

Tertiary Education Report: Agreement for Te Pūkenga to retain operational funding

Date:	09 November 2022	TEC priority:	High
Security level:	In Confidence	Report no:	B-22-00687
		Minister's office No:	

ACTION SOUGHT		
	Action sought	Deadline
Hon Chris Hipkins Minister of Education	<p>agree that Te Pūkenga can retain a forecast \$9.874 million underspend of Integration and Transformation funding past 31 December 2022 on the condition that all funding is spent before 30 June 2023.</p> <p>note this funding is separate to the 9(2)(f)(iv) Te Pūkenga is seeking from Budget 2023 to implement its transformation programme.</p> <p>forward this briefing to the Minister of Finance for his consideration and agreement.</p> <p>subject to approval from the Minister of Finance, sign and send the attached letter to the Chair of Te Pūkenga.</p>	As soon as practicable
Hon Grant Robertson Minister of Finance	<p>agree that Te Pūkenga can retain a forecast \$9.874 million underspend of Integration and Transformation funding past 31 December 2022 on the condition that all funding is spent before 30 June 2023.</p>	As soon as practicable
Enclosure: Yes	Round Robin: Yes	

CONTACT FOR TELEPHONE DISCUSSION (IF REQUIRED)			
Name	Position	Telephone	1st contact
9(2)(a)	Principal Advisor	9(2)(a)	✓
Gillian Dudgeon	Deputy Chief Executive – Delivery	9(2)(a)	

THE FOLLOWING DEPARTMENTS/AGENCIES HAVE SEEN THIS REPORT

- DPMC MPI ENZ ERO MBIE MoE MFAT
 MPP MSD NZQA NZTE TEC TPK Treasury

- Minister's Office to Complete:** Approved Declined
 Noted Needs change
 Seen Overtaken by Events
 See Minister's Notes Withdrawn

Comments:

Recommendations

Hon Chris Hipkins, Minister of Education, Hon Grant Robertson, Minister of Finance,

It is recommended that you:

1. **note** that a funding agreement was established on 31 August 2020 between Te Pūkenga and the Crown, which sets out the terms and conditions of the Crown's investment in Te Pūkenga for its establishment and transformation programme planning, as agreed by Cabinet on 20 July 2020 [CAB-20-MIN-0336 refers].
2. **note** that \$75.74 million in 'Integration and Transformation' funding was provided for the period 1 April 2020 to 31 December 2022 with the Crown funding agreement stating that any funding not spent by that time would be returned to the Crown.
3. **note** that Te Pūkenga expects to have spent \$65.866 million of the Integration and Transformation funding by the end of 2022, which will result in an underspend of \$9.874 million against Integration and Transformation funding provided.
4. **note** that this funding is separate to the ^{9(2)(f)(iv)} Te Pūkenga is seeking from Budget 2023 to implement its transformation programme.
5. **agree** that Te Pūkenga can retain the forecast \$9.874 million underspend (or an amount that is equal to the underspend) of Integration and Transformation funding past 31 December 2022, for the furtherment of its transformation programme in 2023 on the condition that all funding is spent before 30 June 2023.

Minister of Education

AGREE / DISAGREE

Minister of Finance

AGREE / DISAGREE

6. **forward** this briefing to the Minister of Finance for his consideration and decision.
7. subject to approval from the Minister of Finance, **sign and send** the attached letter to the Chair of Te Pūkenga informing him of the decision.
8. **agree** that the Tertiary Education Commission proactively release this briefing once a decision has been made.

Minister of Education

AGREE / DISAGREE



Gillian Dudgeon

Deputy Chief Executive, Delivery
Tertiary Education Commission

09 November 2022



Hon Chris Hipkins

Minister of Education

11 / 12 / 2022



Hon Grant Robertson

Minister of Finance

15 / 01 / 2023

Purpose

1. The purpose of this briefing is to seek a decision from Joint Ministers for Te Pūkenga to retain operational funding it had been contracted to spend by 31 December 2022 past this date.
2. The Treasury supports the recommendations in this briefing.

Background

Cabinet agreed to provide up to \$121 million to support Te Pūkenga's establishment...

3. In 2020, the Government agreed to provide up to \$121 million in Crown funding to support the establishment of Te Pūkenga, build capability, and commence the integration and transformation of the current network, including supporting greater delivery of on-job learning [CAB-20-MIN-0140 and CAB-20-MIN-0336 refer].
4. As per the Cabinet decision, a funding agreement was established between Te Pūkenga and the Crown which set out the terms and conditions of the funding. The funding agreement is dated 31 August 2020 and was signed by the Minister of Finance and the Minister of Education on behalf of the Crown (B-20-00545 refers).

...with the majority of funding provided for integration and transformation planning ...

5. The funding agreement stated that the Crown would pay Te Pūkenga up to \$75.8 million (later confirmed as \$78.74 million) in 'Integration and Transformation' funding. This funding was to be used for the establishment and operation of Te Pūkenga to plan, lead, and deliver the integration and transformation of the current network, including supporting greater delivery of on-job and work-integrated learning, for the period 1 April 2020 to 31 December 2022. The funding has been paid on quarterly basis as operational funding.
6. All Integration and Transformation funding has now been paid to Te Pūkenga, with the final \$5 million payment made by the TEC on 1 October 2022.

...but Te Pūkenga is significantly underspent against the funding provided

7. As we have consistently signalled in our quarterly monitoring reports to the Minister of Education, Te Pūkenga remains underspent against the funding provided. As of 30 September 2022, Te Pūkenga had spent \$53.882 million of the \$70.74 million of Integration and Transformation funding provided. By the end of 2022, Te Pūkenga is forecasting it will have spent \$65.866 of the \$75.74 million provided, resulting in an overall underspend of \$9.874 million.

Te Pūkenga is seeking to retain the underspent funding

The funding agreement stated all Integration and Transformation funding should be spent by the end of 2022...

8. Clauses 2.5 and 2.6 of Schedule 1 of the Crown funding agreement state:

"2.5 If NZIST does not spend or commit the total amount of Integration and Transformation Funding paid by the Crown in any Financial Year, NZIST and the TEC must, each acting reasonably, use their best endeavours to agree on how the unspent Funding will be used in subsequent Financial Years, provided that any such agreement only relate to the use of unspent Funding before 31 December 2022 (being the date by when NZIST is expected to be self-funding)."

2.6 *The declining funding profile in 2022/23 reflects the Government's expectation that NZIST will generate savings, improvements and efficiencies across its network, so that by 31 December 2022 it will operate like any other tertiary education institution and run its operations on TEC funding and other revenue."*

9. Clause 9.1(c) of the Crown funding agreement also states that Te Pūkenga must:

"repay any Funding to the Crown that is not spent or committed in accordance with the terms of this Agreement, which will become a debt due to the Crown."

10. To date, the TEC has allowed Te Pūkenga to continue to retain unspent Integration and Transformation funding across financial years as allowed for under the agreement. However, the TEC considers Joint Ministers, as signatories to the Crown funding agreement, should decide whether Te Pūkenga can retain unspent Integration and Transformation funding past the 31 December 2022 deadline – especially given Cabinet's clear expectation that Te Pūkenga be self-funding from 2023.

...and Te Pūkenga is seeking to retain the unspent Integration and Transformation funding

11. Te Pūkenga has requested that it be able to retain unspent Integration and Transformation funding into 2023. It has assumed in its 2023 budget that this funding will be retained.

12. We noted in our June 2022 quarterly monitoring report (AM-22-00447 refers) that we would provide formal advice on this issue to Ministers in 2022.

Our advice

The need for the Integration and Transformation funding still remains...

13. The key reason for the underspend has been a lack of progress by Te Pūkenga in delivering its work programme, with an inability to ramp up activity over 2020 and 2021. While there has been increased activity over 2022, Te Pūkenga still remains behind where it should be. As such, the need for the funding remains as Te Pūkenga progresses key pieces of work in 2023 (which should have ideally been delivered in 2022) – particularly, the design and implementation of its new organisational structure. It is likely that all underspent Integration and Transformation funding will be used within the first quarter of 2023.

14. Allowing Te Pūkenga to retain the funding does not alter the expectation that Ministers expect it to continue to move towards a self-funding operating model going forward. We have been clear with Te Pūkenga that no further Crown funding (other than its usual TEC funding) will be provided to meet its general operating costs.

...and a further 9(2)(f)(iv) is being sought by Te Pūkenga through Budget 2023...

15. Further investment to support the implementation of Te Pūkenga's transformation programme and to fund IT systems integration will be considered as part of Budget 2023. A Programme Business Case (PBC) was submitted on 31 October 2022, seeking 9(2)(f)(iv) in operating funding for this purpose.

16. The PBC provides a pathway of how Te Pūkenga will return to financial sustainability over the medium-term, 9(2)(f)(iv). Allowing Te Pūkenga to retain the Integration and Transformation funding does not alter Te Pūkenga's request through the PBC. We will provide separate advice to Ministers on the PBC in coming weeks.

...while not allowing Te Pūkenga to retain the funding will increase its 2022 deficit...

17. If Ministers decide not to allow Te Pūkenga to retain the funding, this will have a direct impact on Te Pūkenga's 2022 financial result and increase the size of its expected deficit. Te

Pūkenga's latest forecast for 2022 is for a \$63.6 million deficit. If it is unable to retain the funding, Te Pūkenga is also likely to respond by deferring or delaying some projects or making further cost savings.

18. Nevertheless, the funding agreement does provide for Te Pūkenga to return this funding so Ministers will need to decide whether allowing Te Pūkenga to retain it is a higher or lower priority than other proposed investments.

...but we recommend Te Pūkenga is able to retain its Integration and Transformation funding

19. Given there remains a strong need for the funding, we recommend that Joint Ministers agree that Te Pūkenga can retain any portion of the unspent Integration and Transformation funding to spend in 2023 on the condition that all funding is spent before 30 June 2023. The Treasury agrees with this recommendation.
20. We do not consider any formal change needs to be made to the Crown funding agreement to implement this decision. A letter from the Minister of Education informing Te Pūkenga that it can retain the funds will suffice. A draft letter is attached for the Minister of Education's consideration.

Appendix A: Letter to the Chair of Te Pūkenga

Murray Strong
Chair
Te Pūkenga

By email: ^{9(2)(a)} [REDACTED]

Dear Murray

Agreement to retain unspent Integration and Transformation Funding

A Crown funding agreement was established in August 2020 which sets out the terms and conditions of the Government's \$121 million investment into Te Pūkenga for the 2020 to 2022 period. The funding agreement stated that the Crown would pay Te Pūkenga up to \$75.8 million (later confirmed as \$78.74 million) in 'Integration and Transformation' funding. This funding was to be used for the establishment and operation of Te Pūkenga to plan, lead, and commence the integration and transformation of the current network, including supporting greater delivery of on-job and work-integrated learning, for the period 1 April 2020 to 31 December 2022. The funding has been paid on quarterly basis as operational funding and all funding has now been provided.

Based on information provided on 31 October 2022, I have been advised that Te Pūkenga expects to be underspent against its Integration and Transformation Funding by \$9.874 million at the end of 2022.

The funding agreement required that all Integration and Transformation funding was spent by the end of 2022, as by that time, Te Pūkenga was expected to have established a self-funding model. This has not occurred given a lack of progress, particularly over 2020 and 2021. Nevertheless, it is clear that the need for this funding remains to support key pieces of work as they are progressed in 2023. As such, the Minister of Finance and I have agreed that all unspent Integration and Transformation Funding can be retained past 31 December 2022 on the condition that all of this funding is spent before 30 June 2023.

I expect Te Pūkenga to continue to report on the use of this Crown funding through its quarterly reporting to the Tertiary Education Commission (TEC). As you are aware, I was disappointed with the progress made over 2021 and the first half of 2022. Since that time, I have seen a clear improvement in performance with real progress being made. I expect allowing Te Pūkenga to retain this funding will enable this momentum to continue.

Yours sincerely

Chris Hipkins
Minister of Education

cc. Tim Fowler, Chief Executive, Tertiary Education Commission
Peter Winder, Acting Chief Executive, Te Pūkenga