Tertiary Education Commission
Te Amorangi Mātauranga Matua

Aide-Memoire: Te Pūkenga quarterly monitoring report – March 2023 quarter

To:	Hon Jan Tinetti, Minister of Education
From:	Gillian Dudgeon, Deputy Chief Executive – Delivery, Tertiary Education Commission
Date:	2 June 2023
Reference:	AM-23-00437

Purpose

1. This aide-memoire provides an assessment of Te Pūkenga's performance following receipt of its quarterly report for the March 2023 quarter. It also incorporates information obtained through our wider monitoring activities, including information received since Te Pūkenga submitted its quarterly report on 28 April 2023, so that it provides the most up-to-date picture possible. Te Pūkenga's full quarterly report is attached.

Executive summary

2. Over 2023, Te Pūkenga has continued to progress the design and implementation of its new organisation structure and made further appointments to its leadership team. Te Pūkenga now has a full executive leadership team in place, while all ako network leads and seven of the eight regional co-leaders have recently been appointed. These appointments signify the beginning of moving to the new operating model and new ways of working.

3. Te Pūkenga has announced that it will begin consultation on its remaining business groups – Ako Delivery; Academic Centre and Learning Systems; Te Tiriti Outcomes; Learner, Employer Experience and Attraction; and the Office of the Chief Executive – in the week of 12 June 2023 for five weeks. These four groups comprise around 90 percent of all staff. The most significant changes will affect management roles as Te Pūkenga moves to its new regional delivery structure. Changes to individual roles below this level are likely to be to reporting lines, but there will be deeper changes to the number and nature of roles in marketing, communications, international, and academic quality as national functions are established.

4. As part of consulting on the new business group structures, Te Pūkenga needs to ensure it effectively communicates to all stakeholders on how the new structure and operating model will work in practice over time – integrating work-based, campus-based, and online delivery – and how it will deliver greater benefits than the previous arrangements. It is important that learners, employers, iwi, and communities understand how they will interact with the new structure and how it will meet their education and training needs going forward.

5. In 2023, Te Pūkenga budgeted for enrolments to increase. However, domestic enrolments for provider-based learners have fallen sharply with work-based learner numbers also down. As a result, Te Pūkenga is expecting to report a deficit significantly higher than its budgeted deficit of $27 million. Te Pūkenga is currently undertaking a comprehensive full year reforecast which will provide a more accurate picture of how large the deficit will be in 2023.

6. While we expect Te Pūkenga to take all steps necessary to reduce its 2023 deficit, we are more interested in Te Pūkenga's overall plan to return to financial sustainability and the affordability of the new operating model. Te Pūkenga is currently developing a finance strategy that is due to be submitted to the TEC by 30 June 2023. We expect this strategy to clearly set out both the medium-term objectives and the actions that will be taken in the short-term to ensure Te Pūkenga is financially sustainable in the future.

7. You recently sent a new Letter of Expectations (LoE) to Te Pūkenga which sets out the three strategic priorities you expect to drive Te Pūkenga's focus and delivery over the next year. We expect to see evidence of Te Pūkenga responding to your LoE over the remainder of 2023 and as part of its strategic planning documents for 2024 and beyond.

8. Given Te Pūkenga's financial situation and the complexity of its transformation programme, the Council needs to be decisive, make the necessary trade-offs, and rigorously prioritise its work programme so effort is expended in the right areas. 9(2)(f)(iv) [redacted] This risk highlights the need for Te Pūkenga to have dedicated governance over the transformation, supported by independent expertise, and a clear roadmap in place so that planning and resourcing risks can be managed appropriately.

Summary – RAG status

Key:

- Low risk (green)
- Medium risk (orange)
- High risk – plan required to get back on track (red)

- ↑ Improved since previous quarter
- → Unchanged since previous quarter
- ↓ Worsened since previous quarter

Work stream or focus area	TEC rating of where Te Pūkenga should be	TEC rating based on current activity	Commentary
Operating model and organisation structure	Green	Orange ↑	Over the quarter, the structure for key back-office functions – Digital; Finance and Property; and People, Culture and Wellbeing – have been confirmed and tier 3 leaders appointed. Te Pūkenga intend to consult on the design of the remaining business groups over June and July 2023. These changes will have the most impact on managerial roles while for most staff, the changes are likely to be in reporting lines. Further changes to individual roles will occur in 2024 and beyond as the transformation continues. Many design challenges continue to be worked through including how on-job, off-job, and online delivery is integrated and what is delivered and managed locally versus regionally or nationally. Getting this right is critical to achieving the desired outcomes of Te Pūkenga and the wider reforms.
Capital assets	Green	Orange →	Te Pūkenga has appointed a property project management office to deliver the approved high priority capital projects. This follows the first $25 million in Crown funding for the projects being provided in December 2022. Of the 11 high priority projects, two are underway, four are out for tender, three are awaiting updated cost estimates based on further design, and two projects are being reviewed given cost estimates have increased substantially. 9(2)(b)(ii) [redacted]
IT systems integration	Orange	Orange →	In February 2023, Ministers endorsed Te Pūkenga's Key Systems Single Stage Business Case and released $15.6 million in Crown funding to assist the delivery of three technology solutions. Te Pūkenga is currently calling for proposals for a single financial management information system that will be delivered alongside a new enterprise performance management tool. These tools should support Te Pūkenga to better manage and report on its financial and operational performance, as well as support the transition to the new national structure. Dedicated project teams and project control groups have been established and Te Pūkenga will report progress against milestones and benefits from next quarter.

Māori partnerships and equity		↓	Te Pūkenga has reported that many activities within the Tiriti Outcomes workstream have been on hold while structures, budgets and people resources remain unconfirmed. The appointment of a permanent DCE Tiriti Outcomes in March 2023 is expected to drive an increase in activity going forward, although there remains a need to prioritise the implementation of initiatives that will deliver the greatest benefit. Over the quarter, an evaluation of Te Pūkenga's relationship with the Matauranga Iwi Leaders Group (MILG) was undertaken and Te Pūkenga is now taking steps to reset this relationship.
Financial performance		↓	Te Pūkenga reported an unaudited deficit of $86 million for 2022, which was $27 million worse than budget. An improved group deficit of $27 million was budgeted for 2023 based on growth in both domestic and international enrolments and increased funding from the unified funding system. With domestic enrolments down sharply, in addition to other cost pressures, we consider the actual 2023 deficit could be around 9(2)(b)(ii) [redacted] prior to mitigations. While management are implementing actions to reduce the size of the deficit for 2023, the effectiveness of these remains uncertain. Te Pūkenga is currently developing a finance strategy to guide how Te Pūkenga will move towards financial sustainability in future with the strategy to be completed by the end of June 2023. Financial sustainability remains a significant risk towards achieving the transformation outcomes being sought.
Enrolments		↓	Te Pūkenga's 2023 budget assumes a 9(2)(b)(ii) [redacted] in provider-based EFTS, a 9(2)(b)(ii) [redacted] in work-based enrolments, and a 9(2)(b)(ii) [redacted] in full-fee international enrolments. However, the April 2023 SDR shows provider-based EFTS are down 6.4 percent compared to a year ago. This is driven by a 10.2 percent decline in SAC/YG funded EFTS, partially offset by an 86.7 percent increase in full-fee international EFTS. This decline is now taking SAC/YG volumes below pre-COVID-19 levels. Work-based enrolments are also down by 8 percent, with new enrolments down sharply. It is important that Te Pūkenga understands what is driving the lower learner numbers across both its provider-based and work-based divisions and utilises this information as part of implementing its new operating model.
Reporting		→	There continues to be a need for Te Pūkenga to improve reporting to Council, both on its transformation programme as well as on operational performance. Work is underway to improve reporting on key operational issues, but progress remains slow. It is particularly important that management ensure high-quality financial and operational performance information is available given the current financial situation and the raft of changes being made over the coming year. The development of a fit-for-purpose transformation roadmap and an appropriate outcomes framework which allows the Council, the TEC, and stakeholders to monitor overall activity and the achievement of milestones remains outstanding. This lack of certainty and inability to easily monitor progress makes it difficult for staff and stakeholders to have clarity on what changes will occur and when. Pleasingly, Te Pūkenga has now developed a strategic risk register which will be presented to Council monthly going forward.
Management		↑	Te Pūkenga now has a full executive team in place with the remaining two executive positions – the Chief of Staff and DCE Tiriti Outcomes – appointed over the quarter. Te Pūkenga has also appointed all eight ako network leads and appointed regional co-leads for the four regions with one position remaining to be filled. The outstanding appointment is expected to be completed soon. This will be a major milestone for Te Pūkenga and will allow it to move to the next stage of implementing its organisation design. The executive team appear to be working well together and there is a range of tertiary experience across the group. However, management have a significant and interdependent work programme to deliver, and it will be important that it can free up sufficient room to deliver the transformation as well as deal with business-as-usual issues. Clear guidance from the Council on priorities will be important in this regard.
Governance		↑	You appointed Sue McCormack and Bill Moran to Te Pūkenga's Council at the end of March 2023 with Maryann Geddes, Tania Hodges, and Kathy Grant's terms all ending. These changes, alongside the addition of Jeremy Morley in September 2022, are intended to drive improved performance. The new members have been appointed to various Council sub-committees where they can provide the necessary guidance. Given the significant amount of activity that is currently underway, the Council needs to be providing clear direction to management on what to prioritise and working to an agreed transformation work programme. An outstanding issue remains how Te Pūkenga plan to govern its IT systems integration and its wider transformation programme. It is critical that the governance mechanisms are supported by independent expertise and that the decision-making process is effective and robust to ensure successful delivery.

Key developments since our last report

Te Pūkenga progressed its organisation design and change programme over the quarter…

9. Te Pūkenga continues to assess its overall Transition and Transformation work programme as '*amber/red'*, unchanged from last quarter. The rating largely reflects the ongoing complexity of the programme and the associated risks with its implementation.

10. The key focus for Te Pūkenga over 2023 has been to progress the design and implementation of its new organisation structure as part of giving effect to its proposed operating model. The initial priority has been on standing up its enabling functions. The new People, Culture and Wellbeing (PCW); Digital; and Finance and Property structures have been confirmed with tier 3 leaders appointed. The establishment of these groups, particularly the PCW team, will help support the next phase in implementing the organisation structure.

…but much of the new organisation structure is still being developed…

11. In April 2023, Te Pūkenga announced the design and consultation process for the remaining business groups: Ako Delivery; Academic Centre and Learning Systems; Te Tiriti Outcomes; Learner, Employer Experience and Attraction; and the Office of the Chief Executive. The design of these business groups is expected to be completed over the next month, with staff consultation commencing in the week of 12 June 2023 and running for five weeks. Final decisions are then expected in August 2023 with implementation planned to be completed by October 2023.

12. These business groups account for around 90 percent of Te Pūkenga's approximately 10,000 staff (with the majority in Ako Delivery). The changes that will occur over the remainder of 2023 will include establishing new leadership structures and changing reporting lines to give effect to the national-regional-local delivery model. Staff will know details of the proposed design and functions, including the disestablishment of some roles as well as transitional and new roles. While managerial roles are most likely to be impacted, many staff will be affected by the changes. 9(2)(b)(ii), 9(2)(f)(iv) [redacted]

13. The consultation process, and the subsequent implementation of the finalised structures, will need to be carefully managed and well-communicated given the number of staff involved and the relatively tight timeframes. This includes good communication to staff but also effective messaging to all stakeholders on how the new structure and operating model will work in practice and how it will deliver greater benefits than the previous arrangements. It is important that learners, employers, iwi, and communities understand how they will interact with the new structure and how it will meet their education and training needs going forward.

…and there remains uncertainty around the design of critical elements…

14. As we have highlighted in previous monitoring reports, there remains a lack of clarity on how Te Pūkenga's new operating model – which has only been described at a high-level – will be operationalised as part of the design and implementation of its new organisation structure. This includes critical elements such as: how it plans to integrate work-based, campus-based, and online delivery; how regional operations work within the eight nationally led ako networks; what decisions and operations are managed locally versus regionally and nationally; and how learners, employers and other stakeholders engage with Te Pūkenga's new structure and navigate the system.

15. We are aware Te Pūkenga has been working on answering these questions as part of its organisation design and change programme. It is vitally important that Te Pūkenga begin to effectively communicate its future vision and the pathway to reaching that vision. This is crucial

to resolving some of the uncertainty that currently exists as well as improving staff morale and retaining the support and confidence of industry and other stakeholders.

…but a fully functioning executive team is now in place…

16. Over the March 2023 quarter, Te Pūkenga appointed a Chief of Staff and DCE Tiriti Outcomes which means a full executive team is now in place. Seven of the eight regional co-leaders and all the ako network leads have also been appointed. The establishment of the wider leadership team is an important milestone and advances the process of Te Pūkenga moving to its new organisation structure and new ways of operating. It is also a tangible sign to learners and staff. These appointments should drive an increase in activity and their leadership will be important as Te Pūkenga moves to the next phase of implementing its organisation structure.

…although capacity and workload remain an issue…

17. Te Pūkenga is implementing a large and complex transformation programme with major decisions needing to be made over 2023. In particular, the implementation of its new organisation structure over the remainder of 2023 and into 2024 will require significant and dedicated resource. Capacity constraints are likely to continue to be a key challenge for Te Pūkenga, with the management team needing to balance delivering the new organisation structure and wider transformation while ensuring business-as-usual operations continue to run smoothly. We consider a key risk is that operational issues (including the response to Cyclone Gabrielle) dominate senior management's time which result in not enough leadership or resource being dedicated to the transformation and timelines being missed.

18. This risk highlights the need for Te Pūkenga to have a clear transformation roadmap in place so that planning and resourcing risks can be managed appropriately. We understand the development of a roadmap, which outlines what activity will occur when, remains in progress. The Council will also need to provide clear guidance to management on what work to prioritise and what work to stop, making the necessary trade-offs as issues arise.

…and changes are being made to how the transformation is being managed

19. Te Pūkenga has decided to disestablish the DCE Strategy and Transformation role that was established as part of the October 2022 decisions around its business group structure. This follows the resignation of the DCE Strategy and Transformation, Richard Forgan, in March 2023. Richard had a range of transformation and tertiary education experience which will be difficult to replace.

20. Te Pūkenga propose to appoint a Transformation Programme Director instead, who will not be on the executive team, to oversee the transformation. The organisation and design change programme will be moved to the PCW team while the strategy team will move to the Office of the Chief Executive. Te Pūkenga are still working through where the Programme Management Office will sit.

21. We consider there are risks to this approach with transformation activities being distributed across business groups and being led by a Programme Director who is not on the executive team. It is important that there is clarity on who is accountable for delivering the various parts of the overall transformation and ensuring integrated delivery, and that it is resourced appropriately so timelines are achieved. The changes reinforce the need that appropriate governance structures are in place to oversee the transformation, supported by independent expertise to ensure management are held to account and appropriately challenged.

Crown loan

We have begun the development of a Crown loan agreement with Te Pūkenga

22. As part of Budget 2023, the Government has agreed to provide a $220 million non-interest-bearing Crown loan to support Te Pūkenga's IT systems integration. Over the past month, we have been developing a Crown loan agreement, in conjunction with the Treasury, which sets out the terms and conditions of the Crown's support and ensures appropriate accountability and oversight. The draft agreement includes:
    - the conditions for drawing down the loan, which will be subject to further business cases;
    - the monitoring and reporting arrangements that will be put in place to oversee Te Pūkenga's performance and achievement of the proposed benefits;
    - the requirement to appoint an independent financial advisor to support and advise on Te Pūkenga's financial performance;
    - assurance requirements including Treasury Gateway reviews and independent quality assurance reviews; and
    - the requirement to establish a governance group with independent expertise to oversee the IT systems integration.

23. Now that Budget 2023 announcements have been made, we plan to engage with Te Pūkenga on the draft agreement in the coming weeks. Once we have resolved any issues with Te Pūkenga on the agreement, we will present the loan agreement to Joint Ministers to consider and sign.

EFTS and financial performance

Te Pūkenga has reported an $80 million unaudited deficit in 2022…

24. Te Pūkenga has reported an updated unaudited deficit of $80 million (6.2 percent of revenue) for 2022. This result is $21 million worse than budget and $16 million worse than the $64 million deficit it had forecast in August 2022. The larger deficit relative to the August 2022 reforecast is due to delays in the completion of an expected land sale and one-off unplanned impairments to WelTec's creative precinct. It should be noted that Te Pūkenga's result is subject to change as the audit process is undertaken. Due to the volume and complexity of the audit process, Audit New Zealand has still not finalised Te Pūkenga's accounts.

25. The key driver of the worse than budget result was lower domestic provider-based enrolments, which fell by 9 percent (or 5,211 EFTS) in 2022, when growth had been budgeted for. Partially offsetting the decline in provider-based EFTS was growth in work-based enrolments.

…led by a large deficit for the provider-based divisions…

26. The $80 million group deficit was comprised of a [redacted] for the provider-based divisions and an [redacted] for head office, partially offset by a [redacted] for the work-based divisions. Relative to budget, the provider-based divisions were [redacted] than budget while work-based divisions were [redacted] better than budget.

…although its cash position remains strong…

27. Te Pūkenga had cash (including term deposits) of $441 million at the end of 2022, which is typically the lowest cash point across the year, as well as access to a $45 million borrowing facility with Westpac. Te Pūkenga's cash position was $243 million better than budget, which

was driven by a $102 million increase in liabilities over 2022 and Te Pūkenga only undertaking $107 million of capital expenditure, which was 61 percent of budget. Although Te Pūkenga's overall cash position is strong, the increase in liabilities is simply a timing issue, while the deferring of capital expenditure may cause longer-term issues given there is already a large backlog of deferred maintenance and high priority building issues across the network.

28. Te Pūkenga's 2022 unaudited results reaffirm that it has a strong balance sheet and good access to liquidity, [redacted] While it was always expected to take time to move to a new financially sustainable model, the key question is how long the balance sheet can sustain a sub-optimal level of performance and a network of provision which is currently unprofitable. If further action is not taken to address its profitability, the current cash reserves will eventually be needed to cover operating losses. This would not be a sustainable approach, especially given the cash reserves are needed to fund the transformation and address capital requirements going forward.

…with Te Pūkenga budgeting for a lower deficit in 2023…

29. Te Pūkenga has budgeted for a deficit of $27 million in 2023. This is based on the provider-based divisions reporting a [redacted] deficit with the head office reporting a [redacted] surplus and the work-based divisions reporting a [redacted] surplus.

30. Te Pūkenga's 2023 budget assumes a one percent increase in provider-based EFTS, a three percent increase in work-based enrolments, and a 38 percent increase in full-fee international enrolments. In our view, this was a very optimistic budget that ignored labour market conditions and the underlying trend in domestic provider-based enrolments (which have declined in every year since 2012 except for 2021 because of COVID-19 related factors) and it was unlikely to be achieved.

…but domestic enrolments are down sharply…

31. The April 2023 SDR shows that SAC and YG provider-based EFTS are down by 10.2 percent (or 3,969 EFTS) compared to a year ago[1]. The growth reported in 2021 has now been reversed by the declines over 2022 and 2023 and SAC/YG volumes are below pre-COVID-19 levels. Work-based enrolments have also softened, down by 8 percent compared to a year ago, with new enrolments down by over 40 percent. The decline in both provider-based and work-based domestic learner numbers will be a concern for Te Pūkenga given strong work-based enrolments helped offset the large decline in provider-based enrolments in 2022. However, the extension of Apprenticeship Boost as part of Budget 2023 should provide some support to future work-based enrolments.

32. Partially offsetting the decline in domestic enrolments has been an 86.7 percent (or 1,464 EFTS) increase in full-fee international EFTS, which is above budget.

…which is likely to lead to a much higher deficit in 2023…

33. Te Pūkenga is currently undertaking a full year reforecast based on performance over the first four months of 2023. The reforecast should be completed by the end of May 2023. Nevertheless, Te Pūkenga has made an initial estimate that the size of the deficit will [redacted] in 2023, mainly driven by lower domestic enrolments. However, we consider nearly all of the risk is on the downside, specifically:

- The weakness in work-based enrolments is likely to further reduce overall revenue.
- The impacts from Cyclone Gabrielle, including student retention issues, negatively impact revenue and increase operating costs.

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[1] Note that we have made an adjustment to the April 2023 SDR figures for Te Pūkenga's Wintec division as it has changed its reporting from confirmed EFTS to commenced EFTS, which has artificially inflated Wintec's total enrolments by an estimated 871 EFTS. The adjustment ensures a like for like comparison between 2022 and 2023.

- Increased depreciation negatively impacts expenditure due to the revaluation of buildings at the end of 2022 being higher than budgeted.
- General operating costs are negatively impacted due to high inflation.
- Te Pūkenga may be unable to generate the full budgeted 9(2)(b)(ii) [redacted] in transformation savings it hopes to achieve through the organisation design process.
- As the Crown is funding Te Pūkenga's IT systems integration work via a Crown loan, this will reduce overall revenue given Te Pūkenga's budget assumed the Crown would provide 9(2)(b)(ii) [redacted] of grants in 2023.

34. Noting the above risks, we consider it is likely that Te Pūkenga's deficit for 2023 is closer to 9(2)(b)(ii) [redacted] prior to mitigations being implemented. 9(2)(b)(ii) [redacted]

…and Te Pūkenga is currently examining its options on how to respond…

35. 9(2)(b)(ii), 9(2)(g)(i) [redacted] Te Pūkenga is implementing a range of cost saving measures including procurement savings, recruitment freezes, programme rationalisation and right sizing. 9(2)(b)(ii), 9(2)(g)(i) [redacted] Overall savings from this work are unknown and no costings have been provided so it is difficult to assess how effective these mitigations are likely to be. 9(2)(b)(ii), 9(2)(g)(i) [redacted], this is likely to result in annualised savings of around 9(2)(b)(ii) [redacted]. Nevertheless, we consider, and Te Pūkenga agrees, that further large-scale savings and revenue growth still need to be achieved.

36. While a full property rationalisation programme has not yet been developed, 9(2)(b)(ii) [redacted] Management considers this option has the potential to raise 9(2)(b)(ii) [redacted] in 2023, although in our view it would be difficult to achieve that within the year. Further, while assets sales will provide cash flow, they will have little impact on reported profitability and the sale gains are one-off.

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

37. While we expect Te Pūkenga to take all steps necessary to reduce its 2023 deficit, we are more interested in Te Pūkenga's overall plan to return to financial sustainability rather than the 2023 result. As we have been highlighting for the past 18 months, Te Pūkenga has yet to develop a finance strategy or plan for how it will move towards a financially sustainable model. This work is now underway, and it was workshopped by Council earlier in May 2023. Te Pūkenga had been waiting to find out Budget 2023 decisions before finalising its finance strategy and providing it to the TEC by 30 June 2023, as required by its borrowing consent.

38. The strategy will need to set out how Te Pūkenga will become financially sustainable in the future as well as the specific actions to be taken in the short-term. We expect the strategy to have clear targets, timelines, and ownership so that governors can hold management to account for its delivery. It also needs to show a strong understanding of what drives profitability, what levers can be pulled to improve profitability, and the associated risks and costs of doing so. However, while there is a need to take cost out, it is important that the strategy does not focus only on reducing expenditure. It also needs to outline how Te Pūkenga will move to a model that best responds to funding changes and generates greater revenue by delivering the skills learners, employers and communities need.

39. It is important significant effort is put into the development of the finance strategy so that stakeholders can have confidence in Te Pūkenga's financial management. If the TEC is not satisfied with Te Pūkenga's finance strategy, 9(2)(b)(ii) [redacted]

…and this is heavily linked to its new organisation structure and operating model

40. As part of its finance strategy, we consider Te Pūkenga need to form a view on the optimum size and scale of the organisation in future. This includes what the ongoing cost and staffing needs of running its new operating model should be, so there is a clear target for Te Pūkenga to move towards. To date there has been a lack of transparency around the financial savings that need to be achieved through the design and implementation of the new organisation structure. The PBC submitted to Ministers in October 2022 assumed that a reduction of 9(2)(b)(ii) [redacted] is made through the implementation of the new organisation design (around 9(2)(b)(ii) [redacted] of total FTEs and targeted at managerial roles) with a further 9(2)(b)(ii) [redacted] reduction over 2023 to 2026 as Te Pūkenga unify IT systems (around 9(2)(b)(ii) [redacted] of total FTEs).

41. We remain concerned that not enough savings are being sought through the new organisation design, especially given the proposed savings in the PBC are focussed predominantly on back-office positions. The PBC did not propose any major savings through the delivery function. We understand further savings targets have now been set for the organisation design, but we are yet to understand exactly what those are and whether they are sufficient.

42. Given the worsening financial situation, Te Pūkenga needs to be confident that the savings achieved through the new organisation design will be adequate. Fundamentally, the labour model needs to change, given around 80 percent of Te Pūkenga's workforce is on the provider-based side and that is the area that is highly unprofitable due to funding rate changes and continued declines in domestic provider-based enrolments over the past ten years. 9(2)(f)(iv) [redacted]

43. As part of discussions with Te Pūkenga on financial sustainability, management have highlighted the interdependencies that exist in its work programme and the time it will take to realise the benefits from the integration of its workforce, lifting productivity, and securing the flexibility needed to better match delivery to learner needs. Systems integration and digital transformation alone is a large, multi-year programme. The roadmap that Te Pūkenga is currently developing is intended to demonstrate how it will address these issues during the balance of this year, in 2024, and beyond. It will take several years to complete the transformation process. The structural integration that will take place in 2023 is only one of the steps toward achieving the necessary savings and the benefits sought from the reform.

44. While we agree that it will take significant effort and time to move to becoming a financially sustainable organisation, it is important that Te Pūkenga clearly sets out its transformation and financial plans so that the TEC and other stakeholders can objectively measure progress and whether Te Pūkenga is on track. There is also a careful balance Te Pūkenga must manage to ensure its short-term financial performance does not have an overly negative impact on its ability to deliver the wider transformation over the medium-term and its long-term financial sustainability.

Governance

Two appointments were made at the end of March 2023…

45. You appointed Bill Moran and Sue McCormack to Te Pūkenga's Council at the end of March 2023 with Sue being appointed Deputy Chair, replacing Kim Ngarimu who remains a member to the end of her term in 2024. Maryann Geddes, Tania Hodges, and Kathy Grant's terms have all come to an end and they have left the Council. Induction sessions have been held for Bill and Sue, by both the TEC and Te Pūkenga, and we are hopeful the new appointments will improve the overall performance of Council.

46. We noted last quarter that Te Pūkenga is looking to utilise its Council sub-committees more in 2023, with more regular meetings established. Following the new appointments, Te Pūkenga reviewed its sub-committee membership with new members appointed to various committees. These are welcome developments, and the better utilisation of sub-committees should provide greater oversight and direction to management on key issues while also freeing up Council to focus on strategic matters.

…and you have recently sent a new Letter of Expectations to Te Pūkenga…

47. On 16 May 2023, you sent a new Letter of Expectations (LoE) to Te Pūkenga replacing the previous LoE sent in July 2020. The LoE sets out the three strategic priorities you expect to drive Te Pūkenga's work programme over the next 12 months.

…but it remains unclear on how Te Pūkenga's transformation will be governed

48. An outstanding issue for the TEC remains how Te Pūkenga will govern and oversee its transformation programme, particularly its IT systems integration. This is particularly important given Te Pūkenga decided to disband its transformation committee at the end of 2022. Given the complexity and size of Te Pūkenga's transformation, it is important that its governance and decision-making processes are as robust and effective as possible, while also allowing for quick decisions to be made.

49. This is an issue we will be engaging with Te Pūkenga further on over the next month. We consider it essential that independent expertise, particularly specialist IT and transformation expertise, is brought in to support overall governance. Currently, there is no independent members on any sub-committee of Council or as part of other programme/project governance structures overseeing the transformation. As part of the Crown loan agreement, the establishment of a governance group with an independent Chair and another independent member will be required to oversee the IT systems integration.

9(2)(g)(i)

[redacted]

9(2)(g)(i)

[redacted]

51. It is pleasing that Te Pūkenga has finalised its risk register after a period of nearly nine months when no risk register was being presented to Council. We would encourage Te Pūkenga to continue to develop the risk register so that there is clear ownership and accountability, and that the mitigations appropriately respond to the risks.

52. Te Pūkenga is currently facing significant risks as it implements its complex work programme, and it is important that these risks are appropriately and actively managed to ensure successful delivery. We remain particularly concerned around financial sustainability risks and the effect this could have on the successful delivery of the transformation programme, and whether the proposed mitigations are sufficient. Related to this risk is that academic quality issues emerge

and are not addressed promptly. These issues will be a key area of engagement with Te Pūkenga for the foreseeable future.

Next steps and future reports

53. Our next formal quarterly update to you will be in August 2023 following Te Pūkenga's quarterly report for the June 2023 quarter which will be provided to the TEC at the end of July 2023.

54. 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.

G E Dudgeon

Gillian Dudgeon

Deputy Chief Executive – Delivery
Tertiary Education Commission
2 June 2023

Hon Jan Tinetti

Minister of Education

11 / 06 / 2023