

Aide-Memoire: Key operational risks for Te Pūkenga

To:	Hon Penny Simmonds, Minister for Tertiary Education and Skills
From:	Tim Fowler, Chief Executive, Tertiary Education Commission
Date:	8 December 2023
Reference:	AM-23-00919

Purpose

1. This paper provides you with an initial view of the key operational risks facing Te Pūkenga, given the Government's intention to begin disestablishment of Te Pūkenga in its first 100 days.

Background

2. Te Pūkenga has around 270,000 learners (although just under 100,000 equivalent full-time students) across formal, informal, and work-based learning as well as around 10,000 staff. This delivery occurs across approximately 100 delivery sites and over 20,000 workplaces. Te Pūkenga manages around 85 percent of all work-based training and approximately 55 percent of all provider-based vocational delivery. However, it is also New Zealand's second-largest provider of degree level and above delivery, with nearly 19,000 EFTS delivered in 2022.
3. The Ministry of Education (the Ministry) has recently advised on the implementation pathway to disestablishing Te Pūkenga (METIS No. 1319468), including the timeframes required to implement legislative change.
4. On 5 December 2023, you sent a new Letter of Expectations to Te Pūkenga outlining that it was no longer the Government's priority to have a centralised organisation for delivering vocational education and training and that your intention was to establish regionally based, individual institutions.
5. In response to your Letter of Expectations, we are aware that Te Pūkenga has already begun to assess and realign its work programme with the Government's intent. While Te Pūkenga must continue to deliver on its legislated charter, it has decided not to proceed with much of the previously planned activity – in particular, it intends to stop work relating to centralisation and anything that would reduce capability in its business divisions.
6. Essentially, this means that Te Pūkenga and its entire network will be operating in a state of uncertainty for some time. Te Pūkenga is planning to stop transformation activity that moves it towards being a unified, national provider; but it does not yet know what 'new' system it will ultimately need to implement (given legislative change has yet to be implemented). This is going to be an extremely challenging position to navigate, whilst trying to provide a sense of stability to its learners, employees, and stakeholders.
7. As a result, we consider there are some key operational risks that Te Pūkenga will face over at least the next 6 to 12 months until Cabinet decisions are made and there is greater certainty over the legislative changes. As Te Pūkenga undertakes further work, there is likely to be

additional risks identified, and greater certainty of their potential impacts. It is our intention to work closely with Te Pūkenga over the coming weeks to ensure we have a clear understanding of these risks. It is expected that we will provide you with a more comprehensive view of the operational risks once Te Pūkenga reports back to you on the changes it intends to make to its work programme. We will also cover changes in risk as part of our regular quarterly monitoring reports to you on Te Pūkenga.

This is an initial assessment that will be built out through our ongoing monitoring and engagement

8. The risks identified in this paper have been developed in a short period of time, based on limited information. They do not include an assessment of the likelihood of them occurring nor any planned or potential mitigations. In the first instance they provide guidance to our team as to where our engagement and monitoring efforts need to focus in the coming weeks. This will enable us to build a more comprehensive picture of the risks, including the appropriate mitigations, to best manage the transition to a new system. As an example, we are already taking steps to mitigate the key governance and leadership risks highlighted in this paper.
9. This paper does not cover risks relating to the actual transition to a new system and the re-establishment of regionally based, individual institutions. Alongside the Ministry, we will provide an overview of those risks following further engagement with you, and when there is greater clarity on the implementation pathway to the new system.

Key operational risks

Staffing related risks

10. We consider there are significant staffing risks, given the Government's announcement to disestablish Te Pūkenga. These include:

- a) Greater attrition given the uncertainty and the time it will take to move to a new system, especially since this follows a four-year period where staff have faced ambiguity about their future and staff morale is low.

9(2)(g)(i)

- c) Given the proposal to disestablish Te Pūkenga, many staff in head office or national level roles are likely to leave resulting in a loss of capacity and capability issues (particularly as these resources are likely to be required to help shift to the new system). Most of finance, facilities, procurement, and people and culture have already been centralised (noting some of these people continue to work physically at specific business divisions).

9(2)(i), 9(2)(j), 9(2)(f)(iv)

11. Early indications are that some members of the executive leadership team may leave their positions in the near future. This creates risk through:

- a) A loss of senior management capability and sector experience that will be needed to ensure business-as-usual continues to be delivered.

- b) A loss of knowledge that will help drive the move from Te Pūkenga to regionally based individual institutions.
 - c) Negative media attention and a loss of stakeholder confidence in Te Pūkenga and vocational education and training if there are several high-profile resignations.
12. In September 2023, Te Pūkenga released its new organisation structure decision document. The final structure created 602 new FTE roles and disestablished 401 FTE roles. The recruitment process for the new roles was underway prior to you sending your Letter of Expectations. It has now been halted, and Te Pūkenga has also announced it will not proceed with phase two of its digital group restructure. There are several key risks from these announcements including:
- a) A loss of capability, particularly middle management capability, given the 401 FTE roles have already been disestablished and will not be replaced by new appointments. These disestablishment dates vary by functional area: Office of the Chief of Staff has been fully established as of 4 December 2023; Tiriti Futures (December 2023); Academic Centre and Learning Systems (29 March 2024); Learner, Employer, Experience and Attraction (29 March 2024); Ako Delivery (majority on 8 April 2024) with some later transitions for work-based learning. 9(2)(i)
 - b) If Te Pūkenga wish to re-establish these roles, a further change process will be required, which will take time, cost, and continue to impact on staff morale. It would also mean there is a negative financial impact given the assumed saving of 200 fewer FTEs from the recent restructure (a 9(2)(b)(ii) saving was assumed in the 2024 budget).
 - c) There are some staff that have been appointed in the partial structure (estimated at 60 roles), which will result in ineffective performance, and likely require further change processes to resolve.
 - d) 9(2)(f)(iv)

Stakeholder risks

13. Given your intention to disestablish Te Pūkenga, 9(2)(f)(iv), 9(2)(b)(ii) there are a range of stakeholder risks, including:
- a) Confusion for both current and future learners, including international students, around whether Te Pūkenga will still be operating, whether they can enrol and/or complete qualifications, what support they can access, and whether they will have a high-quality experience. Ultimately this could impact on learner numbers.
 - b) Negative reaction from some employers and industry groups, who may have felt that Te Pūkenga was delivering, or going to deliver, a better experience for them through national engagement and unified programmes. Several large employers had also signed master agreements with Te Pūkenga for their training needs. The uncertainty may cause industry to go to other sub-sectors (e.g. private training establishments already operating in this space). This is a critical risk for sectors important to New Zealand like food and fibre, construction, and related trades, who have been working with workforce development councils on the simplification of qualifications and to ensure structures better suit their respective industries.
 - c) Confusion for industry more generally as to who to deal with to arrange training.

- d) Negative reaction from Māori/iwi, who may have seen Te Pūkenga as delivering better outcomes for Māori and with which they could having a stronger relationship with.

Financial risks

14. Te Pūkenga reported an \$80 million deficit in 2022 and its last formal forecast was for a \$93 million deficit in 2023. The 2023 forecast deficit is driven by a \$185 million loss across its former ITP business divisions, partially offset by a \$101 million surplus across its work-based division. As we outlined in AM-23-00901, Te Pūkenga is not currently operating in a financially sustainable manner and urgent action is needed to address its overall financial performance before its balance sheet is no longer able to sustain the loss-making position. This became a key focus for management over 2023, and a 9(2)(i) million budget deficit was set for 2024 that includes considerable savings. With the pausing of key activity, there are a range of financial risks:

- a) Te Pūkenga is now likely to report a larger deficit in 2024. The budget assumes that 9(2)(b)(ii) in savings would be made from the implementation of the new organisation design and a further 9(2)(i) million in savings were being sought through personnel restructuring across the on-campus business divisions due to lower enrolments. The 9(2)(b)(ii) million in savings will now not be achieved. There were also some other savings assumed in the budget (e.g. lease consolidations) that may also not be achieved. In total, Te Pūkenga has estimated the deficit will now be 9(2)(b)(ii), 9(2)(i)
- b) A potential loss of key capability, increased uncertainty, and indecision may result in weaker cost-control, worsening financial performance.
- c) Given the uncertainty around Te Pūkenga's future, it may negatively impact on Te Pūkenga's enrolment numbers, especially since we are currently in the key enrolment period. This would follow a large decline in domestic enrolments in 2023.
- d) Given the change in direction, there is a risk that Te Pūkenga does not deliver on its strategic component or learning component funding requirements, resulting in funding recoveries.
- e) There are a range of significant property matters that need to be progressed (e.g. the rebuild and remediation of EIT following Cyclone Gabrielle). While Te Pūkenga will need to continue to progress these, there is a risk that during the transition period, deferred maintenance increases and high-priority issues will not be addressed and/or sub-optimal lease decisions are made. The Secretary for Education is currently considering Te Pūkenga's five-year capital plan, which needs to be completed by 31 December 2023.
- f) There is a risk that national level external contracts and agreements will need to be renegotiated, or potentially cancelled, which may have a financial impact and/or impact on operations.
- g) There is a risk of competition from other parts of the sector, particularly in work-based learning (from private training establishments) and for degree-level provision (from universities). The transition period may result in Te Pūkenga not being able to respond commercially to this competition, creating an ongoing revenue risk.
- h) With a larger deficit now expected, reduced cost savings being sought, weaker cost control, and capability issues, it is likely that cash reserves will need to be used to support operations. There is a risk that if its financial performance is not addressed, Te Pūkenga may face liquidity issues in the coming years. Further modelling of scenarios will need to be considered.

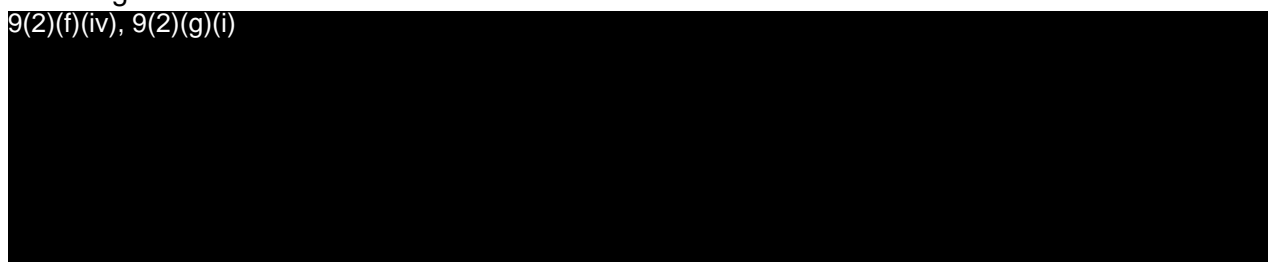
Quality of provision risks

15. There are risks associated with potential disruption to the management of qualification and quality matters in the sector including that:
- a) The process to integrate programmes leading to New Zealand qualifications and generic academic degrees (such as nursing and social work) may stall especially given accreditation was delayed until further detail on Te Pūkenga’s organisation structure was known. This may see industry lose confidence in Te Pūkenga and turn to other sub-sectors (e.g. private training establishments and universities) which would impact on financial performance. It may also result in reduced delivery of health-related programmes, which is a key priority area.
 - b) Quality issues as collaborative academic/quality assurance approaches reduce.
 - c) Engagement with subject matter expertise needed for the development and support of standards, micro-credentials, and qualifications, and for input into quality assurance arrangements, will continue to be difficult due to staffing issues and an uncertain environment.
 - d) Further transition may create uncertainty amongst international quality assurance agencies about New Zealand’s vocational training system particularly where this is further complicated by another rebranding of qualifications.

Legal risks

16. We consider there are several legal risks that Te Pūkenga may face over the coming period, including:

9(2)(f)(iv), 9(2)(g)(i)



Governance risks

17. There are several governance risks that may eventuate, including:
- a) Multiple resignations from council which mean the council does not have the appropriate skills and experience to govern effectively. This may also create negative media commentary.
 - b) The council do not make decisions aligned with your Letter of Expectations or do not effectively govern due to disagreement with the Government’s proposed disestablishment.
 - c) There may be a lack of long-term strategic direction and guidance, given the current uncertainty and the level of change experienced over the past four years.

IT related risks

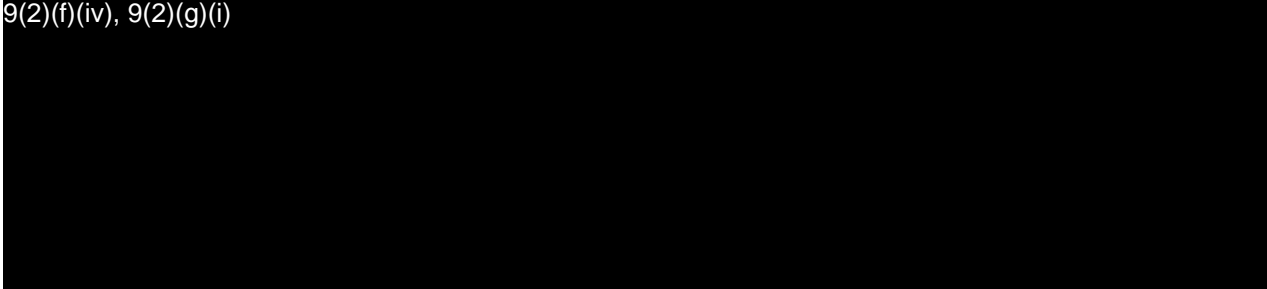
18. Te Pūkenga had recently begun to implement its digital transformation, with activity expected to significantly ramp up over 2024 and beyond. The transformation involved moving from 25 versions of major business systems to single instances of each system. The investment in digital transformation was to be a critical enabler of the level of centralisation and transformation needed by Te Pūkenga to achieve the wider outcomes being sought through moving to a single, national provider. There are several risks from stopping this work:

- a) Many digital platforms were at, or close to, end of life that will require investment decisions. For certain business divisions, this investment will be unaffordable unless Te Pūkenga utilises its national balance sheet. There is a risk that there is IT system failure in some areas.
- b) The move to a new financial management information system (FMIS) was already part way through implementation and it makes sense to continue with this project. If it is stopped, it will be costly, and some business division's finance systems would need urgent support which could not be provided in the required timeframes. This would impact on financial operations and the audit process.

Other operational risks

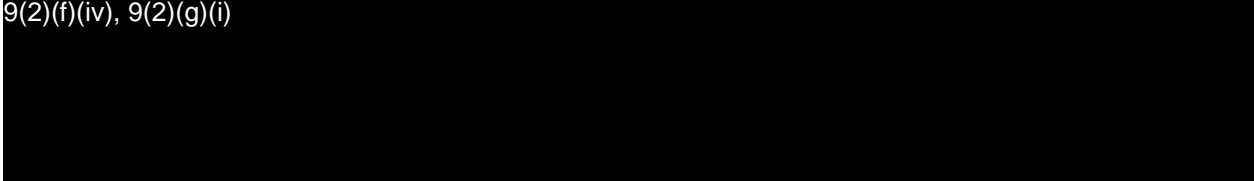
19. We consider there are several other operational risks that may eventuate over the transition period, including:

9(2)(f)(iv), 9(2)(g)(i)



- c) With the move to the new organisation structure only partially complete, and now paused, processes and decision-making may be unclear leading to inefficient and ineffective

9(2)(f)(iv), 9(2)(g)(i)



Next steps

- 20. The initial assessment of risk demonstrates the scope and scale of Te Pūkenga's operations and their place within the system. If a number of these risks eventuate, it could lead to system level risk. The potential impact of this is dependent on what risks eventuate and other contextual factors. Given this, we will be monitoring the overall risk environment very closely over the coming period and we will continue to work with Te Pūkenga to do so.
- 21. With the assistance of Te Pūkenga, we will provide an update to you in due course that provides a more comprehensive list of key risks, their impact, and how they can potentially be mitigated.



Tim Fowler

Chief Executive

Tertiary Education Commission

08 December 2023

A handwritten signature in blue ink, appearing to read 'Penny Simmonds', is positioned above the printed name.

Hon Penny Simmonds

Minister for Tertiary Education and Skills

9/12/2023