

Aide-Memoire: Te Pūkenga quarterly monitoring report – June 2022 quarter

To:	Hon Chris Hipkins, Minister of Education
From:	Gillian Dudgeon, Deputy Chief Executive – Delivery, Tertiary Education Commission
Date:	19 August 2022
Reference:	AM-22-00447

Purpose

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

Executive summary

2. Over the past six weeks, there have been several notable changes with respect to Te Pūkenga's management and the priorities within its transformation programme. This follows Chief Executive Stephen Town going on personal leave on 8 July 2022 and Peter Winder becoming Acting Chief Executive. Stephen Town resigned as Chief Executive on 17 August 2022.
3. In the weeks following Mr Winder's appointment, Te Pūkenga undertook a critical assessment of its work programme, with a focus on 'day 1' success. As a result, Te Pūkenga has reset its transformation programme, rationalising only those activities management consider critical and that need to occur by 1 January 2023. As part of the reset, Te Pūkenga delayed the planned consultation of its new organisation design as it sought to develop a more simplified model, address financial sustainability concerns, and reduce transition risks.
4. To deliver the critical activities, Te Pūkenga has developed an action plan with 11 key actions. The action plan responds to feedback from both the TEC and you, including an increased focus on improving financial sustainability. Performance against the action plan will be a key focus of the TEC's engagement and monitoring activity over the remainder of 2022. To reflect the change in focus, Te Pūkenga is also revising the Programme Business Case (PBC) it submitted on 30 June 2022. It intends to submit an amended PBC to you in October 2022.
5. On 15 August 2022, Te Pūkenga released a proposed high-level organisational design to staff, who will have three weeks to provide their views on the structure. In addition, a change proposal was released which proposes disestablishing the current executive team and creating 17 new positions as part of a new executive structure to support the entire Te Pūkenga organisation. No direct job changes are proposed for the balance of Te Pūkenga's 13,000 staff. Further organisational change will occur over time as part of a phased approach, although the exact timelines for this work remain unclear.

6. By the end of October 2022, Te Pūkenga plan to have transitioned all Institute of Technology and Polytechnic (ITP) subsidiaries into Te Pūkenga and the ‘arranging training’ function from 9 Transitional Industry Training Organisations (TITOs) into Work-Based Learning Limited (WBL). These transitions will be ‘lift and shifts’ in the first instance, with greater integration and transformation set to occur over 2023. The detailed timing and dependencies of that integration and transformation are still being developed.
7. Overall, we consider the reset of the work programme, and the proposed action plan, is a significant improvement on the previous approach. It should provide greater focus and reduce complexity. Nevertheless, a considerable amount of work still needs to be completed over the next four to five months given most of the activities in the action plan should have been identified, designed, and delivered (or at least commenced) over the past two and a half years.
8. Given the recent changes, the original vision of 1 January 2023 has changed. While we consider the new transition plan is more achievable, it will likely result in the network largely operating in the same way as previously in the short-term, albeit with the head office having greater control to drive change. We acknowledge that the transition of these entities is a necessary step towards future transformation – however, the overall failure of Te Pūkenga to progress key areas of work over the past two years means it will still be some time before the key benefits sought from the establishment of Te Pūkenga will be realised.
9. The action plan has a clear focus on improving Te Pūkenga’s financial performance. Based on data for the year to May 2022, Te Pūkenga is forecasting a \$90 million deficit for 2022, down from earlier forecasts of \$110 million. A concerted effort is being made to reduce the deficit to a level closer to the budgeted deficit of \$56.6 million. Te Pūkenga has implemented several initiatives to help reduce the deficit which we will continue to monitor closely.
10. Given the forecast savings, Te Pūkenga is likely to be underspent against the integration and transformation funding provided by the Crown for the 2020 to 2022 period. Under the Crown funding agreement, this funding must be spent before the end of 2022 or be returned to the Crown. You may wish to consider allowing Te Pūkenga to retain unspent funds past 31 December 2022. We will provide you with formal advice on this issue later in the year.

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 has made significant changes to its organisational design and transition plans over the past month. Previous plans to consult on all positions in 2022 has been stopped, with only the executive structure currently being consulted on. Further changes will be proposed and consulted on in future as part of a staged approach to integration, but the timelines are unclear. A business group structure and a framework for regional delivery has been proposed but this work remains in its early stages and limited transformation will have occurred by 1 January 2023. Overall, the recent changes have put the implementation of the operating model further behind schedule, although we consider the new transition plan is more sensible. However, there remains a considerable amount of work to undertake in a short period of time. Our confidence in both the critical path to implement the model, and the change processes aligned to this, will be the key drivers of an improved rating next quarter.

Programme Business Case		↓	Te Pūkenga submitted a PBC to you on 30 June 2022. However, given the recent reset, it plans on revising key elements of the PBC. This includes amending the financial case, reflecting changes made to the organisation design, and providing greater optionality on its transformation programme so Ministers can better understand the trade-offs being made. The intention is that an amended PBC is submitted to you in October to meet timelines associated with Budget 2023. We support the changes being made as they will hopefully address several of the concerns we have raised on the PBC. However, timelines remain tight to undertake the required analysis and rewrite the business case.
TITO Transitions		↑	ServiceIQ successfully transferred its arranging training activities into Te Pūkenga's WBL subsidiary on 1 July 2022. Preparations are underway for the transfer of HITO and Careerforce in September 2022, and Skills Org s9(2)(b)(ii) and Primary ITO in October 2022. There has been increased nervousness from some industries yet to transition because of the recent changes. The key issue now is for Te Pūkenga to resolve how WBL, and work-based training more generally, integrates with Te Pūkenga and provider-based/online learning. These decisions are a key part of maintaining the confidence of industry.
Capital asset strategy		→	As part of Budget 2022, Te Pūkenga was provided \$40 million in Crown funding to address high priority building issues. Te Pūkenga is currently preparing a capital plan for the TEC that outlines what projects will be prioritised for delivery with the Crown funding. In addition, Te Pūkenga continues work on examining space optimisation and strategic space planning across the network. As part of the reset, Te Pūkenga is keen to identify assets for divestment to help fund its transformation programme and support overall sustainability.
Network collaboration		→	Collaboration initiatives continue across Te Pūkenga, including identifying and implementing best practise initiatives from across the network and supporting network wide projects such as the unification of programmes. Nevertheless, given the broader lack of progress to date, we consider collaboration across the network remains minimal compared to where it should be, with most subsidiaries continuing to operate as individual institutions. A significant culture change still needs to occur to ensure all parts of Te Pūkenga network are working as one. This is unlikely to begin to occur until a new organisation structure is in place.
Māori partnerships and equity		↑	Significant activity continues to occur in this area. Te Pūkenga's Te Pae Tawhiti Tiriti Excellence Framework continues to be enhanced, a Mātauranga Māori Framework is being developed, and a wide range of engagement with iwi, hapū, and Māori is occurring. Te Pūkenga's 10-year Learner Success and Equity Strategy was approved by Council over the quarter and will form part of the PBC and Investment Plan. It seeks to achieve parity for learners within 6 to 7 years, dependent on funding. While the strategy is comprehensive and ambitious, the key will be translating it into a robust implementation plan.
Financial performance		→	Based on data for the year to May 2022, Te Pūkenga is forecasting an \$89.6 million deficit in 2022. As part of the overall reset, Te Pūkenga is working hard to reduce the size of the deficit to be more in line with the budgeted group deficit of \$56.6 million. A revised full year financial forecast is expected to be adopted by Council at the end of August. Further work is also being undertaken on how Te Pūkenga can return to surplus as soon as possible over coming years. Significant attention needs to be given to developing a robust and well thought out financial strategy which outlines how performance will be improved.
Enrolments		→	Te Pūkenga EFTS fell by 12 percent between April 2021 and 2022. This was driven by a 10 percent decline in SAC/YG funded EFTS and a 45 percent decline in full-fee international EFTS. Enrolments are well behind budget, which had assumed a 4 percent increase in EFTS. Student numbers within WBL are up 8 percent compared to a year ago. We will receive updated results from the August SDR in early September 2022.
Reporting		→	Given the recent reset of the work programme, limited information was provided in the latest quarterly report with much of it out of date. Te Pūkenga is currently updating its work plan to reflect recent changes and to clearly focus on the key activities that need to occur over the remainder of 2022. We expect to see further detail developed so that progress can be appropriately reported on to the TEC and the Council. This should include clear milestones and targets. Overall, there continues to be a need for reporting to the Council to improve – an issue that was picked up in the recent external Governance review.

Management		↓	Peter Winder was appointed Acting Chief Executive on 8 July 2022 and has brought increased focus to the activity that needs to occur in preparation for 1 January 2023. As part of the reset, Te Pūkenga will need to review its capability needs to ensure it has the skills required to deliver. The Acting Chief Executive is currently consulting on a change proposal which proposes disestablishing the current executive leadership team and appointing a new executive structure. It is important the new executive team has the required tertiary education and transformation experience to deliver on the significant amount of work required over coming years.
Governance		↓	Given the lack of progress to date and the need for a fundamental reset of its work programme, the Council must ensure it is appropriately holding management to account on its performance and monitoring overall progress. We also expect the Council's workplan to be adjusted to reflect the new action plan and that there are only four months left in the year. An external review of Te Pūkenga's governance arrangements was undertaken over the first half of 2022, and a range of recommendations were made in June 2022. s18(d) [REDACTED] The Council is yet to formally respond to the review but has begun to implement some of the recommendations. We expect an action plan to be developed to address the recommendations as a matter of urgency.

Reset of the work programme and a new action plan

An Acting Chief Executive was put in place in early July 2022...

11. On 8 July 2022, it was announced that the Chief Executive of Te Pūkenga, Stephen Town, would be going on personal leave and Peter Winder would become Acting Chief Executive effective immediately. As part of this process, Mr Winder resigned from his position as a Council member of Te Pūkenga and as the Chair of Unitec Institute of Technology/Manukau Institute of Technology. On 17 August 2022, Stephen Town resigned as Chief Executive.

...and he set quickly about simplifying the work programme...

12. Following his appointment, Mr Winder immediately set to work to review all activity being undertaken and to set aside any activities that were not mission critical for 1 January 2023. On 12 July 2022, he announced that the previously planned consultation on the organisation design (due to begin on 19 July) was to be delayed. This delay was to allow time for a focussed reset that would enable Te Pūkenga to develop a plan to address its financial position and other key concerns – in particular, the complexity of the proposed organisation design and the implementation risks associated with it.
13. On 21 July 2022, the Chair and Acting Chief Executive apologised to staff regarding the lack of progress to date and for not utilising the expertise across the network to best advantage over the last two years. They committed to being more open and transparent, to increase the pace of work, and to seek expertise and guidance more actively from the network.

...with a new action plan recently developed...

14. As part of its quarterly report, Te Pūkenga has set out the following 11 actions which focus on the structural and staffing changes required for 1 January 2023, financial sustainability, and creating a more efficient network by adjusting the mix of provision to be more focussed on work-based delivery:
 - 1) **Organisation structure:** re-assess current design of organisation structure, including its fit with the minimum viable product (MVP) and the overall accountabilities, and ensure clarity of design at different horizons.

- 2) **Implementation approach:** based on design, determine best implementation pathway for transition, integration, and transformation moves. This is likely to involve staggered implementation, rather than big bang, and accelerating some components.
 - 3) **Financial savings and controls:** identify savings for 2022 to return the organisation to budget (\$56.6 million deficit) and putting actions in place for future years.
 - 4) **Mix of provision:** develop plans for transition to integrated on-job, off-job, and online provision.
 - 5) **Unified collective agreements:** determine employment implications of moving to integrated delivery and expedite shift to unified collective agreements.
 - 6) **Technology:** identify zero-regrets foundational projects that are critical for integration into new structure and for future transformation (e.g. integrated learning management system) and establish initial team to drive these projects.
 - 7) **Marketing drive:** support network to increase enrolments and employee sign-ups, as well as expanding employers engaged with VET system, to maintain volume.
 - 8) **Programme Business Case:** redo business case to reflect changes and investment required, based on changes made to organisation structure, mix of provision and financial savings and controls.
 - 9) **Property:** stand up teams to deal with priority buildings and begin disposals process for surplus assets.
 - 10) **Value proposition:** define core Te Pūkenga value proposition i.e. its distinct place in the market and new value for industry, employers, students, whanau, and communities.
 - 11) **Performance and outcome measures:** finalise framework currently in development, in conjunction with the update to the PBC.
15. Te Pūkenga has noted that as part of implementing the action plan, all other transformation activities are to be stopped or deferred. We will be looking for evidence of this changed focus in our engagements with Te Pūkenga.
16. Overall, we consider the reset of the work programme, and the proposed action plan is a significant improvement from Te Pūkenga's previous direction of travel. We have previously advised that Te Pūkenga was undertaking a wide range of activity but that its overall workplan was not focussed on the critical activities that needed to occur by 1 January 2023. The above action plan should provide greater focus and reduce complexity.
17. Nevertheless, the action plan shows that there is a significant amount of work to be done over the next four to five months. Much of the above should have been identified, designed, and delivered (or be in the process of being delivered) over the past two and a half years. The TEC understands that Te Pūkenga has the capacity to focus on this plan, given the re-prioritisation of staffing roles, but our concern lies with whether there is sufficient capability to do so and whether the required information is readily available, given the compressed delivery window. This is an issue we will continue to engage with Te Pūkenga on.
18. Given the previous workplan has been put aside, the action plan will be our key monitoring focus for the rest of 2022. We expect regular reporting from management to the Council on the action plan and for the TEC to be updated frequently.

...with consultation on new executive positions and business group structure underway...

19. In mid-June 2022, Te Pūkenga provided the TEC with a draft of its organisation design. Based on this material, the TEC provided feedback that the proposed structure appeared complicated, with underlying accountabilities unclear, and that it was difficult to understand how delivery in the regions would be undertaken. It also did not provide clarity on how greater integration of

work-based learning would be achieved nor conformation on whether the new structure would be financially sustainable going forward.

20. Following the change in leadership, Te Pūkenga has reassessed its organisational design and implementation plans and has landed on a more simplified approach. Te Pūkenga considered that the previous transition pathway where every position would be consulted on over July/August 2022 carried too much risk and was likely unachievable.
21. On 15 August 2022, the Acting Chief Executive released a change proposal to disestablish the current executive leadership team and establish 17 new executive level positions (8 of which would be co-leaders of the four regions). Final decisions are due to be made in late September with the new structure effective from the beginning of December 2022. An organising model was also proposed to the wider network at this time outlining how regional delivery would work and the four regions Te Pūkenga propose to use. This included an overview of the new business group structure.
22. Following the executive structure being confirmed, Te Pūkenga will release a series of specific change proposals as part of a phased approach to integration. These proposals will focus on individual functional areas or on a tier of management. The timeline for these changes remains unclear.
23. We consider the new high-level structure being proposed is clearer than the previous version and more achievable. The staggered implementation approach, whilst it does not achieve the level of change sought in the near term, significantly de-risks the transition and we consider this an appropriate step to take given the lack of progress to date. The main integration and transformation of vocational education and training will take time to deliver. As such, it is difficult to assess the overall financial implications of the new proposed structure and whether it will meet the proposed investment objectives.
24. Retaining the confidence of industry through the integration process and providing evidence of a strong understanding of industry training in its operating model decisions will be crucial to Te Pūkenga being able to retain and grow this core part of its new business model. The Acting Chief Executive is aware of the nervousness of some TITOs yet to transition and is taking direct steps to address this. In any event, once final decisions on the structure are made, the first critical task is building a new executive team with the capability to advance the revised action plan.

...while Te Pūkenga intend to transition all ITP subsidiaries by the end of October...

25. To date, Te Pūkenga has taken a passive approach to the transitions, waiting for ITP subsidiary boards to recommend transitioning into Te Pūkenga before the end of 2022. This was the case with Toi Ohomai and Wintec, which transitioned into Te Pūkenga on 31 May 2022. Under the reset, Te Pūkenga will now be taking a more directive approach and is currently in the process of confirming transition dates with all remaining subsidiary boards. Te Pūkenga is planning for WelTec and Whitireia to transition at the end of August and the remaining 12 ITP subsidiaries to transition across in two even tranches at the end of September and October.
26. The transfers essentially remove the existing boards of the ITP subsidiaries and undertake a 'lift and shift' of current operations. s9(2)(g)(i)
[REDACTED]
[REDACTED] This will be important for not only driving the transformation, but also for improving financial performance.

...and initial work is being undertaken on the mix of provision...

27. Te Pūkenga has begun reviewing its mix of provision to establish if it can be delivered in a more cost-effective manner and programme duplication can be reduced. This work includes examining programmes that are not viable or where a different delivery approach will be needed. However, this will require significant analysis given the expectation that future delivery

will look considerably different to historical delivery. Programmes that may not have been viable at an individual ITP level, may be viable in a national, integrated model.

28. Te Pūkenga is also developing a plan to transition to more integrated on-job, off-job, and online learning. The lack of work undertaken on this to date has been an ongoing concern and we have raised this in previous advice to you and in our engagements with Te Pūkenga. The quarterly report notes that WBL has only just commenced a change programme to oversee its integration into Te Pūkenga. WBL is expected to remain a separate subsidiary until mid-2023.
29. Te Pūkenga needs a clear plan of how it will move from two separate systems to a single, unified model that has a greater focus on work-based learning. This work needs to be progressed quickly as it is at the heart of the changes Te Pūkenga needs to make to achieve the desired outcomes of the reforms – acknowledging that it will take time for the benefits of integration to be realised. s9(2)(g)(i)

...a Programme Business Case was submitted to you on 30 June 2022 ...

30. Te Pūkenga submitted its PBC to you on 30 June 2022 seeking s9(2)(b)(ii) in additional Crown funding. We provided you with initial advice on a draft of the PBC on 14 June 2022 (AM-22-00293 refers). There were only minor changes between the draft PBC we reviewed, and the final submitted to you on 30 June 2022.
31. Following the reset of its work programme, Te Pūkenga intends to substantially revise the PBC. Changes are expected to be made to the financial case, including outlining a more comprehensive and credible plan on how Te Pūkenga will be financially sustainable going forward. We also expect greater clarity and optionality on the costs of the transformation programme to be provide, with changes made to both the quantum and composition of the proposed investment from the Crown. Amendments are also expected to be made to reflect the new organisation design.
32. We consider making these changes is sensible given the PBC provided no clarity on Te Pūkenga’s new organisation design, financial sustainability was based on continued enrolment growth, and there was no commentary on how Te Pūkenga would integrate on-job, off-job, and online delivery. There was also limited optionality on the request for Crown funding. Nevertheless, this is a further delay to the PBC, which was originally due to be submitted to you in December 2021.
33. Te Pūkenga plan on submitting a revised PBC to you in early October 2022 to align with Budget 2023 timelines. However, the timelines are tight to undertake the required analysis, make changes to the business case, and have an independent quality assurance (IQA) review completed. There is a significant risk that Te Pūkenga cannot develop a robust investment case that meets the needs of Ministers within this timeframe. This will have implications for Te Pūkenga’s overall progress and the realisation of its investment objectives.

...although Te Pūkenga plan on undertaking some IT projects as soon as possible

34. Te Pūkenga’s action plan states that it plans to identify and implement “*zero-regrets foundational IT projects*”. We note that \$4 million in key systems funding from the Crown has been provided to date and a further \$16 million has been available to Te Pūkenga since 2020. To access this funding, Te Pūkenga is required to submit a single stage business case and have this endorsed by Joint Ministers. We will work with Te Pūkenga on the requirements to access this funding.

Progress against the strategic review

35. As you are aware, a strategic review of Te Pūkenga’s transformation programme was undertaken in February 2022 by Murray Jack, Sir Brian Roche, and Belinda Clark. Seven

recommendations or practical measures were made by the review team to help improve the likelihood of Te Pūkenga’s transformation programme being a success. We reported on progress against those recommendations in our last quarterly report.

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

Recommendation	RAG status	Actions taken to date	Issues/outstanding work required
1. Align expectations of the Minimal Viable Product (MVP) to be delivered by 1 January 2023, adjusting the programme plan as needed	Green	<ul style="list-style-type: none"> An MVP for 1 January 2023 was agreed between the TEC and Te Pūkenga in March 2022 and was endorsed by Council at its April meeting. 	<ul style="list-style-type: none"> Following the recent reset, we consider the MVP needs to be adjusted to ensure it is fit-for-purpose and aligned to the recently developed action plan so there is clarity on expectations.
2. Accelerate dissolution of ITP Boards and appoint Te Pūkenga candidates as acting leaders to enable effective direction in preparation for transformation	Amber	<ul style="list-style-type: none"> Toi Ohomai and Wintec formally dissolved on 31 May 2022 and successfully transitioned into Te Pūkenga. All staff and structures remained unchanged as part of the transfer with the only change being made at the CE level. 	<ul style="list-style-type: none"> Linked to action plan item 2. Te Pūkenga has indicated the remaining 14 ITP subsidiaries will transition over at the end of August, September, and October. The transfer is a ‘lift and shift’ of current operations, so there will not be large gains made from the transition. However, it will result in greater control for Te Pūkenga and is a precursor to transformation. Te Pūkenga will need to establish how it will govern all 16 business units with the removal of subsidiary boards.
3. Clarify roles, responsibilities, and accountabilities for Te Pūkenga, TEC and ROVE Board	Amber	<ul style="list-style-type: none"> Engagement on this recommendation has begun but it has been delayed to allow Te Pūkenga to prioritise work on resetting its work programme. The Gateway Review undertaken earlier in 2022 endorsed the role of the RoVE Programme Board overseeing the Te Pūkenga transformation in the same way it oversees all aspects of the RoVE programme. 	<ul style="list-style-type: none"> This work has been delayed by the reset, but we consider that in conjunction with Te Pūkenga, this work will be finalised in the next month.
4. Target ITP and regional organisation structures to be implemented by 1 January 2023	Red	<ul style="list-style-type: none"> The reset has resulted in a new organisation design and a simpler model for how national and regional structures will work going forward. Te Pūkenga will be taking a staged approach to implementation to reduce transition risks. Te Pūkenga is consulting on a new executive structure between 15 August and 2 September. 	<ul style="list-style-type: none"> Linked to action plan items 1, 2 and 4. While the reset has de-risked this work, there continues to be a considerable amount of work to be undertaken in a short time-period. Te Pūkenga is engaging with the network on how the new operating model will work, including how the Ako networks and regional delivery work in practise. Te Pūkenga is now seeking greater rationalisation and transformation as part of the organisational changes to improve financial performance, but material gains are likely to take time to be realised.
5. Appoint a DCE level Transformation Director as the Senior Responsible Officer with the mandate and decision rights to drive programme execution	Green	<ul style="list-style-type: none"> Te Pūkenga appointed Tamati Shepherd-Wipiiti as its DCE Transformation and the Senior Responsible Officer for the transformation. He began in his role on 28 March 2022. 	<ul style="list-style-type: none"> No outstanding work required.

		<ul style="list-style-type: none"> • s9(2)(a) [REDACTED] Richard Forgan has been appointed as DCE Transformation. Richard assisted with the establishment of Te Pūkenga over 2018 to 2020. 	
6. Complete delivery of the programme plan (with the critical path) and Programme Business Case as planned		<ul style="list-style-type: none"> • Te Pūkenga completed an integrated programme plan in July as well as submitted a PBC to the Minister on 30 June 2022. • However, both the programme plan and the PBC will be significantly revised following the recent reset. 	<ul style="list-style-type: none"> • Linked to action items 2 and 8. • The recent reset has rationalised the work programme and an action plan has been developed that provides a clearer focus on the activity that is planned to occur between now and 1 January 2023. • It will take significant effort to revise the PBC and outline a proposed programme of work that is achievable and affordable and that the Crown is willing to invest in. Te Pūkenga has committed to submitting the PBC in October 2022 to align with Budget 2023 processes, but we remain concerned that the timelines are tight.
7. Complete programme management strengthening enabling effective governance (Te Pūkenga Council and Programme Board) and monitoring (TEC and Minister), including establishment of a small sub-committee of Council, augmented with independent expertise to provide focus and oversight of execution		<ul style="list-style-type: none"> • A Transformation sub-committee of Council was established in late March 2022 which will oversee all transformation activities. Murray Jack chairs the Committee with Sir Brian Roche being the other independent member. • Te Pūkenga has undertaken a review of its internal Programme Board to ensure it is fit for purpose. 	<ul style="list-style-type: none"> • It is important that high quality information and reporting is provided to the transformation committee and that it is actively involved in the decision-making process. The committee will meet fortnightly going forward to support the reset. • We consider ongoing attention is required to ensure internal decision-making and accountability is optimal.

Financial performance

Te Pūkenga continues to forecast a large deficit in 2022...

37. Based on data for the year to May 2022, Te Pūkenga is forecasting a full-year deficit of \$89.6 million (7.2 percent of revenue) – \$33.1 million worse than budget. Revenue is expected to be s9(2)(b)(ii) [REDACTED], largely due to lower enrolments, while expenditure is expected to be s9(2)(b)(ii) [REDACTED].
38. s9(2)(b)(ii) [REDACTED] are forecasting to report a deficit in 2022 with the cumulative deficit for the ITP subsidiary network being \$110.9 million. As such, this is not a situation of well performing ITP subsidiaries being offset by poor performing subsidiaries. The current financial situation underlines the need for significant changes to both the operations and structure of the current network. WBL continues to report strong performance and is forecasting a s9(2)(b)(ii) [REDACTED].

...but work is underway to reduce the deficit so that it is closer to budget...

39. The current forecast deficit is \$20 million better than the \$110 million deficit outlined in our March 2022 quarter report. However, it is still a significant and unsustainable deficit. A full year forecast was not presented based on data for the year to June 2022 as work on developing a robust forecast remains ongoing. Te Pūkenga expect an updated forecast to be approved by Council at the end of August 2022 which will be more accurate and include assumptions around further cost savings. We understand that the forecast will be more in line with the budgeted deficit of \$56.6 million.
40. Te Pūkenga has noted that the ITP network as a whole needs to achieve savings of around 3 percent of expenditure to return to budget, which is significant given there is less than half of

the year remaining. While Te Pūkenga has required subsidiaries to ensure that prudent cost control measures are in place, the largest driver of savings will be the recruitment freeze, especially given Te Pūkenga has noted a turnover rate of between 8 percent and 14 percent across the network. Redundancies have not been ruled out, but the Acting Chief Executive has noted this is the least favoured option for addressing the 2022 deficit position.

41. Te Pūkenga will need to ensure it balances the financial benefits of the hiring freeze against ensuring it has the capability to deliver education and training. It is also important to note that there is not currently any redundancy cost provision within Te Pūkenga's financial forecast, so if any redundancies do occur, the cost of this will have a negative financial impact in the short-term.

...with savings also being proposed in head office....

42. Te Pūkenga has stated that it is expecting to realise savings of \$8 million in head office as work is stopped or deferred that is not critical to day one operations on 1 January 2023. Given there were 178 FTEs in head office as at end of June 2022 (71 of which were secondments from subsidiaries), it is likely that the sought savings are achievable as work is focussed on critical tasks. Nevertheless, while achieving the savings are important, Te Pūkenga will need to ensure the savings do not materially impact its ability to undertake business as usual and deliver on the action plan.
43. As a result of the forecast savings, we expect Te Pūkenga to be underspent against the integration and transformation funding provided by the Crown for the 2020 to 2022 period. Under the Crown funding agreement, this funding must be spent before the end of 2022 or be returned to the Crown, based on the expectation that Te Pūkenga would be self-funding from 2023. You may wish to consider allowing Te Pūkenga to retain unspent funds past 31 December 2022. We will advise on the likely amount of unspent funding later in the year.

...but the pathway to financial sustainability is more important..

44. While we expect Te Pūkenga to take all steps necessary to reduce its 2022 deficit, we are more interested in Te Pūkenga's plan to return to financial sustainability over coming years. Te Pūkenga has recently begun development of a finance strategy but it remains in its early stages. However, this work has become a priority under the new leadership.
45. While it is pleasing to see this work now being given more prominence, it is well overdue (we have been raising this as a critical issue for over a year), and substantial progress will need to be made quickly. It will take a significant turnaround for Te Pūkenga to return to surplus, let alone a surplus strong enough to fund transformation costs and allow much needed re-investment back into the network.
46. Te Pūkenga is currently updating its 10-year forecasts as part of revising the PBC, but we will be looking closely for the strategy to outline why these forecasts are achievable and what actions will be put in place to ensure they are achieved. While the unified funding system will provide additional funding from 2023, over the medium-term, we consider financial performance will be determined by the following:
 - The ability to drive efficiencies and savings through the new organisation design and centralisation of functions. Te Pūkenga plan to integrate some functions (such as finance and HR) from early 2023 but careful analysis and design will be needed to ensure efficiencies are maximised through the wider organisation structure.
 - Moving to common IT systems across the network. As part of the action plan, Te Pūkenga plan to identify zero-regrets foundational projects that are critical for integration and for future transformation. Further work is needed on the costs and benefits of other IT investment, which will be considered as part of the revised PBC.
 - Identifying and delivering the most efficient and effective mix of provision. Te Pūkenga's ability to remove duplication, reduce unviable provision, and deliver new integrated

learning models that are cost-effective and respond to the unified funding system is key. As part of the reset, Te Pūkenga has made this work a priority.

- The ability for Te Pūkenga to maintain and/or increase enrolments, including improving retention. In the short-term, Te Pūkenga plan on undertaking a marketing drive and to clearly define its value proposition to students, employers, and whānau. Over the medium-term, the ability for its operating model and learner success initiatives to deliver for learners, employers and communities will be a key driver of enrolment levels. However, it must be acknowledged that only so much will be within Te Pūkenga's control with the economic environment a key driver of enrolment levels. The strength of the recovery in international enrolments will also be a key factor.
- Efficient use of capital assets and property divestment. As part of designing its new organisational structure and the integration of on-job, off-job, and online learning, Te Pūkenga need to robustly assess its capital requirements and dispose of assets not required. As part of the action plan, Te Pūkenga plan to deal with priority buildings and begin the disposal process for surplus assets. However, disposing of assets can be a lengthy process and Te Pūkenga are yet to identify what assets are surplus to requirements.

47. Recent changes have given us more confidence that the appropriate issues are being considered. However, Te Pūkenga is starting this work from a poor position – both in terms of financial performance and due to a lack of progress to date – and it will need to prioritise its efforts in the right areas. Key to much of this work is the ability for Te Pūkenga to undertake robust analysis so that initiatives can be appropriately costed, implemented, and monitored. Data quality, timeliness of information, and capability to complete the work will likely remain a key challenge.

...and Te Pūkenga will face a number of challenges...

48. While positive steps are being taken, Te Pūkenga will also have to deal with the risk of several negative impacts over the next two years. These include:
- The risk of a further fall in domestic provider-based enrolments as unemployment remains low.
 - The risk of apprenticeship numbers falling as the Apprenticeship Boost policy ceases at the end of 2023.
 - Recent immigration policy changes constraining the recovery in international enrolments.
 - Having to self-fund head office operations from 2023 as Crown funding comes to an end.
 - The impacts of high inflation, including staff and the unions seeking a significant remuneration settlement that is above current forecast expectations.

...while there continues to be a need to improve financial reporting

49. We have raised concerns in previous reports that the financial reporting and analysis provided to Council is minimal with little insight and value add provided to allow them to make well-informed decisions. We have engaged with Te Pūkenga on this issue but to date have yet to see any marked improvement. This is an issue we will continue to work with management on, especially given the urgent need to improve its overall financial position and the upcoming removal of existing subsidiary ITP boards.

Governance review

50. At the end of 2021, Te Pūkenga engaged Dame Karen Sewell and Belinda Clark to undertake an external review of Te Pūkenga’s governance. The review focussed on the operational effectiveness of the Council, alignment with good practise, and whether the governance arrangements were fit for purpose. The report made 12 recommendations, although four of those recommendations related to Council composition and co-governance which would require legislative change to both the Education and Training Act 2020 and the Crown Entities Act 2004.
51. A draft of the governance review was provided to you on 17 June 2022. The report noted that the Council was spending too much time on operational matters rather than focussing on strategic issues and it was operating with no roadmap to follow. Recommendations were also made around establishing a new Council sub-committee focussed on financial matters, reviewing how often the Council meets, improving the timeliness and quality of information being provided to Council, ensuring the Chief Executive provides a written report (rather than just a verbal report), and increasing the amount of time the Council meet in open session.
52. Te Pūkenga’s Council has yet to formally respond to the review and a workplan has yet to be put in place to address the recommendations. We would expect a formal response from the Council at one of its upcoming Council meetings given the importance of ensuring governance is operating as strongly as possible over the transition period. Nevertheless, Te Pūkenga has progressed some recommendations already (e.g. beginning the process to establish a new finance sub-committee).
53. s18(d)

Key strategic risks

54. As part of the reset of its work programme and transition pathway, Te Pūkenga noted in its quarterly report that it had also initiated a reset of its risk register and mitigations. No risk reporting was therefore provided. However, we consider there are eight key strategic risks related to the delivery of its work programme over the next year. These are:
- Te Pūkenga is unable to deliver on its action plan and associated workplan in time for 1 January 2023 due to the complexity of change required and lack of capability and/or capacity.
 - Staff engagement and support for the transformation is lost leading to resistance from staff to change, high turnover, and a lack of capability to deliver both business-as-usual and contribute to the transformation.
 - A lack of progress to date and negative media attention leading to a lack of support from employers and other key stakeholders, and students choosing pathways outside of vocational education.
 - A further fall in domestic enrolments and a slower than expected recovery in international enrolments negatively impacting Te Pūkenga’s overall financial position.
 - Te Pūkenga is unable to generate sufficient savings and efficiencies through its new organisation design resulting in continued poor financial performance.

- Te Pūkenga is unable to design and implement an operating model which sufficiently integrates on-job, off-job and online delivery which impacts employer and stakeholder support for the reforms.
- Te Pūkenga is unable to secure additional Crown funding in a timely manner which will delay the planned transformation programme.
- The outcomes being sought from RoVE take longer to realise given Te Pūkenga’s slow progress and its success being critical to the overall reforms.

55. We will continue to engage with Te Pūkenga on the key risks we have identified and how they are being mitigated.

Next steps and future reports

56. Our next formal quarterly update to you will be in November 2022 following Te Pūkenga’s quarterly report for the September 2022 quarter which will be provided to the TEC at the end of October 2022.

57. 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.

s9(2)(a)

Gillian Dudgeon

Deputy Chief Executive – Delivery
Tertiary Education Commission

19 August 2022

s9(2)(a)

Hon Chris Hipkins

Minister of Education

25 / 08 / 22