-3.5%	-26	-2.1%	-355	-5.6%
EIT	-196	-5.2%	-179	-22.9%	-282	-5.7%
MIT	6	0.1%	-81	-9.6%	-364	-6.0%
NMIT	-104	-5.4%	-109	-14.6%	-238	-8.2%
Unitec	-201	-4.3%	-414	-37.9%	-682	-11.1%
NorthTec	-93	-5.0%	-265	-48.5%	-433	-15.8%
Whitireia	-325	-15.7%	-231	-46.6%	-508	-18.4%
TPP	-51	-22.9%	-4	-66.4%	-64	-20.1%
WelTec	-387	-17.9%	-229	-37.9%	-834	-25.7%
TOTAL	-245	-0.5%	-1,574	-14.5%	-2,728	-4.0%

Note: Total includes SAC, YG, Full-fee international and other delivery.

35. The decline in domestic EFTS was smaller than had been forecast earlier in 2020 when the impacts of COVID-19 were first being assessed. Indeed, the relatively stable level of domestic EFTS masks two movements that occurred over 2020. Many subsidiaries were reporting soft enrolments at the beginning of the year, even before the impacts of COVID-19. However, over the second half of the year growth in enrolments were strong as a result of increased economic uncertainty and the Targeted Training and Apprenticeship Fund (TTAF).

...which resulted in nine subsidiaries reporting a deficit in 2020...

36. Te Pūkenga's subsidiaries reported an overall draft deficit of \$20.3 million (1.9 percent of revenue) for 2020. This is better than the \$46.1 million deficit that had been budgeted for and the \$48.9 million deficit reported in 2019. However, the underlying performance is worse than reported given \$35.7 million in under-delivery was not recovered in 2020. If there were recoveries, the deficit would have been closer to \$56 million.
37. The draft results for all subsidiaries are provided in *Table 2*. It should be noted that the 2020 results are still in draft and subject to change as they go through the audit process. Te Pūkenga has indicated to us that as subsidiaries have gone through the audit process, the

\$20 million deficit has flipped to a small surplus. However, we will advise on this further in our next quarterly report once we have received the audited results and had the opportunity to analyse them in detail.

38. The Te Pūkenga parent reported a surplus of \$24.7 million in 2020 as expenditure fell well behind revenue. Of the \$33 million in Crown establishment and transformation funding provided for 2020, only \$8.3 million was spent. Te Pūkenga has largely attributed this to the impacts of COVID-19 delaying key projects and staffing appointments as well as reduced consultant spend. While understandable, it suggests that progress on implementing its work programme needs to accelerate. Given the head office surplus, the Te Pūkenga group has provisionally reported a \$4.4 million surplus in 2020.

Table 2: Full-year surplus/deficit for subsidiaries, 2020 and 2021

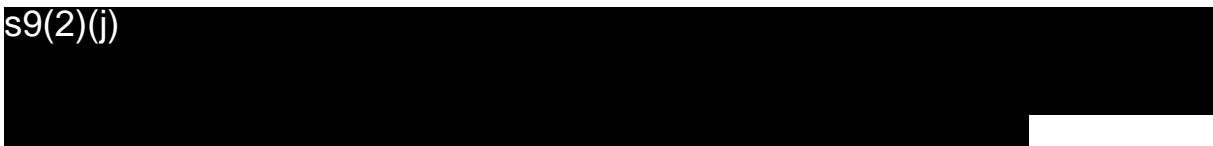
	2020 budget (\$ million)	2020 draft results (\$ million)	2021 budget (\$ million)
Otago	\$0.9	\$5.9	\$10.0
Toi Ohomai	-\$1.2	\$4.0	-\$6.4
NMIT	-\$2.5	\$3.2	-\$2.5
SIT	\$1.1	\$2.5	\$0.8
Open Polytechnic	-\$2.1	\$2.0	\$3.2
Ara	-\$1.7	\$1.6	-\$5.8
MIT	-\$2.6	\$0.6	-\$2.6
UCOL	-\$0.5	-\$0.1	-\$1.0
WITT	-\$0.8	-\$1.3	-\$0.9
EIT	-\$1.2	-\$2.9	-\$3.7
WelTec	-\$1.4	-\$3.7	-\$3.8
Wintec	\$0.0	-\$4.7	-\$7.6
TPP	-\$6.8	-\$5.2	-\$5.9
NorthTec	-\$3.1	-\$5.4	-\$2.6
Unitec	-\$20.8	-\$7.7	-\$8.3
Whitireia	-\$3.4	-\$9.0	-\$4.5
TOTAL	-\$46.1	-\$20.3	-\$41.7
Te Pūkenga parent	-\$6.1	\$24.7	-\$10.6
TOTAL incl. Te	-\$52.3	\$4.4	-\$52.3

...with further deficits being budgeted for in 2021...

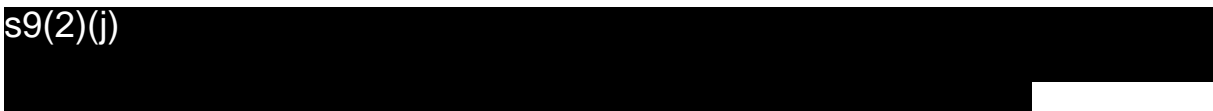
38. s9(2)(j)



39. s9(2)(j)



40. s9(2)(j)



...although 2021 enrolments look to be stronger than budgeted for...

41. Indicative enrolment information shows that EFTS across Te Pūkenga are up by 8 percent compared to a year ago. This is driven by a 21 percent increase in domestic EFTS and a 64 percent decline in full-fee international EFTS. Much of the growth in domestic EFTS is across older age groups. The domestic EFTS position for semester 1 will be confirmed by the April 2021 SDR.
42. As part of our 2021 funding decisions, we ring-fenced \$33 million in SAC funding for Te Pūkenga that we could release quickly in response to evidence of increased demand. The TEC Board will this week consider a recommendation to release this ring-fenced amount. The larger than budgeted for growth provides potential upside to Te Pūkenga's forecast deficit.

...while Te Pūkenga is currently implementing a group treasury strategy...

43. Total cash (including short-term investments) was \$311 million at the end of 2020, well above budgeted levels. There was also debt of \$116 million – although when Crown debt is excluded (particularly Unitec's Crown loan), debt levels reduce to \$63 million.
44. Te Pūkenga has made good progress on developing and implementing a group treasury strategy to better use cash across the sector. The development of a group treasury strategy was a requirement of the Crown funding agreement. In September 2020, the Council approved an intergroup funding strategy that would move Te Pūkenga and its subsidiaries to a single transactional banking group arrangement, as part of the establishment of a central treasury function for the group. Following an RFP process to look for a new banking partner, Te Pūkenga selected Westpac as their new lender.
45. Under these arrangements, the cash holdings of subsidiaries (other than "ring-fenced" amounts) will be pooled and held by Te Pūkenga. Subsidiaries with cash reserves will receive interest from Te Pūkenga while subsidiaries with borrowings will pay interest. This will result in a small saving on interest costs but more importantly allow Te Pūkenga to better manage any liquidity risks that arise across the sector. It is also a first step in integrating the subsidiaries into a single institution.
46. Through this approach, Te Pūkenga will set up its own external finance arrangements with Westpac, repay all commercial debt that exists across its subsidiaries and fund the borrowing requirements of its subsidiaries directly. The Secretary for Education has recently provided consent for Te Pūkenga to borrow up to \$125 million until the end of 2022.

...and is building its financial monitoring capability...

47. In 2018, following a number of failures in the ITP sector, the TEC began collecting detailed financial information from each ITP on a monthly basis to more closely monitor performance. We continued to collect monthly data directly from subsidiaries over 2020. However, this responsibility has now been passed to Te Pūkenga. It will collect this information and produce a consolidated set of financials for the group on a monthly basis, which will then be provided to the TEC to assist our monitoring responsibilities.
48. This process is still being set up and we will need to monitor it closely to ensure it continues to meet our needs. Te Pūkenga has begun implementing a number of improvements around the timeliness and consistency of the data, and ensuring subsidiaries regularly re-forecast their performance. 9(2)(g)(i)

There is also an urgent need for Te Pūkenga to ensure it gets regular and reliable enrolment information from its subsidiaries that it can use to make decisions.

49. As this work develops, it will be important that Te Pūkenga uses it to drive improved performance across its network and to plan and implement a pathway towards sustainability. This will require dedicated and ongoing resource. There has been a lack of capability in the

finance function of a number of subsidiaries/former ITPs for a while with sub-standard information being provided to governors. It is integral that Te Pūkenga lifts this capability across its network, and improves the quality of finance information to its Council so it can make well-informed decisions.

...but we continue to have viability concerns for a number of subsidiaries

50. The implementation of the group treasury strategy has significantly reduced liquidity risks across the sector. Indeed, Te Pūkenga has already managed a specific cash shortfall for Otago Polytechnic over the end of 2020 (the lowest cash position of the year). Nevertheless, a large number of subsidiaries continue to have viability issues and are forecasting to run out of cash and/or have no ability to repay debt. In particular, Tai Poutini Polytechnic (TPP) remains unviable and will require ongoing support to operate in its current form.
51. As a result, there is the potential that Te Pūkenga may seek approval from Joint Ministers in future to draw-down funding from the \$50 million contingency established by Cabinet in March 2020 to support subsidiary viability (CAB-20-MIN-0140 refers). However, we are unlikely to support any request for funding while TPP remains in its current form. Any funding would have to be associated with operational and structural changes and a plan to improve performance. Te Pūkenga remain hesitant to make any major changes at TPP until its new operating model has been designed so that any changes are driven by a clear strategic need. We are continuing to engage with Te Pūkenga on TPP and the initiatives being implemented on the West Coast. We understand no additional cash support has been sought by TPP in 2021 so far.
52. WITT is also forecasting liquidity issues, largely as a result of the need to repay its \$5.196 million Crown loan. WITT made its first payment of \$1.0392 million on 31 December 2020 and the same amount is due to be repaid at the end of each of the next four years. At the end of 2020, Te Pūkenga wrote to the TEC formally requesting that the loan be converted to equity or forgiven to support WITT's viability. We have previously briefed you on this issue and that writing-off the loan will have fiscal implications (B-20-00410 refers). We are likely to provide you further advice on this in coming months.
53. Finally, Wintec is forecasting to have around \$40 million of debt over the next three years. While its debt requirements will now be met by Te Pūkenga's treasury facility, this is a substantial amount of debt and Wintec is not generating the cash flow to reduce this level of borrowing. As a condition of its borrowing consent, PwC was recently appointed to undertake a financial appraisal of Wintec's performance and its options to reduce debt levels. The findings of this work will be shared with the TEC in the middle of the year.

Council and management performance

Te Pūkenga's management team is still coming up to speed...

54. The December 2020 quarter saw the remainder of the Deputy Chief Executives commence in their roles to create a fully operational leadership team. An interim CFO from outside the sector was also appointed in late 2020. However, he is on a 12-month fixed term contract and, given the financial issues Te Pūkenga is facing, we consider this is a risk.
55. Our engagements with Te Pūkenga show that many in the leadership team and other senior staff are still getting up to speed with the sector and the size of Te Pūkenga's planned work programme. Given the significant changes that need to be made and the tight timelines, this undoubtedly represents a risk for the organisation. 9(2)(g)(i)
[REDACTED] The TEC is aiming to support Te Pūkenga's management team as much as possible.

56. In November 2020, an MoU was signed between the TEC and Te Pūkenga which set out the high-level objectives and expectations of the relationship. The objective of the MoU is to

support a strong working relationship between TEC and Te Pūkenga from governance to senior management to the rest of the organisations. We will continue to work with Te Pūkenga to amend our relationship management role and ensure we are working as collaboratively and openly as possible.

...and the Council needs to increase its focus on driving Te Pūkenga's strategic direction...

57. The TEC receives all Council papers but does not attend Te Pūkenga Council meetings. **9(2)(g)(i)**
58. While individual updates on specific projects are provided, there is no overall programme plan, and performance against that plan, that is reported to Council every meeting. In our view, that makes it difficult to assess how all of the individual projects are performing and whether inter-dependencies are being managed, and sufficient progress is being made on Te Pūkenga's overall work programme. Furthermore, the Chief Executive's update to the Council is always verbal, so we have little oversight on what information is being provided to Council from him. That we still do not have targets and milestones in place as part of the Crown funding agreement signals there is limited formal monitoring by the Council currently in place.
59. Finally, we note that there is no risk management or reporting of risks in the Council papers which is of concern. There are significant and wide-ranging risks and interdependencies for Te Pūkenga to manage to deliver on its work programme and achieve its objectives. It is important that risks are clearly identified, managed and owned by the organisation. We understand work is currently being undertaken by the Audit and Risk Committee to establish and implement a risk framework that also ensures major risks at subsidiaries are identified and raised to Te Pūkenga. We do not currently receive the Audit and Risk Committee papers from Te Pūkenga, but receipt of these papers is a condition of the recently granted borrowing consent.
60. We have recently engaged with Te Pūkenga on some of these issues. We understand that Te Pūkenga is planning to implement improved monitoring and reporting of its overall transformation programme at its next Council meeting. We will review this as part of our next quarterly monitoring report. As part of the MoU signed between TEC and Te Pūkenga, Te Pūkenga committed to undertake regular, independent reviews of its governance performance and share the findings and agreed actions with the TEC. Te Pūkenga also committed to undertake an external review as part of its SOI. We will discuss the timeline for the first review with the Chair.

...while the issues at Unitec were a test for the Council and management

61. As you are aware, over late 2020 and early 2021 Māori staff at Unitec raised a number of concerns with Unitec's Board and the Te Pūkenga Council regarding the governance and management restructure at Unitec that resulted in the appointment of a single Chief Executive and consolidated management team. There were concerns about both the process and the outcomes of the restructure, particularly around a lack of consultation.
62. After a number of engagements, all but one member of the Rūnanga quit and a vote of no confidence was made regarding the Chair of Unitec, Peter Winder. Te Rōpū Mataara (Unitec Māori staff collective) then established Te Tira Kāpuia to function in an interim council role for Te Rōpū Mataara, primarily to provide support and counsel to staff.
63. One of Te Pūkenga's priorities, aligned to your Letter of Expectations, is that Te Pūkenga has a relentless focus on equity and that it honours and upholds Te Tiriti o Waitangi in all that it does. The Charter also requires that it demonstrates genuine commitment to Te Tiriti o Waitangi and the principles that underpin the relationship between the Crown and Māori. The

issues at Unitec resulted in a range of accusations that Te Pūkenga was not delivering on these expectations.

64. 9(2)(g)(i)



Key risks

65. Given Te Pūkenga is planning and implementing a significant multi-year transformation programme as part of the wider reforms, there are understandably a number of significant key risks. These risks largely align with those identified before the establishment of Te Pūkenga and reflect the enormity of the task it is undertaking. They also require a mixture of mitigations from officials and Te Pūkenga.
66. From our perspective, we are mitigating these risks through intensive engagement with Te Pūkenga, a range of assurance activities, and the wider RoVE programme management and governance structures. We will continue to engage with Te Pūkenga on how these key risks are being managed and mitigated from its perspective. Its lack of risk reporting makes it difficult to comprehensively outline its mitigation strategies. This is an area we will report on in more detail in our next report.

Key risk	Description	Mitigations
Lack of capability	Te Pūkenga is not able to secure the right people with the right capability to deliver its transformation work programme, resulting in deadlines being missed and the outcomes of the reforms not being achieved.	<ul style="list-style-type: none"> • A significant amount of Crown funding has been provided to ensure certainty for head office operations to the end of 2022. • Te Pūkenga leverages more of the skills and expertise that already exists in subsidiaries and TITOs.
Not delivering both BAU and the transformation	Te Pūkenga has to design and implement a new operating model while also managing business as-usual delivery, improving its performance, and beginning the process of changing the sector’s culture from competition to collaboration. It will be difficult to balance both work streams, and there is a risk that one, or both, are not delivered on.	<ul style="list-style-type: none"> • Ensuring strong project management, business planning and governance supports all parts of Te Pūkenga’s work programme. • Strong oversight and leadership provided by Te Pūkenga on financial performance and educational delivery. • Te Pūkenga leverages more of the skills and expertise that already exists in subsidiaries and TITOs.
Inter-dependencies are not well managed	Te Pūkenga’s ability to deliver its sought outcomes is dependent on all of the projects under its transformation programme being well managed and delivered, as well as other parts of RoVE being designed and implemented effectively and on time – including WDCs, RSLGs and the unified funding system.	<ul style="list-style-type: none"> • Improving project management and governance of Te Pūkenga’s transformation programme and risk reporting. • RoVE programme management and governance structures work closely with Te Pūkenga.
The required culture change is not delivered	There is a risk that Te Pūkenga does not put sufficient effort into changing the culture from competition to collaboration or that it does not begin these changes early enough. Without the culture change, which will be a slow process, it will be difficult to fully realise the sought benefits.	<ul style="list-style-type: none"> • A focus on implementing initiatives that encourage collaboration and operating as one institution (e.g. moving to a single set of programmes). • Strong relationships formed between Te Pūkenga and subsidiaries and ensuring decision-making is aligned.

<p>Operating model does not deliver</p>	<p>The central aspect of Te Pūkenga’s transformation programme is the development of an operating model that meets the needs of stakeholders and allows Te Pūkenga to deliver on its Charter. There is a risk that the development and implementation of a new operating model is either too slow, too costly, or does not meet stakeholder needs which would also impact on the other key areas of Te Pūkenga’s transformation programme and RoVE more widely.</p>	<ul style="list-style-type: none"> • Co-design approach to the development of the operating model, including the establishment of a range of reference groups, will ensure stakeholders have significant opportunity to input into design. • Significant analysis from learner journey and employer experience work will influence the design of the operating model. • Ensuring strong alignment between operating model design and the other transformation work streams. • Regular engagement with officials. • Strong focus on benefits realisation and implementation.
<p>Lack of funding/ financial issues</p>	<p>Te Pūkenga has inherited a network which is unprofitable with COVID-19 having had a further negative impact. Given the significant transformation it has to implement, there is a high risk that it will not have sufficient funding to implement all areas of its transformation programme.</p>	<ul style="list-style-type: none"> • Increased focus on managing the financial performance of the network and addressing poor performance, including improving reporting. • Development of a financially sustainable operating model. • Regular engagement with officials.
<p>Loss of support from employers, learners and stakeholders</p>	<p>There is a risk that disruption from the reforms or if the implementation of a new operating model, including the transition of industry training, is not managed well and that support is lost, engagement in education and training reduces and the benefits of the reforms are not realised.</p>	<ul style="list-style-type: none"> • Clear and regular communication with stakeholders from both the RoVE programme and Te Pūkenga. • Targeted engagement and communications from Te Pūkenga to learners focussing on the benefits of the reforms and to reassure ongoing delivery. • Co-design approach for new operating model to ensure stakeholder views are represented.

Future reports

67. We will next update you in June 2021, which will include Te Pūkenga’s quarterly report for the March 2021 quarter.
68. 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

22 April 2021

Hon Chris Hipkins

Minister of Education

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