



Aide-Memoire: Te Pūkenga quarterly monitoring report – December 2021 Quarter

To:	Hon Chris Hipkins, Minister of Education
From:	Gillian Dudgeon, Deputy Chief Executive – Delivery, Tertiary Education Commission
Date:	1 March 2022
Reference:	AM-22-00060

Purpose

1. This aide-memoire provides an assessment of Te Pūkenga’s performance following receipt of its quarterly report for the December 2021 quarter. It also takes into account information received since Te Pūkenga submitted its quarterly report on 1 February 2022 to provide the most up-to-date picture possible. Te Pūkenga’s full quarterly report is attached.

Executive Summary – Te Pūkenga’s business-as-usual performance is satisfactory but the focus needs to be on designing and delivering its new operating model and organisational structure

2. Over the December 2021 quarter, Te Pūkenga engaged with stakeholders on its high-level operating model. A key theme from the engagement was that stakeholders wanted greater clarity on how the proposed operating model will actually work in practise. This included what it means for regional autonomy and delivery, and the impact the new model will have on staff and learners.
3. Te Pūkenga continues to undertake a wide range of activity with progress being made in several areas and aspects of business-as-usual performing well. However, Te Pūkenga has a significant amount of work to do over 2022 to complete the detailed design of its future organisational structure and operating model, plan its implementation, and execute the key changes required before 1 January 2023. 9(2)(g)(i)
[Redacted]
[Redacted]
[Redacted]
4. 9(2)(g)(i)
[Redacted]
[Redacted] While the arranging training function from Transitional ITOs (TITOs) will have transferred into Te Pūkenga’s Work-Based Learning (WBL) subsidiary, no integration into Te Pūkenga will have occurred.
5. Te Pūkenga has begun focussing its attention on the work required to be undertaken in 2022 and a high-level transition pathway was provided to you in December 2021. However, as we noted in our last report, further refinement and rationalisation is required so that the workplan is focussed clearly on the critical activities that need to occur. Te Pūkenga is currently undertaking this refinement, including ensuring all interdependencies are well planned out.

However, this planning is constrained given major design work – such as the organisational structure – remains ongoing. Over the December 2021 quarter, we saw no change to transformation governance or reporting.

6. Te Pūkenga has recently brought in new capability to help deliver on its workplan for 2022. This a pleasing development given it is a key issue we have raised in previous reports. Te Pūkenga will need to ensure that it continually reviews its capability needs as its workplan develops further so that the available skill sets meet the required needs of the transformation.
7. Te Pūkenga had originally planned to submit a Programme Business Case (PBC) to you in December 2021 which outlined its transformation plans, how it would be implemented, and the estimated cost and affordability of these plans. Unfortunately, Te Pūkenga was unable to meet this timeline given a lack of progress in key areas which limited the analysis that could be undertaken. Te Pūkenga is now expecting to submit a PBC to you in mid-2022, following organisational design.
8. Given the lack of progress from Te Pūkenga on delivering its transformation programme, and concerns around the impact this will have on downstream activities, the TEC and Te Pūkenga agreed for a strategic review to be undertaken. The review was led by Murray Jack, assisted by Sir Brian Roche and Belinda Clarke. The purpose of the review is to identify the key strategic risks in relation to the delivery of Te Pūkenga’s transformation programme and outline practical measures Te Pūkenga should consider to address these risks. The report from the review team is due to be finalised in the next week and we will advise you on its findings separately.

Summary – RAG status

Key:

- Low risk
- Medium risk
- 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			Te Pūkenga engaged on its high-level operating model in late 2021. While largely supportive of the overall approach, stakeholders wanted more detail on how the new operating model would work in practise and what it would mean for staff roles and regional representation. Much of this detail was expected to be available at this stage, but now must be developed over 2022. While additional resource has been recruited, there is a significant amount of work to do, and timelines are tight. By the end 2022, Te Pūkenga need to have designed its new organisational structure, begun its implementation and started to move to a new way of working. The next key target is ensuring detailed organisational design and the regional governance model is completed by June 2022.
Programme Business Case			Te Pūkenga had planned to submit a PBC in December 2021 but has now deferred this until mid-2022 to allow organisational design to be completed which will inform much of the analysis required in PBC. The draft PBC that we received in November 2021 needed significant work to meet the Better Business Case requirements and to allow Ministers to make informed decisions. Te Pūkenga has recently brought on specialist expertise to help deliver the PBC but the timelines remain tight.
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. A transfer agreement has been entered into with Service IQ with a transfer to take place in July 2022, while term sheets have been agreed with Primary ITO and Skills Org (for around 60 percent of Skills Org trainees) for transfers to occur in October 2022. Te Pūkenga is also negotiating a term sheet with Careerforce for a September 2022 transfer while discussions are ongoing with HITO.

Capital asset strategy		➔	9(2)(ba)(i) In the meantime, Te Pūkenga is establishing an investment office which will oversee all capital investment across the network.
Network collaboration		➔	Increased collaboration continues to occur across the network, with a range of initiatives underway to increase integration and consistency in policies and approaches – this is on both operational and academic matters. The unification of programmes project continues to progress with some unified programmes being introduced for 2022.
Māori partnerships and equity		➔	Te Pūkenga has recently established its Kaimahi Māori network to provide an inclusive kaupapa Māori space/forum for kaimahi Māori to connect within Te Pūkenga for leadership support and promote cohesion and collaboration across the network. Te Reo me ōna Tikanga Ohu has also been established to assist, guide, and where appropriate, lead Te Pūkenga in strategic matters related to te reo Māori me ōna tikanga. An equity experts group chaired by Meng Foon was established in December 2021 to provide critique and critical thought leadership to the equity team during the development and implementation of Te Pūkenga's Te Tiriti-based equity approach.
Financial performance		⬆	9(2)(ba)(i) Te Pūkenga need to continue to focus on identifying and implementing actions that improve the financial performance of the network and move it towards a financially sustainable position.
Enrolments		➔	Te Pūkenga's total EFTS rose by 3.7 percent between 2020 and 2021, supported by a 13.8 percent increase in SAC and YG funded EFTS. Full-fee international EFTS fell by 51.8 percent. While data has not yet been finalised, Te Pūkenga has delivered 100.2 percent of its SAC Level 3+ funding allocation which means it is eligible to receive an additional \$0.8 million through flexible funding.
Reporting		⬆	Te Pūkenga provided you with an updated work plan and transition pathway at the end of December 2021. However, further refinement and detail is needed so that it focuses clearly on the critical activity that needs to occur over 2022. Te Pūkenga is in the process of refining its critical path for 2022, with further changes to be made as design work is undertaken over the beginning of the year. As this work develops, overall reporting should improve. Te Pūkenga is in the process of developing dashboard reporting to Council which more clearly shows the status of key projects and progress against milestones.
Management		➔	Te Pūkenga has brought on new capability to help drive the operating model work stream – in particular, programme management and implementation expertise. This group will be led by a new Transformation and Transitions Director. Going forward, as Te Pūkenga further develops its workplan for 2022, it will need to continually review and assess its capability needs to ensure it can deliver.
Governance		⬆	Te Pūkenga has recently made changes to ensure the Council remains focussed on strategic issues. This includes ensuring papers are more focussed on strategy and moving to a 2-day meeting approach. Changes are also being made to improve reporting into Council, although further work is needed. It is integral that high-quality reporting on Te Pūkenga's transformation programme is provided to the Council over 2022 given the large amount of activity and decisions that need to be made. Phase two of Te Pūkenga's governance review has now commenced, focussed on governance structure and arrangements, with the final report from this review expected at the end of March 2022.

Te Pūkenga's quarterly report

Te Pūkenga has assessed the majority of its work programme as medium risk...

- Of its 12 work areas, Te Pūkenga has assessed eight as 'amber – some delay, medium risk' with the remaining four areas assessed as 'green – as expected, low risk'. Collectively, this is the same assessment as provided in the September 2021 quarter, but there has been a change at the milestone level. A number of milestones in the December 2021 quarter report

are showing as *'ongoing'* or *'delayed'*. There is limited explanation of the impact of these delays and what the downstream impacts are on its overall work programme and the success of the transformation.

10. While each of the work areas has been assessed in the quarterly report, no assessment of its overall work plan or transformation programme has been provided. We have advised Te Pūkenga that in future quarters, it would be useful for Te Pūkenga to provide an overall assessment of its performance against its work programme/transformation plan.
11. Key highlights mentioned in the December 2021 quarter include the completion of engagement on the proposed operating model, the transfer of MITO into WBL, the development of a vaccination policy, the establishment of the interim advisory committees, the establishment of an equity experts group, further progress on the unification of programmes, and the approval of two learner success initiatives for piloting.

...with Te Pūkenga committing to improve reporting in the next quarter

12. As we have highlighted in our previous updates, the current reporting that is being provided to the TEC does not provide assurance that Te Pūkenga's overall work programme is on track. While it provides a range of information around good activity that is occurring across Te Pūkenga, there is still no clear roadmap to monitor progress against, and the milestones reported against do not easily link to Te Pūkenga's overall work plan. There is limited commentary on the key projects completed to date and what the next steps are.
13. In December 2021, Te Pūkenga provided you with an updated work plan which totals over 50 projects. It also provided a transition pathway document which focusses on the activity that needs to occur over 2022 before the cessation of the former ITP subsidiaries and TITOs by 31 December 2022. We consider these documents were a good first step in identifying what key activity needs to occur but remain concerned that they are still being developed this late into the transformation. Further refinement and detail is needed so that all parties are clear on the key activities that are critical for success and when they need to occur. This work is currently underway and will develop further as additional design activity is undertaken over early 2022. It is paramount that this refinement is robust so that Te Pūkenga can execute its plan and manage the associated delivery risks.
14. Associated with this work is a need for Te Pūkenga to identify the key milestones and targets that it will report against over 2022 to ensure progress can be appropriately monitored and communicated. While some targets for the March 2022 quarter have been identified, these do not link into Te Pūkenga's overall workplan and do not appear to suggest an increase in activity. No full year targets for 2022 have been developed and these will not be reported against until the March 2022 quarter. In its December 2021 quarterly report, Te Pūkenga noted it would refine its reporting over coming months so that it was more focussed on its critical path and aligned with Council reporting. We welcome this development and hope that this reporting provides a much clearer view to stakeholders of Te Pūkenga's overall progress and whether it is on track to successfully deliver the transformation.

Operating model and Programme Business Case

Te Pūkenga has received feedback on its high-level operating model...

15. Te Pūkenga engaged on its draft operating model over late October and early November 2021. A total of 1,300 submissions were received and engagement sessions were held with around 3,000 staff and stakeholders. Overall, Te Pūkenga reported that there was support for the hybrid matrix approach as well as the general principles and aspirations. However, there were concerns around the complexity of the model and why this model was chosen given such complexity.

16. Stakeholders also wanted greater clarity on how the model works in practice, particularly what it means at a regional level and for job functions and staff roles. Many respondents wanted to see the full picture and understand what 2023 and beyond looks like, how Te Pūkenga will get there, and by when. Feedback was also received regarding the engagement process, with stakeholders wanting to be engaged in a way that was more meaningful to them. A summary of the feedback received and how Te Pūkenga is responding to this feedback has been published online.

...with considerable work now needed to add detail to the operating model...

17. A significant amount of work is needed to develop how the operating model works in practice. To deliver this detail, Te Pūkenga has restructured its operating model project into four workstreams. The first two are the transformation workstreams, while the second two are the transition workstreams.

- *Enabling functions acceleration:* This will fast track the design of corporate functions (e.g. finance, legal, people, property) given these functions are not expected to change based on the final design of the operating model. The design of these functions is currently underway with the recruitment of a Chief Financial Officer and Chief Investment Officer expected to be completed by March/April 2022 and staff to be engaged on a new corporate structure in May 2022.
- *Delivery:* This focuses on the detailed design of the operating model functions and their interactions to deliver services to learners and employers. It also includes detailed organisational design, which is expected to be completed by June 2022 with staff consultation to begin in July 2022.
- *WBL integration:* This covers the remaining transition of arranging training from TITOs into WBL as well as considering how work-based learning will be fully integrated into Te Pūkenga (noting WBL is not expected to be wound-up until mid-2023).
- *ITP staged integration:* Te Pūkenga is exploring transitioning some of the former ITP subsidiaries fully into Te Pūkenga in the near future, potentially as early as March/April 2022. This workstream includes the planning and implementation required to achieve this, as well as the design and delivery of regional leadership and its structure.

18. To date, the operating model work has provided a high-level and somewhat theoretical outline of how Te Pūkenga will operate in future. The design of how it will work in practice, and how Te Pūkenga will move from its current state to the desired future state, is a major task and it is critical that it is done well. How Te Pūkenga progresses this work over coming months will be a big determinant of the success of the transformation it is seeking to achieve and its ability to deliver efficiently and effectively to learners, employers and regions.

...and it is critical that Te Pūkenga meets its deadlines...

19. Progress on the transformation to date has been slower than expected, with a lot of creep in meeting delivery targets. This has ultimately led to a compressed delivery timeline as 1 January 2023 nears. To help mitigate this risk, Te Pūkenga is developing a critical path of the core activities that need to occur, their sequencing and when they need to be developed. Nevertheless, the volume of work that still needs to occur is significant and is not to be understated. In some key areas, such as organisational design, Te Pūkenga is still in the data collection phase which is concerning given the interdependences on this workstream.
20. It is important that Te Pūkenga delivers its key programmes of work on, or before, the deadlines it has committed to with regards to the operating model workstream. Any delays in the design of how the operating model will work in practice will further reduce the amount of time it has to implement its new organisational structure and introduce its new ways of working. This will have a direct impact on the overall success of its transformation. It is also

vital that stakeholders and staff are given clarity on Te Pūkenga’s future state as it moves towards 1 January 2023 and the dissolution of the former ITP subsidiaries occurs.

21. Given the tight timelines, we consider there is a risk that milestones are missed or that there is insufficient time to appropriately consult, particularly with regards to staffing roles, and implementing new ways of working. 9(2)(g)(i)

[REDACTED]

...with Te Pūkenga increasing resource to deliver this work...

22. To support this work stream, Te Pūkenga has brought on new capability, largely programme management and implementation expertise. In total, around 20 new people have been recruited to help deliver the operating model workstream, which includes resource from two specialist consultancies. The project team will be led by a new Director of Transformation and Transitions, Stephen Henry, who previously led the establishment of the Workforce Development Councils. However, there remains an ongoing issue of what is defined as ‘transformation’ and therefore the responsibility of the Director of Transformation and Transitions. It is important that there is clarity on who owns and is accountable for delivering the overall transformation.

23. We have been encouraging Te Pūkenga to increase expertise in this area over recent months and are supportive of the action being taken. We are familiar with several of the individuals who have been recruited and they bring many of the required skills. However, the timeframes are tight for them to get up to speed and deliver the work required. It will be important for Te Pūkenga to ensure it has strong oversight of the work being undertaken in this workstream and that the interdependencies with its overall work programme are well managed so integration can occur. Te Pūkenga will also need to ensure it provides adequate internal resourcing to support the project team build off the work completed to date and progress at pace. Finally, it will be essential that Te Pūkenga has streamlined processes for obtaining decisions where they are needed from either the chief executive or Council.

...although we have some concerns with regards to the ‘early mover’ workstream...

24. We understand that the boards of Toi Ohomai and Wintec have expressed interest to transition fully into Te Pūkenga in the coming months. 9(2)(ba)(i)

[REDACTED] Te Pūkenga is engaging with these subsidiaries around being ‘early movers’ but no final decisions have been made. We have some concerns with regards to the early transition of former ITP subsidiaries into Te Pūkenga and will be monitoring this work closely. The nature of these transitions would largely just be a ‘lift and shift’ with the only real change being that they are no longer governed by a board. Instead, they will report directly into Te Pūkenga’s Council.

25. Te Pūkenga considers there are benefits of implementing a staged integration and that it will provide a learning opportunity to help de-risk the approach of all subsidiaries ceasing at the same time at the end of 2022. 9(2)(g)(i)

[REDACTED]

[REDACTED] Thought will also need to be given to how Te Pūkenga remains connected with regional stakeholder needs in the absence of the subsidiary boards and how Te Pūkenga governs these ‘early movers’ so that Council meetings do not become overwhelmed by operational decisions.

...and Te Pūkenga has delayed the submission of its Programme Business Case

26. Te Pūkenga previously committed to submitting its PBC to you in December 2021. On 15 December 2021, Te Pūkenga informed you that it was deferring the submission of the PBC until mid-2022. This was to allow it time to undertake organisational design and further

develop the proposed operating model. Until this design is known, it is difficult to undertake the analysis required for a PBC, particularly around affordability.

27. We reviewed a draft of the PBC in mid-November 2021. Overall, it did not meet the requirements of the Treasury’s Better Business Case framework, nor the Crown funding agreement and we considered substantial work was required. Te Pūkenga needs to provide greater clarity on: what its programme of work entails; why it is the optimal approach to deliver the sought benefits compared to other options; whether it is affordable and how it will be funded; and how Te Pūkenga will manage the programme of work to ensure its successful delivery.
28. The draft PBC did not adequately cover these requirements, and we advised Te Pūkenga that it would be extremely difficult for decision-makers to have confidence in its planned approach and to make informed decisions regarding potential additional Crown funding. In particular, there was no analysis provided on the overall affordability and financial sustainability of the new operating model. IQANZ also undertook an IQA on the draft PBC and had similar feedback, noting that substantial work was required before it would be investment ready.
29. Given the short comings of the PBC, we supported Te Pūkenga’s decision to delay submitting the business case until further work and analysis had been undertaken. Following feedback on the PBC, Te Pūkenga has brought in resource that has experience developing business cases. However, we still consider there is a significant amount of work to be completed to meet the mid-2022 deadline and it will require a sustained increased in effort. The delay also increases the risk that the implementation of Te Pūkenga’s work programme – particularly its operating model workstream – will have progressed quite far down a certain path before Ministers get the chance to consider the costs and benefits of its proposed transformation approach.
30. In its 15 December 2021 letter, Te Pūkenga committed to providing updated timelines for the PBC process. We have recently been engaging with Te Pūkenga on this timeline, but as of writing, this has not been finalised. Having a clear timeline with key milestones will allow progress to be adequately monitored. Te Pūkenga also needs to ensure it engages closely with officials through the development of the PBC and allows time for a thorough IQA process rather than providing it to us at the end of the process as was the case with the most recent version. This requirement is being built into the timeline. We expect Te Pūkenga to provide a timeline to you in coming weeks.

9(2)(ba)(i) [REDACTED]

31. 9(2)(ba)(i) [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

32. 9(2)(ba)(i) [REDACTED]
[REDACTED]
[REDACTED]

Transition of arranging training

Four TITOs have now transferred arranging training into Te Pūkenga...

33. On 1 January 2022, MITO transitioned almost all of its arranging training function into Te Pūkenga (with 40 learners transferring to the MAST Academy). This was the fourth TITO to successfully transition into WBL and the fifth TITO to complete its transition. MITO supports approximately 4,000 apprentices and trainees and more than 3,000 employers in the automotive, transport and logistics industries. MITO's standard-setting and qualification development functions transferred to Hanga-Aro-Rau Manufacturing, Engineering and Logistics Workforce Development Council on 4 October 2021, except for the gas industry which transferred to Waihanga Ara Rau Construction and Infrastructure Workforce Development Council.

...and good progress is being made with a number of other TITOs ...

34. Te Pūkenga remains engaged with five of the remaining six TITOs on potential transitions with good progress continuing to be made. Specifically:

- A transfer agreement has been entered into between Service IQ and Te Pūkenga, with a transfer to take place on 1 July 2022.
- A term sheet has been agreed with Primary ITO with a proposed transition date of 1 October 2022. A transfer agreement is expected to be signed by the end of June 2022, however it will be conditional on several milestones being achieved including confirmation from Primary ITO that its board is comfortable with Te Pūkenga's new operating model.
- A term sheet has been agreed with Skills Org in relation to the transfer of certain programmes and sectors (around 60 percent of Skills Org's learners) with a transfer to Te Pūkenga planned for 1 October 2022. A transfer agreement is expected to be entered into by the end of March 2022 and will include a financial payment being made from Te Pūkenga to Skills Org for IP, fixed assets, systems and transaction costs. The remaining sectors from Skills Org will transition into six PTEs.
- Term sheet negotiations with Careerforce continue with a proposed transition date of 1 September 2022.
- 9(2)(ba)(i)
[Redacted text]

35. Skills Active is proposing to become a PTE although its transition plan is yet to be approved by the TEC Board.

...with work underway on how WBL will integrate with the rest of Te Pūkenga

36. WBL is expected to remain as a subsidiary of Te Pūkenga until around mid-2023, with the exact date of dissolution dependent on the development and implementation of its overall operating model. Te Pūkenga noted in its December 2021 quarterly report that the integration of on-the-job learning will occur through two key mechanisms: the design and implementation of Ako Networks; and the planned unification of programmes for integrated delivery covering all modes of teaching and learning (campus-based, blended, distance/online, and work-based learning). The unification of programmes is expected to occur over the next five years while the timing of the implementation of Ako Networks is currently being established as part of the detailed design of the operating model.

EFTS and financial performance

Total enrolments rose by nearly 4 percent over 2021...

37. Te Pūkenga EFTS rose by 3.7 percent (2,469 EFTS) in 2021. This was driven by a 13.8 percent increase (7,065 EFTS) increase in SAC and YG funded EFTS, which was partially offset by a 51.8 percent decline (4,820 EFTS) in full-fee international EFTS. The percentage increase in SAC and YG funded EFTS for the full 2021 year was slightly lower than reported at the August 2021 Single Data Return (SDR). There was some easing in enrolment growth over late 2021, which is at least partly due to the impacts of the COVID-19 lockdowns.
38. Te Pūkenga’s final SAC Level 3 and above funding allocation for 2021 was \$516.2 million, up from \$463.3 million at the beginning of the year, with additional funding provided throughout 2021 in response to strong enrolments. While data is yet to be finalised, Te Pūkenga delivered \$517.0 million or 100.2 percent of its SAC Level 3+ funding allocation in 2021. Te Pūkenga is therefore eligible to receive an additional \$0.8 million in flexible funding.

...with financial performance well ahead of budget...

39. 9(2)(ba)(i) [REDACTED]
40. The improvement relative to budget is being driven by two large movements at Ara and Te Pūkenga’s head office:
- 9(2)(ba)(i) [REDACTED]
 - [REDACTED]

41. 9(2)(ba)(i) [REDACTED]

...and WBL is providing additional support to Te Pūkenga’s overall result...

42. 9(2)(ba)(i) [REDACTED]

...but a larger deficit is budgeted for 2022...

43. Te Pūkenga has budgeted for a deficit of \$68.8 million (6.2 percent of revenue) in 2022, although this does not include WBL. Revenue is budgeted to increase by 0.9 percent on the back of a 4.1 percent increase in total EFTS. Domestic EFTS are budgeted to increase by 7.0 percent. These enrolment forecasts are aggressive and, as a result, we consider there are downside risks to the budgeted deficit. Expenditure is budgeted to increase by 4.2 percent, largely on the back of increased personnel costs with FTE numbers budgeted to increase by 2.4 percent. Only four subsidiaries are budgeting for surpluses, although three of these are under 0.6 percent of revenue.

44. Te Pūkenga’s SAC Level 3 and above funding allocation for 2022 is \$522.4 million, which is up slightly from 2021 delivery of \$517.0 million. We expect to receive initial information on how enrolments for 2022 are tracking at the end of February and will update you at that time. While still early in the enrolment process, anecdotal information suggests that provider-based enrolments are down compared to a year ago.

...with work continuing on a financial strategy

45. As mentioned last quarter, Te Pūkenga has commenced work on a financial strategy. Given the forecast for ongoing deficits, it is important that sufficient resource and effort is put into developing a strategy that will help move Te Pūkenga towards financial sustainability. Te Pūkenga note that the financial strategy will also underpin Te Pūkenga’s fees strategy and implementation.

46. Related to this is a continuing need to improve financial reporting and analysis^{9(2)(ba)(i)}

[REDACTED]

Council and management performance

There remains significant underspend of the Crown funding provided to Te Pūkenga...

47. Over the December 2021 quarter, Te Pūkenga spent \$8.0 million, in line with the \$8.0 million in Crown funding provided for the quarter. However, it was below the \$10.3 million that Te Pūkenga had forecast to spend over the quarter. Over the full 2021 year, Te Pūkenga expenditure is forecast to be \$15.8 million less than budget.

48. Te Pūkenga continues to remain significantly underspent against the Crown funding provided to implement its transition and transformation programme. Of the \$65.3 million in Crown funding provided as at December 2021, only \$27.0 million is expected to be spent. This equates to a shortfall of \$38.3 million (or 59 percent) against the Crown funding provided.

49. Te Pūkenga has attributed the lower than budgeted expenditure to delays in recruitment of key staff and in starting projects per budget timelines. As we have noted in the previous two quarters, there is no commentary on what specific projects that were budgeted to occur were delayed. It would be helpful to understand this detail and the impact this will have on the 2022 workplan. We recommend Te Pūkenga includes such commentary in future reports. Nevertheless, the overall underspend supports that a significant acceleration in activity is needed to effectively deliver on its transformation programme over 2022.

50. As part of the July 2020 Cabinet decisions (CBC-20-MIN-0067 refers), the Crown agreed to provide up to \$20 million in capital funding for the establishment and operation of key systems, with \$4 million paid immediately and the remaining \$16 million to be paid on Ministerial endorsement of an appropriate business case^{9(2)(ba)(i)}

[REDACTED]

...while overall staffing numbers remained steady over the quarter...

51. As at the end of 2021, there were 133 staff working for Te Pūkenga’s head office, similar to the 137 reported in the last quarterly report. This still represents a significant increase on the 70 staff noted in the June quarterly report. As mentioned last quarter, only 11 of these staff are permanent with the majority being fixed term (62) or seconded from the network (55).

52. As noted above, Te Pūkenga has recently brought on new resource to help deliver the operating model workstream so a further increase in staffing numbers will be noted in the March 2022 quarterly report. As Te Pūkenga continues to refine its workplan and the critical activities it needs to undertake over 2022, it will need to continually assess its capability needs to deliver on that plan.

...while the Council has made some changes to improve its effectiveness...

53. In our recent monitoring reports, we have raised concerns about the large number of papers being provided to Council each month and its ability to remain focussed on strategic issues. We have also noted an urgent need to improve reporting to Council on its transformation programme so that there is clarity on progress, where any slippage is occurring, and how the associated impacts and risks are being managed.

54. Te Pūkenga has begun making changes in both areas. The papers provided to Council in February 2022 were more focussed on the key issues rather than routine operational matters. Furthermore, Council has now moved to meeting six-weekly rather than monthly but meeting for two days instead of one. One day is allocated to its ordinary meeting and the other day to workshoping strategic issues. We understand this led to more focussed discussion at its early February Council meeting. It is pleasing to see these changes being made and improvements should continue to be sought. However, given the significant amount of work to be undertaken and the wide range of decisions that Council will need to make in 2022, moving to six-weekly meetings will require careful organisation of the Council workplan. Management will also need to ensure it delivers on this workplan so there are no undue delays.

55. Management has begun to implement improved programme reporting to provide greater clarity on progress and risks across projects. This is a long overdue development. Management will need to continue to enhance its reporting so that Council is clear on what the key issues are and how they are being managed and any associated downstream impacts. Reporting will also need to be aligned with ongoing changes that are being made to Te Pūkenga's workplan.

...with an additional review of governance currently being undertaken

56. In Te Pūkenga's transitional statement of intent, Te Pūkenga committed to having an external review of its governance arrangements undertaken, including the effectiveness of its Council. Over the December quarter, Te Pūkenga contracted the Institute of Directors to undertake a review of subsidiary boards and the Te Pūkenga Council. The review was based off an online questionnaire and interviews with Chairs. An overview of the results of this review was provided to you on 16 November. For the Te Pūkenga Council, this reflected members' comments on the Council's effectiveness rather than an independent assessment.

57. Phase two of the governance review has now commenced, led by Belinda Clark and Dame Karen Sewell, which focusses on governance structure and arrangements. The results of this review are expected next month. We would expect the Council to put together a work plan to address any issues identified in both reviews to ensure governance is fit-for-purpose.

Key strategic risks

58. In its December 2021 quarterly report, Te Pūkenga outlined eight key strategic risks and associated mitigations, which are set out below. A new risk has been added around ensuring a smooth transition of educational delivery. Te Pūkenga's key strategic risks and mitigations (as identified by Te Pūkenga) are outlined in the following table. All of these risks are owned by the Chief Executive. We encourage Te Pūkenga to continue to review their mitigations to ensure they are addressing the relevant risks.

59. While we agree with the risks that are presented in the table below, we consider there are two key additional risks that are not mentioned. 9(2)(g)(i)



Risk	RAG	Mitigation
The successful management of and delivery on Te Tiriti expectations and obligations		<ul style="list-style-type: none"> • Dedicated team addressing Te Pae Tawhiti across the subsidiary network and within Te Pūkenga, and a quality assurance mechanism within work plan deliverables. • Dedicated team leading projects on Tiriti in Practice and Māori-Crown Relations and a comprehensive programme of work that is part of our work plan. • Te Tiriti Excellence (Tiriti Partnerships and Equity) included within our pathway.
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 come the date of dissolution of each ITP "Day 1"		<ul style="list-style-type: none"> • Te Pūkenga Chief Executive regularly convenes CE meetings, with CEs across all 16 ITP subsidiaries in attendance. • Leveraging off the skills and expertise already in ITP subsidiaries. Employees seconded to Te Pūkenga from the network enables collaboration between ITP subsidiaries, sharing knowledge and ideas. • Established interim advisory committees (learner, staff, and Māori) to inform effective planning and decision making, and equity network groups established across the network. • Several new strategies and frameworks in development to inform good practice across the organisation, including an Ako Teaching Framework, Product Development Excellence Framework, and a Unification & Equity Strategy. • Capital Asset Management Strategy completed. • Readiness plan for the network (Change and Engagement Plan) presented at the end of 2021. • Transition programme for the unification of programmes across the network being established. • Planning underway for the dissolution of subsidiary boards and the new structure for 2023. • ITP early mover developed as part of the Operating Model programme.
Educational delivery is transitioned in a smooth and efficient manner, including the transition to unified programmes of study		<ul style="list-style-type: none"> • Programme unification for Te Pūkenga programme portfolio is phased and understood over the next 5 years and resourcing to support this is in place (UFS strategic funding). • Product development capability is networked into a coordinated function as we transition to the new operating model to ensure the development of unified resources is effectively coordinated. • Approved learner transition plans are in place to support learners, staff and employers are supported to move from existing programmes to unified programmes of study, and existing learners are not disadvantaged with these changes. • Work has commenced on Te Pūkenga financial strategy, which will underpin Te Pūkenga fees strategy and implementation. Any changes to learner fees are well communicated, and existing learners are not disadvantaged with these changes.
The continuation of BAU for staff/ learners/ employers within TITOs through transition period and beyond		<ul style="list-style-type: none"> • Leveraging off skills and expertise already in TITOs. A 'lift and shift approach' with TITOs mitigated risk for the first four early movers in 2021, with the final early move effective from 1 January 2022. • Continued project management, business planning and governance is supporting the work programme. • Te Pūkenga Risk Framework document approved and introduced to WBL subsidiary. • Monthly reporting provided to RoVE on project progress.
Interdependencies with Workforce Development Councils (WDCs), Regional Skills Leadership Groups (RSLGs), NZQA, TEC, other providers		<ul style="list-style-type: none"> • Regular engagement with stakeholders to understand timing of initiatives and mitigate any risk of delays due to RoVE decisions we have no control over (e.g., establishment of WDCs, RSLGs, and the Unified Funding System). • Recruited Director Strategy and Information and Chief Advisor to the Chief Executive to increase focus on key strategic pathways and engagement with relevant stakeholders. • Te Pūkenga CE currently sits on the RoVE Programme Board. Te Pūkenga has three representatives on the RoVE Design Authority. RoVE Director is a member of Te Pūkenga Programme Board. Monthly reporting is provided to RoVE on project progress.
The retention of key staff and strategic recruitment of new staff at Te Pūkenga and ITP subsidiaries		<ul style="list-style-type: none"> • Change management work underway to manage this risk with ITP subsidiaries. • Risk managed in transfer agreements for each TITO and the transition of the TITO into WBL and changes within the WBL subsidiary are kept to a minimum until the Operating Model and implementation plan is developed. • Regular Te Pūkenga staff survey (Aromātai Kaimahi) helps to identify what is working well and opportunities for improvement in staff safety and wellbeing.

<p>Receiving sufficient funding and effectively and efficiently controlling spend and allocation of resources</p>		<ul style="list-style-type: none"> • Provision of a \$50m contingency fund has been established by the Crown to support subsidiaries. • Treasury Policy developed and implemented, including Intra-Group lending agreement to allow for redistribution of funds across the sector (loans and deposit). • Borrowing facility of \$125m established with Westpac. • Collaborative purchasing arrangements initiated. • Monthly consolidated financial statements produced (including reforecasts) across the sector (including individual subsidiary results). These are available for all subsidiary CFOs to see. • Provision of solvency ratios and financial ratios has been made to simplify understanding. • Te Pūkenga has provided guidance to subsidiaries on budget assumptions. Centralised review and approval of subsidiary budgets established. • Te Pūkenga has monthly monitoring meetings with the TEC.
<p>Authentic and real transformation in equity for priority learners</p>		<ul style="list-style-type: none"> • Draft Operating Model informed by Te Rito reports and learner and staff personas to enable success by speaking directly to the needs identified by learners, and high-level functions required to deliver equity. • Development of a Learner and Whānau Success Strategy (L&WSS) commenced. The objective is an equity-minded design for tertiary experience to increase access, participation, wellbeing and outcomes for underserved learners to address the needs and requirements identified by learner, whānau, iwi and staff; to enable learner success and achieve parity for underserved learners. • The work plan incorporates projects mapped to learner needs as identified in our Te Rito reports, which guide the design and implementation of the projects to ensure learners are at the centre of Te Pūkenga mahi. • Two Te Tiriti Futures equity projects underway (Pūhoro STEM Academy Partnership and Tokona Te Raki Equity Labs) that focus on equity and inclusion for Māori learners through partnerships with Māori.

Next steps and future reports

60. Our next formal quarterly update to you will be in May 2022 after receipt of Te Pūkenga’s quarterly report for the March 2022 quarter. However, we will update you in coming weeks on the results of the strategic review as well as provide an update on indicative enrolments in March.
61. 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

1 March 2022



Hon Chris Hipkins

Minister of Education

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