

Aide-Memoire: Overview of Te Pūkenga

To:	Hon Penny Simmonds, Minister for Tertiary Education and Skills
From:	Tim Fowler, Chief Executive, Tertiary Education Commission
Date:	4 December 2023
Reference:	AM-23-00901

Purpose and background

1. As part of its 100-day plan, the Government has committed to begin disestablishing Te Pūkenga. The Ministry of Education (the Ministry) will lead the policy advice and process on options to give effect to your commitments. The Ministry will separately provide you with a report on the Vocational Education and Training (VET) system (METIS No. 1319468 refers) and on the unified funding system (METIS No. 1319671 refers).
2. As the agency responsible for monitoring tertiary education institutions, the Tertiary Education Commission (TEC) has been closely monitoring Te Pūkenga's overall performance and transformation since its establishment on 1 April 2020. As a result, we have significant insights into Te Pūkenga's operations, including the challenges and risks it is currently facing.
3. Much of the commentary in this paper is backwards-looking and focuses on Te Pūkenga's journey to date. Its purpose is to provide a comprehensive picture of where Te Pūkenga has come from, and where it is now. It is a point-in-time update, and not intended to conflict with the Government's 100-day plan. We hope the paper will support you to make informed decisions on commencing the disestablishment of Te Pūkenga as well as setting your overall objectives for the VET system. It should also assist you to decide what work you would like Te Pūkenga to progress during the transition period and what work you would like to see stopped.
4. In summary, this aide-memoire:
 - a) provides you with background information on Te Pūkenga, including an overview of progress made on its transformation and its wider work programme since its establishment;
 - b) highlights key risks and issues related to Te Pūkenga's current transformation path (noting you want to change direction), as well as opportunities that you could seek to retain as part of disestablishing Te Pūkenga; and
 - c) outlines some key matters to consider as you begin to disestablish Te Pūkenga.
5. The paper is intended to support further discussions with you, alongside the Ministry and the New Zealand Qualifications Authority (NZQA), on your planned changes for Te Pūkenga and the overall VET system.

Te Pūkenga was established as part of wider reforms

The establishment of a single, national vocational tertiary provider was announced in 2019...

6. In July 2019, Cabinet agreed to implement the reform of vocational education to create a fundamentally new vocational education and training system, with a different set of institutional arrangements, new and different roles and relationships, and a unified funding system.
7. Prior to the reforms, the VET system was primarily split between eleven industry training organisations (ITOs) supporting work-based training and sixteen institutes of technology and polytechnics (ITPs) delivering provider-based training. The previous Government's reforms sought to move to an integrated model where a national network of provision for vocational education was primarily delivered or supported by a single institution which covered work-based, campus-based, and online vocational education. This approach sought to ensure a financially sustainable system that was better able to manage fluctuations in demand related to economic cycles.

...to help address several issues across the vocational sector...

8. There were three key reasons why change was needed across the VET system, and which led to the implementation of the reforms:
 - The previous split vocational education system was not meeting the needs of learners, employers, or regions. Some learners were confused about how to enter the system and progress within it, particularly between on-job and off-job training options, or when they got a job or moved region. Some employers were also concerned that provider-based learners were not acquiring the skills to function in the workplace while work-based learners were not always getting the pedagogical support and pastoral care they needed to succeed.
 - Many employers considered there was a lack of industry input into provider-based learning and as a result the system was not meeting their needs. For some sectors, there was no mechanism to have input at all. Many employers did not participate in work-based training due to the inflexible approach adopted by several ITOs.
 - The ITP sector was facing significant financial and operational challenges due to a range of structural and external factors. In particular:
 - ITPs operated in a competitive model (including competing with ITOs) and were required to offer a broad range of locally relevant programmes, which impacted on overall viability as many courses had small class sizes.
 - Enrolments were steadily declining over the preceding years, which resulted in several ITPs being under financial stress.
 - In the three years prior to the establishment of Te Pūkenga, the ITP sector reported an average deficit of \$59 million per annum, and the Government had to provide \$90 million to ensure several ITPs could remain operational.

...alongside other changes to the vocational system...

9. Alongside the establishment of Te Pūkenga, six other key changes were made to the vocational system. These included:
 - a) ***The establishment of six industry-governed workforce development councils (WDCs)*** to work with all industries to develop and maintain a strategic view of the skills their industries require now and in the future. WDCs provide the mechanism for an independent voice for industry into the VET system. They are responsible for setting national standards, credentials and qualifications, moderation of assessment (all of which

was previously undertaken by ITOs) and providing advice to the TEC on investment in vocational education. All six WDCs were established in October 2021.

- b) **The establishment of regional skills leadership groups (RSLGs)** to identify and support better ways to meet future skills and workforce needs in their regions, now and in the future, and to advise central government on actions to address these in relation to vocational education and training, immigration, and welfare. Fifteen RSLGs were established in June 2020.
- c) **The establishment of Te Taumata Aronui**, an advisory group to provide independent recommendations and advice to Ministers and officials on how tertiary education can better respond to the needs of Māori learners, communities and employers and help improve learner and community outcomes. Te Taumata Aronui was established in 2019.
- d) **The establishment of two pilot Centres of Vocational Excellence (CoVEs)** to act as a focus for collaboration across the sector to drive excellent teaching and learning through stronger links with industry and communities. Two CoVEs supporting Food and Fibre and Construction were established in 2020.
- e) **The development and implementation of a unified funding system (UFS)** for vocational education and training through a joined-up approach to funding provider-based study at levels 3 to 7 (non-degree) and industry training. The new funding model commenced on 1 January 2023. The UFS is based on three funding components which combine to deliver more funding than the previous system. These are:
 - A *delivery component* which funds delivery based on volume, subject areas, and delivery modes. Work-based learning is funded at a higher level than previously to incentivise the move towards a greater level of work-based delivery. Provider-based rates are generally around 85 percent of the prior rates and new extramural rates are significantly lower.
 - A *learner component* which increases funding for providers to support all learners, particularly for those who traditionally have not been well served by the education system.
 - A *strategic component* which is application-based, non-volume funding for projects to respond to regional and national skills priorities and support new innovative programme development, especially for online delivery.
- f) **Transferring the role of arranging training from ITOs to the provider network.** These transfers occurred over 2021 and 2022 with the majority of arranging training transferring to Te Pūkenga. Around 15 percent transferred to private training establishments (PTEs).

10. NZQA, as custodian of the New Zealand Qualifications and Credentials Framework, has also been working to simplify the design of vocational qualifications and review its approach to quality assurance. While this work is not part of the scope Cabinet agreed to in July 2019, it is critical to support the new vocational education and training system and to reflect the role of WDCs and Te Pūkenga in the qualifications system.

...with Te Pūkenga tasked to deliver better outcomes for learners, employers, Māori, and New Zealand

11. The establishment and transformation of Te Pūkenga, alongside the other changes made to the sector, was intended to be the cornerstone of a sustainable system of vocational education provision. To achieve that objective, Te Pūkenga needed to implement a large and complex transformation and achieve the balancing act of extracting efficiencies and improved effectiveness from scale while avoiding losing those gains through any new bureaucracy. It was always expected that it would take considerable time to deliver the key benefits sought from the reforms.

12. The Education and Training Act 2020 (the Act) includes a charter for Te Pūkenga that sets out enduring expectations and objectives for the way Te Pūkenga must operate. The charter requires Te Pūkenga to be responsive to the needs of all regions and their learners, industries, employers, and communities; operate in a way that empowers students and staff and to develop meaningful partnerships with industry, communities, and Māori; and ensure its governance, management and operations give effect to Te Tiriti o Waitangi.

The establishment of Te Pūkenga and transition period

Te Pūkenga was established on 1 April 2020...

13. An Establishment Board was appointed to manage the initial phase through to March 2020. Te Pūkenga was then formally established on 1 April 2020, with the 16 former ITPs becoming its subsidiaries. This approach was designed to minimise initial disruption to ITP activities compared with folding all ITPs into Te Pūkenga from day one. The Act stated that all former ITP subsidiaries would cease to exist by the end of 2022.
14. The Minister appointed the first seven members of the governing Council in March 2020 with Murray Strong appointed as the Chair and Kim Ngārimu as the Deputy Chair. The Council appointed Stephen Town as Chief Executive in June 2020. By the end of 2020, a wider executive leadership team had been appointed and was fully operational.
15. In August 2020, it was announced that Te Pūkenga's head office would be in Hamilton at the Waikato Institute of Technology's main campus. The Government had made it a requirement that the head office was not to be in Wellington or Auckland.

...becoming New Zealand's largest tertiary provider...

16. Te Pūkenga has around 270,000 learners (although just under 100,000 equivalent full-time students) across formal, informal, and work-based learning as well as around 10,000 staff. This delivery occurs across approximately 100 delivery sites and over 20,000 workplaces.
17. Te Pūkenga manages around 85 percent of all work-based training and approximately 55 percent of all provider-based vocational delivery. However, it is also New Zealand's second-largest provider of degree level and above delivery, with nearly 19,000 EFTS delivered in 2022. This is slightly more than the University of Otago and behind only the University of Auckland.
18. Te Pūkenga was allocated \$976 million by the TEC for 2023 including fees-free payments, more than any other provider. It is forecast to generate more than \$1.3 billion in revenue in 2023, behind only the University of Auckland.

...with the Government providing \$121 million in funding to support its establishment...

19. In 2020, the Government agreed to provide up to \$121 million to support the establishment of Te Pūkenga, build capability, and commence the integration and transformation of the current network, including supporting greater delivery of on-job learning. This funding was provided on the expectation that Te Pūkenga would generate savings and efficiencies across its network, such that it was self-funded from the beginning of 2023. All funding has been paid.

...and Te Pūkenga's initial focus was on the development of its new future operating model...

20. In July 2020, the former Minister of Education sent his inaugural Letter of Expectations to Te Pūkenga to guide the development of its transformation work programme. The foundation of the new transformation programme was the development of a new operating model, detailing how Te Pūkenga would operate and interact with learners and stakeholders, and how it would give effect to its charter.

21. Although Te Pūkenga was needing to manage the impacts of COVID-19 on its operations, progress over 2020 and 2021 on the development of Te Pūkenga's operating model was slow (with a range of personnel changes contributing to the lack of progress). This meant that Te Pūkenga was only able to consult with its staff and stakeholders on a high-level draft operating model over October and November 2021.
22. The draft operating model outlined how Te Pūkenga would operate in future and how learners, employers, staff, Māori, and communities would interact. The proposed model was a relatively complex matrix approach, where operations were organised regionally but there were national networks of subject matter experts, known as ako networks. These national ako networks would bring together geographically separated experts in different areas, to collectively support on-job, off-job, and online delivery. Ako networks were aligned with WDC industry groupings. The operating model also began to outline what functions would be centralised.
23. Feedback from staff and stakeholders at the time was largely positive although there were concerns around the complexity of the operating model. Stakeholders wanted greater clarity on how the model would work in practice, particularly what it meant at a regional level and for job functions and staff roles. Greater detail was also needed on how Te Pūkenga would shift the organisation from its current state to the desired future state.
24. Alongside the development of the operating model, Te Pūkenga was planning to produce an implementation plan and a Programme Business Case (PBC) by the end of 2021. This was expected to outline how it would move towards the new operating model, what work would be prioritised, and how much it would cost to undertake the broader transformation programme. Te Pūkenga also stated that a new organisation structure would be developed by May 2022, instead of at the end of 2021 as originally anticipated.
25. The development of a robust implementation plan for the operating model and new organisation design as well as the submission of a PBC to Ministers was not completed by the end of 2021. The PBC was eventually submitted in June 2022, and then revised again in October 2022. However, there remained an overall lack of detail on how the organisation would transition to its new organisation structure and how it would be financially sustainable in future.

...but slow progress led to a strategic review of the transformation programme being undertaken in February 2022...

26. Due to growing concerns around a lack of progress and missed deadlines, the TEC and Te Pūkenga jointly commissioned a strategic review of Te Pūkenga's transformation programme. The review was led by Murray Jack and supported by Sir Brian Roche and Belinda Clark. The purpose of the review was to identify the strategic risks and issues within Te Pūkenga's transformation programme and outline any practical measures that were likely to improve the programme's success.
27. The review was finalised in March 2022. The overall conclusion of the strategic review was that *"the programme as currently configured will not meet the Minister's expectations, as we understand them, for 1 January 2023, unless there is a clear intervention of additional resources with an appropriate mandate"*. Seven recommendations were made by the review team to help improve the likelihood of Te Pūkenga's transformation programme being a success. Following the review, and over the course of 2022, these recommendations were implemented by Te Pūkenga which helped drive improved performance.

...and a change in leadership and formal reset was undertaken in mid-2022...

28. On 8 July 2022, Stephen Town went on personal leave and Peter Winder (who was a Council member at the time) became Acting Chief Executive. Stephen Town formally resigned as Chief Executive on 17 August 2022.

29. Under the new leadership, Te Pūkenga reset its transformation programme, prioritising only those activities management considered critical and that needed to occur by 1 January 2023. This included delaying 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 associated with moving to a new organisation design. The previous transition pathway (which involved every position being consulted on over July/August 2022) was considered too risky and unachievable.

...and all ITP subsidiaries were transferred into Te Pūkenga by the end of October 2022...

30. Under its previous leadership, Te Pūkenga had taken a passive approach to the transitions, waiting for ITP subsidiary boards to recommend transitioning into Te Pūkenga before the end of 2022. As a result, only Toi Ohomai and Wintec had transitioned into Te Pūkenga by the end of May 2022. Retaining the embedded subsidiary structures for such a significant time hindered Te Pūkenga's overall transformation by preventing staff from feeling like they were part of a new organisation and limited the control of head office.
31. Following the reset, Te Pūkenga took a more directive approach with a series of transitions occurring over August, September, and October 2022. The transfers essentially removed the existing boards of the ITP subsidiaries and resulted in a 'lift and shift' of operations. All staff became directly employed by Te Pūkenga rather than the subsidiary.
32. While the transition of these entities was a necessary step towards future transformation, the overall failure of Te Pūkenga to progress the design and implementation of its new organisation design and operating model meant that, at the end of 2022, there had been limited transformation of the network.

...with the final TITO transitions also occurring in October 2022...

33. A key focus for Te Pūkenga over 2021 and 2022 was the transition of the 'arranging training' function from Transitional Industry Training Organisations (TITOs) that had decided to transition into Te Pūkenga. To assist with this process, Te Pūkenga had established a work-based learning subsidiary (WBL) in April 2021 to receive all TITOs that chose to transition into Te Pūkenga.
34. In August 2021, Competenz successfully transferred the majority of its arranging training into WBL – the first TITO to do so. Nine of the eleven TITOs transitioned all, or part, of their arranging training functions into Te Pūkenga by the end of October 2022. The transfers involved 1,600 staff moving into Te Pūkenga and around 140,000 trainees and apprentices.
35. On 31 December 2022, Te Pūkenga disestablished WBL which, alongside the former ITP subsidiary transitions, meant all staff and learners became fully part of Te Pūkenga. However, under the current model, WBL continues to operate as a separate business division alongside the 16 former ITP business divisions. While plans are in place to separate functions within WBL between programme development and learner/employer support, Te Pūkenga is yet to develop a clear plan for how it will integrate work-based training with provider-based and online delivery.

...and a further \$40 million in Government funding was provided for high priority buildings

36. As part of Budget 2022, the Government agreed to provide Te Pūkenga with \$40 million in capital funding to address high priority building issues across the former ITP network. The first \$25 million in capital funding was provided in December 2022. The remaining \$15 million needs to be paid before 30 June 2024, following approval by the TEC Chief Executive of an updated high priority plan.

Development of the new organisation structure

A new executive team was established across late 2022 and early 2023...

37. In August 2022, the Acting Chief Executive released a change proposal to disestablish the current executive leadership team and establish nine Deputy Chief Executives to manage Te Pūkenga's operations. It also established eight co-leaders of the four regions who would report to the Deputy Chief Executive – Ako delivery.
38. In December 2022, all members of the previous executive team left their positions, and most of the new executive team was appointed, primarily drawn from within the network. Acting Chief Executive Peter Winder was confirmed as the permanent Chief Executive in early December 2022. By March 2023, all Deputy Chief Executives and regional co-leaders were in place as well as the eight network ako leads.

...with a focus on developing and implementing a new organisation structure...

39. In October 2022, following consultation with staff, the Acting Chief Executive confirmed Te Pūkenga's new executive and business group structure and its national and regional organising framework. Line management of delivery operations was to be organised regionally across four regions, with ako networks operating nationally as communities of practice.
40. Under its new leadership, Te Pūkenga's key focus has been on the design and implementation of its new organisation structure and giving effect to its new operating model. This has taken the majority of senior management's time over the past year.

...with core network management functions established first...

41. The initial priority for the leadership team was to stand up its back-office or enabling functions. The new *People, Culture and Wellbeing*; *Digital*; and *Finance and Property* structures were confirmed by June 2023 with tier 3 leaders appointed across each of these functions. The centralisation of these groups resulted in some cost savings and the beginning of them operating as national functions.

...and the design of most other business groups occurring over mid-2023...

42. In June 2023, Te Pūkenga began consultation on the remaining five business groups: *Ako Delivery*; *Academic Centre and Learning Systems*; *Te Tiriti Outcomes*; *Learner, Employer Experience and Attraction*; and the *Office of the Chief Executive*. This consultation covered 8,223 FTEs (around 90 percent of the organisation).
43. The proposed changes sought to begin integration of the business divisions (made up of the 25 predecessor organisations) into one organisation, aligned with the high-level organisation structure that was adopted at the end of 2022. It aimed to establish new leadership structures and changed reporting lines to begin the move towards national level functions and delivery across Te Pūkenga's four regions. On a substantive level, it mainly impacted managerial staff, but many staff were affected by the overall changes. The proposal was for 960 FTE positions to be disestablished with 556 new FTE positions created. This was to result in a proposed net reduction of 404 FTE positions and estimated annual salary savings of \$31.5 million.
44. Following consultation, where over 8,000 pieces of feedback were received, Te Pūkenga announced its new organisation structure on 18 September 2023. The final structure created 602 new FTE roles and disestablished 401 FTE roles. Another 51 positions that were currently vacant were disestablished while 350 fixed-term employment agreements were not extended beyond their current term. In total, there was a 200 FTE decline in staffing levels although this was entirely achieved by not extending fixed-term arrangements.
45. Te Pūkenga estimate the changes will result in annualised savings of approximately \$18 million, which is \$13.5 million less than what was originally sought. The lower level of savings

means greater savings would need to be made in future restructuring and other areas if Te Pūkenga was to continue along its current path. Te Pūkenga plan on standing up the new structures in stages from December 2023 through to April 2024. Most of the new ako delivery teams are due to become operational in April 2024 with staff moving from their current business division structures. All former TITOs, which are now part of WBL, are set to transition to the new structure by July 2024 in a phased approach starting with the two smallest, HITO and Careerforce, in April 2024. Recruitment for the new 602 FTE roles is currently ongoing.

46. After establishing the high-level organisation structure and leadership team for digital operations in early 2023, Te Pūkenga recently undertook consultation on the next phase of the organisation structure for digital. This consultation set out the proposed team structures within each digital directorate. No positions are proposed to be disestablished but new positions are proposed with recruitment to begin in 2024.

...but further work is needed to integrate the delivery function

47. The recent design of the new organisation structure did not address the substantial integration of delivery roles and how work-based, provider-based, and online delivery could be integrated. This is a challenging piece of work and, to date, little traction has been made on how this will occur. While co-location of work-based and provider-based staff is currently underway and there are plans on where work-based staff will fit into the organisation structure, the integration of roles and delivery remains unclear.
48. Under Te Pūkenga's current plans, the redesign of the delivery function is expected to occur in 2024 (and beyond) as further work is undertaken on addressing the inequity and inconsistency of employment terms and conditions across Te Pūkenga's network, and changes are made to improve productivity, flexibility, and role definition. Given Te Pūkenga's financial position, these changes would need to achieve a substantial reduction in staffing costs.
49. There is a limit on the short-term savings that can be made through organisation redesign given the continued need to operate multiple legacy business systems. Further changes (and ultimately staff reductions) are planned to occur as core systems are replaced and digital transformation is undertaken over the next four years.

Te Pūkenga's digital transformation

Budget 2023 provided a \$220 million Crown loan to Te Pūkenga...

50. Te Pūkenga submitted a PBC to the Minister of Education on 31 October 2022 seeking \$330.2 million as an operating grant to deliver IT systems integration and its wider transformation programme over the 2023 to 2027 period. As part of Budget 2023, the Government agreed to provide a \$220 million non-interest-bearing Crown loan to support Te Pūkenga's digital transformation. The Government providing support via a loan rather than an operating grant has meant Te Pūkenga is forecasting large deficits for the next three years.
51. The purpose of the loan is to support Te Pūkenga to fund its digital transformation as part of moving towards an integrated, national network of education and training delivery. Currently, Te Pūkenga has 25 versions of all major business systems of varying effectiveness and age to manage delivery and other core functions across its network. Integration and transformation of these systems will achieve operational efficiencies, reduce duplication, enhance system performance, and improve learners' and employers' ability to navigate the tertiary system.

...and an agreement has been signed that sets out the terms and conditions of the loan...

52. In October 2023, the Minister of Finance and Te Pūkenga signed a Crown loan agreement for the \$220 million loan. The agreement sets out the terms and conditions of the Crown's support and is designed to ensure appropriate accountability and oversight and includes:

- the requirement for Te Pūkenga to develop a high-level plan on how it will group the projects into reasonably sized tranches to drawdown the funding.
- the conditions for drawing down the loan, which will be subject to the TEC Chief Executive approving a Better Business Case for each tranche and a satisfactory Independent Quality Assurance (IQA) review being provided.
- the requirement for Te Pūkenga to develop performance targets by 30 November 2023 and then provide quarterly reports outlining progress against those targets.
- the requirement to establish a governance group to oversee the IT systems integration programme which has at least two independent members (including one as the Chair).
- the requirement to appoint an independent financial advisor (IFA) to support and advise on Te Pūkenga's overall financial performance.
- assurance requirements including Treasury Gateway reviews and maintaining an independent quality assurance work programme to review Te Pūkenga's implementation and operation of the systems integration.
- repayment conditions over the second half of the loan period, including the requirement for all proceeds from asset sales to be used to repay the debt facility from July 2028 onwards.

53. Under Section 282(4) and (7) of the Act, Te Pūkenga also needs consent from the Secretary for Education to borrow the funds. This needs to be provided before Te Pūkenga can begin drawing down the loan. The decision on whether to provide consent is still under consideration.

...while the first drawdown is not expected until 2024...

54. The PBC set out a digital transformation programme based on the Crown providing a \$330 million Crown operating grant. Given the lower funding amount, and due to it being provided as a loan rather than a grant, Te Pūkenga is currently refining its work programme and approach to ensure it is achievable and affordable. Following this work, Te Pūkenga will need to submit a plan on how it will group its projects into tranches, aligned to drawdowns of the loan.

55. To access the first tranche of funding, Te Pūkenga will need to develop a business case, have an IQA undertaken on the business case (with no major issues identified), and have it approved by the TEC Chief Executive. We consider this will not occur until well into 2024. Te Pūkenga has budgeted to draw down \$42 million of the Crown loan in 2024.

56. Although the former Minister of Finance and Te Pūkenga signed the loan agreement, you could always seek to repurpose the funding as part of your plans to disestablish Te Pūkenga. This would require a Cabinet decision, which ideally would occur as part of other decisions you wish to make on Te Pūkenga. We can provide you with further advice on this issue, alongside the Ministry and the Treasury, following initial discussions.

...and the move to common systems has already begun

57. As part of the Crown's original \$121 million investment in Te Pūkenga, \$15.6 million was provided to support the establishment of key systems. Most of that funding is to be used to deliver a single Financial Management Information System (FMIS) and Enterprise Performance Management (EPM) system.

58. Te Pūkenga recently signed a contract with a vendor to implement its new FMIS which will enable core finance functions (e.g. accounts receivable/payable, treasury management) to be centralised and facilitate standard, consistent processes for legal, contract management, corporate procurement, risk, compliance, and auditing. Te Pūkenga expect the new FMIS will be able to be used for some central functions from December 2023 with all systems due to be

migrated by mid-2024. An implementation partner has also been selected for the EPM project while other digital centralisation activity to increase collaboration is also underway.

Financial sustainability

59. We recently sent a paper to you which provided a financial overview of the tertiary sector, including Te Pūkenga's financial performance (AM-23-00900 refers). This section should be read alongside that paper.

Te Pūkenga is forecasting ongoing deficits...

60. Te Pūkenga reported an \$80 million deficit (-6.3 percent of revenue) in 2022 and is forecasting a \$93 million deficit (-7.1 percent of revenue) for 2023. The 2023 deficit is driven by the former ITP business divisions, which are forecast to deliver a \$185 million loss. This is forecast to be partially offset by a \$101 million surplus across Te Pūkenga's work-based division. In 2022 (i.e. before the introduction of the UFS), the provider-based divisions reported a \$119 million deficit partially offset by a \$53 million surplus for the work-based divisions.
61. These forecasts reinforce the challenge Te Pūkenga has in dealing with highly unprofitable on-campus delivery and profitable work-based delivery. These challenges have existed since the formation of Te Pūkenga but have been heightened by the wider challenges facing the sector, and the introduction of the UFS which has lower funding rates for on-campus delivery and higher funding rates for work-based delivery compared to the previous funding system. If Te Pūkenga wants to achieve financial sustainability under its current path, there is an urgent need for it to move towards integrated infrastructure and delivery approaches across the country, and ultimately increase the proportion of delivery that is work-based.
62. Based on forecasts provided to us in September 2023, Te Pūkenga was forecasting a 9(2)(b)(ii) deficit in 2024 and a 9(2)(b)(ii) deficit in 2025 although transformation costs are a large driver of these deficits. If transformation costs are excluded, Te Pūkenga is forecasting to return an underlying surplus in 2025. This recovery is based on growth in international enrolments and cost savings being successfully implemented.
63. We note that subsequent to these forecasts being provided, Te Pūkenga has recently finalised its 2024 budget and now expect to report a 9(2)(b)(ii) deficit. The key difference between its 2024 budget and the September 2023 forecasts is Te Pūkenga increasing its cost saving initiatives and delaying transformation activity.

...although it has strong access to cash...

64. Te Pūkenga's financial results confirm that although there is significant pressure on its financial performance it has a strong balance sheet and good access to liquidity. Te Pūkenga is forecasting to have 9(2)(b)(ii) in cash and short-term investments at the end of 2023, which is typically the lowest cash point of the year. Te Pūkenga expect cash to remain at a similar level over the next two years supported by the Crown's \$220 million loan.
65. At the end of August 2023, \$74 million of ITP cash holdings were ringfenced funds, down only slightly from \$80 million when Te Pūkenga was established. The Ara, EIT, SIT and Open Polytechnic business divisions still retain the original value of the funds that were ringfenced when Te Pūkenga was established. Another \$32 million was ringfenced in relation to TITOs.

...but significant changes need to be made to support financial sustainability...

66. Te Pūkenga inherited an ITP sector where many ITPs were performing poorly from a financial perspective with high cost structures and declining enrolments. These issues, alongside the major changes required to move to a national network, meant it was always expected to take time to move to a new sustainable model.

67. The key question is how long Te Pūkenga’s balance sheet can sustain a sub-optimal level of performance and a network that is unprofitable. If Te Pūkenga was to progress along its current path, there is an urgent need for it to move to a new operating model which leverages its scale to deliver improved and sustainable vocational education and training to all regions. In our view, not enough progress has been made in addressing known problematic areas (e.g. Tai Poutini is forecasting a deficit of 9(2)(b)(ii) of revenue in 2023 while WelTec and Whitireia is forecasting a deficit of 9(2)(b)(ii) of revenue).
68. If further action is not taken to address its profitability, current cash reserves are likely to need to begin covering operating losses. In our view, under the current arrangements, long-term financial sustainability will be determined by Te Pūkenga’s ability to:
- Drive efficiencies and significantly reduce personnel costs through the new organisation design and centralisation of functions. This includes improving productivity and flexibility through workforce integration, but also ensuring value for money expenditure.
 - Drive lower operating costs and reduce personnel costs through moving to common IT systems across the network (supported by the Crown’s \$220 million loan).
 - Remove duplication of delivery, reduce unviable provision, and deliver new integrated learning models that are cost-effective and respond to the UFS incentives – particularly through moving from provider-based to work-based delivery.
 - Reduce operating costs through more efficient use of capital assets as well as disposing of assets not required.
 - Maintain and/or increase domestic enrolments, including improving retention.
 - Increase international enrolments.

...and Te Pūkenga now has a financial plan and strategy in place...

69. Over June and July 2023, Te Pūkenga developed a long-term finance strategy, as well as a short-term financial plan. We have been highlighting the importance of Te Pūkenga developing such documents for the past two years. The plan sets out how Te Pūkenga intend to make 9(2)(b)(ii) of cumulative savings between mid-2023 and mid-2025 – the majority of which is through back-office consolidation/management efficiencies and vacancy management.
70. The development of a finance strategy and financial plan was well overdue, but further work is needed before there is a credible plan to achieve sustainability. In particular, we consider Te Pūkenga needed to be much clearer on the appropriate size and scale it is moving towards as well as develop a clear property strategy. Te Pūkenga acknowledges that further work is needed on these issues, and that it was to be a priority for 2024.

...but there are several key risks to Te Pūkenga achieving sustainability

71. While some steps are being taken, Te Pūkenga will also have to manage several financial risks over the next two years. These include:
- The risk of further falls in provider-based domestic enrolments as unemployment remains low and Te Pūkenga faces competition from other sub-sectors.
 - The risk of apprenticeship and training numbers falling further following declines in 2023, challenging economic conditions for employers, and the conclusion of Apprenticeship Boost at the end of 2024.
 - Recent immigration policy changes to post-study work rights and global competition potentially constraining the recovery in international enrolments.

- The ability to implement its digital transformation programme on time and on budget and unlock savings through the changes.
- The impacts of high inflation on operating costs, including staff remuneration.

Key risks and opportunities to Te Pūkenga’s current transformation path

Overall progress has been slow...

72. Overall, there has been insufficient progress made on Te Pūkenga’s transformation programme and its transition towards a new organisational structure and operating model over the past three and a half years. It has taken an unacceptable amount of time for Te Pūkenga’s component parts to consider itself to be one organisation, which has hampered its ability to build momentum. While COVID-19 had a considerable impact on operations over much of this time, Te Pūkenga still has not made the advancements we expected and therefore fewer benefits have been achieved to date. For learners and employers, there has not been a notable change in their experience or an improvement in outcomes.
73. Despite the slower than desired progress, we do acknowledge that Te Pūkenga’s journey to a single, unified network requires the implementation of a large and complex transformation programme. It was always expected to take time to achieve the full benefits and come with a range of transition risks. Te Pūkenga has also needed to balance business-as-usual delivery alongside its transformation.

...and a lot of work remains to deliver on the intent of Te Pūkenga...

74. Better progress has been made since the reset a year ago and several milestones have been achieved and plans put in place. Nevertheless, if Te Pūkenga were to continue on its current path, there remains considerable work to do before it begins to deliver on some of the major integration benefits being sought from the reforms. Key deliverables include (but are not limited to) the following:
- ***Delivering the new organisation structure for all delivery staff including the integration of work-based, provider-based, and online delivery.*** This integration is at the heart of the reforms, and while a complex issue to resolve, further work is needed on how this will be achieved and how Te Pūkenga will move to greater levels of work-based delivery. The design of how Te Pūkenga’s delivery function will operate and the transition to the new structure will begin in 2024 and continue into 2025.
 - ***Implementing its digital transformation*** so that Te Pūkenga can achieve efficiencies and assist it to deliver on the Charter. The digital transformation is expected to continue through to at least 2027, and is a large, difficult, and costly programme of work.
 - ***Moving to a single and consistent national collective agreement*** that will see staff on the same terms and conditions, achieve greater productivity, and support integration of work-based, campus-based, and online delivery. This issue is integral to the success of Te Pūkenga, but it will be difficult to achieve and negotiate with the relevant unions and may come at a cost. This work is due to begin in 2024.
 - ***Complete the unification of programmes*** to support delivery integration, ensure consistent quality, reduce duplication, and better meet learner, regional and industry need. While progress has been made on unifying programmes (Te Pūkenga report 30 percent of qualifications are being delivered as unified national programmes), there have been challenges for new flagship programmes (e.g. nursing). Te Pūkenga is aiming to have all Level 1 to 6 on-campus programmes unified to a single programme of study in time for delivery in semester one of 2025 – reducing the number of programmes from 802 to 138.

- **Continuing to implement initiatives that move Te Pūkenga towards financial sustainability.** Long-term financial sustainability is uncertain, and Te Pūkenga must find a way of balancing the tension between financial performance and attempting to deliver on the Charter. Based on anticipated enrolment growth, Te Pūkenga forecast to return to an underlying surplus (excluding transformation costs) in 2025 and an overall surplus in 2027.
- **Developing and implementing a detailed property and divestment strategy.** Work on this is underway with lease consolidation and potential asset sales being identified. However, further detail is needed on how the new organisation and operating model works before Te Pūkenga can accurately identify its asset requirements (and what assets are not needed). The Crown loan agreement requires Te Pūkenga to submit a list of potential assets to be disposed of to the TEC by mid-2024.

75. One of our key concerns over recent years has been the continued lack of a detailed and high-quality transformation roadmap to guide Te Pūkenga’s activity. This is an issue we have raised in several of our monitoring reports as being critical for change of this scale. Te Pūkenga recently produced a high-level, but incomplete, roadmap. It is currently refining the roadmap to ensure it is more robust and appropriately sets out the activity that needs to occur over the next three years to leverage the benefits of being a national provider. Te Pūkenga expect the updated transformation roadmap to be completed in the near future.

...and there are risks around the delivery of the transformation programme...

76. From our point of view, there are many risks that exist to the successful delivery of Te Pūkenga’s transformation programme. However, these can be consolidated to four primary risks:

- **Financial sustainability and affordability:** Te Pūkenga’s current financial performance is poor, and it is implementing a costly transformation programme. Future financial sustainability is based on increased enrolments and the ability to deliver cost savings. If these do not eventuate, affordability of the programme will be tested, and benefits will be compromised.
- **Achievability of the transformation programme:** Te Pūkenga is implementing a large and complex transformation programme with a range of interdependent projects in a short period of time. There is a risk of delays, cost overruns, and a lack of integration between projects.
- **Capability and capacity to deliver:** Te Pūkenga’s management team is capable but there are considerable capacity constraints given the size of its work programme. It will also need to source a range of expertise externally – particularly IT expertise but also programme management and change management capability – to successfully implement its transformation programme.
- **Change readiness of staff:** Given slow progress to date, we consider there is a lack of change readiness among staff which would make moving to the new operating model and achieving the associated benefits difficult. Many staff continue to operate under old models, and it will be a challenge for Te Pūkenga to drive the required culture change so that the network operates as one organisation.

...but there are opportunities to deliver better outcomes

77. Since the reset in August 2022, the key focus has been on setting up management teams, beginning to address financial issues, and putting new organisation structures in place. Recently, more attention has been placed on planning and delivering its transformation programme.

78. As this work progresses, there are several opportunities to leverage off the new national network and deliver better outcomes for learners, regions, and employers. This includes:

- delivering more consistent and high-quality education and training across locations and delivery modes, aligned to local and regional aspirations.
 - stronger relationships with industry and employers including national engagement and relationship agreements to better meet employer needs.
 - better support for all learners across both provider-based and work-based to succeed.
 - stronger Te Tiriti partnerships that deliver better outcomes for Māori.
 - more seamless entry, pathways, and transitions for learners.
79. Te Pūkenga has progressed work on all of the above and there are initiatives in place for 2024 that will begin to deliver on those opportunities – particularly better support for learners.
80. We would like to discuss whether you consider there are any opportunities from Te Pūkenga’s current transformation plans that you could seek to retain as part of disestablishing Te Pūkenga. We can provide further advice on specific issues following initial discussions.

Key considerations on making changes to Te Pūkenga

81. You have committed to begin disestablishing Te Pūkenga as part of the Government’s 100-day plan. We intend to engage with you further over coming weeks to fully understand your plans for Te Pūkenga. This will require firstly obtaining a better understanding of how you envisage the VET system operating more broadly, and what outcomes you are seeking to achieve.
82. The Ministry will lead the policy advice on the options available to you, and the associated process requirements, to give effect to your commitments. We will support the Ministry alongside the NZQA as part of the development of that advice. Nevertheless, based on insights from our monitoring role, we have outlined some key considerations for disestablishing Te Pūkenga that officials will need to work through with you. These include:
- The degree (if any) to which work-based, provider-based, and online delivery are integrated and how that would be achieved under new structures. There remains considerable work to develop and transition to an integrated model but there are also significant benefits to learners and industry (as well as financial benefits for institutions) of integration.
 - How an appropriate level of regional autonomy and regional voice can be achieved. There are various structural and operational options that can be implemented to achieve more regional autonomy. These have varying levels of trade-offs around timing, cost, and achievability.
 - How a financially sustainable vocational education and training system is achieved. Although it was always expected to take time to move towards a sustainable model, Te Pūkenga is currently not operating in a financially sustainable manner and reporting large deficits – particularly in the former ITP business divisions. Any changes will need to consider how a future model is financially sustainable, both in the short-term and the long-term. This is likely to require both further changes to the funding model and additional funding to the sector depending on what option is progressed.
 - What could potentially be provided centrally versus what may be provided regionally or locally and how central services may be structured. There are still several activities that could be centralised at a national level including back-office functions, programme development, relationship management, and digital infrastructure. There are also various options on how a centralised function could operate and how it is structured.

- What mechanisms are put in place to ensure employer and learner needs are met, including how employer and learner voice can be used to influence vocational delivery.
 - How changes to Te Pūkenga and the wider system would be funded. Disestablishing Te Pūkenga and establishing new entities will require legislative change, a range of transition costs, and considerable resource and specialist capability. An estimate of these change costs can only be made once we better understand your intentions.
 - How a transition approach is developed to move towards the key outcomes you are seeking, and to minimise the uncertainty and disruption to learners, employers, and regions from further change.
 - How we ensure strong accountability mechanisms are established under any new model.
83. Officials will work with you on the consideration of these issues, and we will support the Ministry to provide additional advice and analysis to you as necessary.

Next steps and upcoming reporting

84. We want to continue to meet with you in the next week to discuss Te Pūkenga and your objectives for the VET system.
85. Te Pūkenga submitted its regular quarterly report to us on 31 October 2023. The TEC uses this report, and information from our other monitoring and engagement with Te Pūkenga, to produce quarterly monitoring reports on Te Pūkenga's overall performance and transformation progress¹. We will provide you with our quarterly monitoring report over coming weeks.
86. We can also provide you with more detailed advice on any of the points covered in this paper, or other matters relating to Te Pūkenga, as required.



Tim Fowler

Chief Executive

Tertiary Education Commission

4 December 2023



Hon Penny Simmonds

Minister for Tertiary Education and Skills

5/ 12/ 2023

¹ All past monitoring reports are published on the TEC's website.