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# Statement of Intent

2011/12 - 2013/14

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# Chair's foreword

As I write this foreword, I am reminded that there is so much that we can't predict in a document like a Statement of Intent. In the past year we have grappled with the ongoing impact of the global financial crisis as well as the tragedy of the Christchurch earthquakes. The impacts of these events will continue to be felt in the coming year and this document reflects the strategic challenges ahead.

This year the TEC will continue to work with tertiary providers to ensure that we are getting the best value out of the Government's investment in tertiary education through boosting New Zealand's economic growth and increasing employment opportunities.

This Statement of Intent documents the medium term steps the Tertiary Education Commission will take to contribute towards a brighter future for New Zealand.

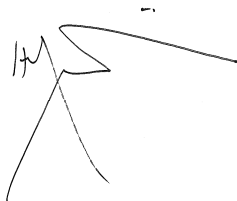
The Government has been clear that we need excellent tertiary education outcomes to help make the country grow faster in the long term, create jobs, and make New Zealand an even more attractive place to live, work and do business.

We also need tertiary education to respond flexibly to long term industry and professional skills needs, and to unforeseen events such as the Canterbury earthquakes, to ensure that the sector is producing the education and training outcomes required for the times.

We are currently undergoing a change in our focus to ensure we can pursue the aims of the Government. This includes a new structure to ensure we are fit for purpose in the future. These changes will mean our funding and monitoring of tertiary education organisations will provide us with solid evidence to determine tertiary education needs in the near future.

The next three years will also see a continued focus on performance, both within the TEC, and within the tertiary education sector. All the organisations we fund and monitor will need to show how they are meeting the needs of the country, and working together to make the most of our resources.

The Commission and I look forward to working with them, and making sure we are well-placed to help and enable future educational success.



Sir Wira Gardiner  
**Chair**  
**Tertiary Education Commission**

13 May 2011

# Part One: The Tertiary Education Commission

## Introduction

The Tertiary Education Commission is a Crown Entity. Our principal legislated function, under the Education Act 1989, is to give effect to the Tertiary Education Strategy.<sup>1</sup> We do this by:

- Allocating Government funding to tertiary education organisations through the Plan process<sup>2</sup>
- Monitoring performance of tertiary education organisations
- Providing advice to the Government (including ownership advice) on the tertiary education sector.

## Tertiary education in New Zealand

High quality education is central to helping New Zealand achieve its economic, social, cultural and environmental goals.

The TEC allocates approximately \$2.7 billion a year on behalf of the Government to fund tertiary education provision.<sup>3</sup>

All forms of post-secondary school education and training funding come under our umbrella, including: literacy, numeracy and foundation education, full-time academic study, work-related training and research, including training of postgraduate researchers.

Overall, there are over 700,000 students (including international students) in the tertiary education system accessing learning and training opportunities provided by nearly 800 organisations delivering tertiary education.<sup>4</sup> We provide funding for:

- 8 universities
- 3 wānanga
- 18 institutes of technology and polytechnics
- 330 private training establishments and other tertiary education providers
- 37 industry training organisations
- 374 schools
- 27 Rural Education Activities Programme providers and community education providers.

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<sup>1</sup> In addition, the TEC has specified functions under the Industry Training Act 1992 and the Modern Apprenticeship Training Act 2000.

<sup>2</sup> Further details of the Investing in a Plan process are described on page 5.

<sup>3</sup> This figure includes only funding the TEC allocates, and does not include student support funding (approx. \$1.1 billion).

<sup>4</sup> Potential ongoing mergers and consolidation of the tertiary sector may result in changes to these numbers.

## **The role of the TEC**

Tertiary education organisations, government agencies, business, communities and learners all play a part in contributing to successful tertiary education outcomes.

We play a particularly important role as the agency responsible for funding, monitoring and sector management.

## **Our vision for the TEC**

The TEC Board of Commissioners intends that the TEC:

- Gives effect to the Tertiary Education Strategy and its priorities
- Ensures that successful outcomes for students (especially priority learner groups) improve at a significantly faster rate than has occurred over the past decade
- Makes investment decisions that more fully support economic, social and environmental goals by understanding and influencing the demand and supply of tertiary education provision
- Models the efficiency and effectiveness we expect to see across the tertiary education sector.

To support this vision, we will:

- Work in a light handed way with individual tertiary education organisations while by exception addressing poor performance firmly
- Demonstrate a strong customer service culture that understands our stakeholders' strategies and objectives
- Encourage and expect innovation in the sector
- Expect the sector to manage short term risk and shift the focus of monitoring to longer term sustainability
- Use low cost and high impact levers to encourage high quality provision
- Reduce complex rules which have high compliance costs
- Have simple, robust and adaptive information, payment and business process systems
- Build shared systems and processes with the Ministry of Education, New Zealand Qualifications Authority and tertiary education organisations
- Draw on international good practice in funding and monitoring processes.

Achieving this vision will require significant changes to the structure of the organisation and to the way we operate and interact with other agencies, tertiary education organisations and other key stakeholders. In 2010/11 the TEC Board of Commissioners undertook a review of the TEC to ensure it was fit for purpose going forward. Further details of this review and resultant changes are set out in Part Six: Developing our capability in 2011 and beyond, from page 31.

## **How we operate**

We have a number of tools and levers we can use in order to ensure the sector is aligned with the goals of Government and New Zealand as a whole. Our primary lever is funding, through the Plan process (as described in the next section), but we also act as an agent of influence, providing leadership, guidance, and information to tertiary education organisations, students, industry, employers and the community.

Strategic documents, particularly the Tertiary Education Strategy (set by the Minister for Tertiary Education), provide the high level goals and priorities for the whole sector, and we expect that tertiary education organisations are responsive to those goals and priorities.

Plan Guidance (determined by the TEC) sets out the specific expectations we have from each tertiary education organisation regarding how they will respond to the needs of the communities they serve, including students, employers and the wider community.

Criteria for each fund, which are generally set by Ministerial direction and government policy, are used to provide incentives towards specific outputs and outcomes.

We work closely with the New Zealand Qualifications Authority regarding quality assurance to ensure that students can have confidence in the courses they are taking: that the course is of good quality and that the qualification they will gain will be useful in the workplace.

We have established relationships with a number of industry and professional groups which inform our Plan decisions and discussions with tertiary education organisations.

We undertake strategic reviews of specific regional needs, programmes and interventions to provide information to assist the Plan decision making process.

We use our sector knowledge, relationships and funding to support the Government's economic, environmental and social goals.

### **Investing in a Plan process**

Most of the Government's contribution to funding is allocated based on the agreement of Plans with individual tertiary education organisations. Plans are the most important direct lever we have for influencing and incentivising the behaviour of tertiary education organisations.

A Plan is an accountability document that sets out the proposed activities of a tertiary education organisation, the rationale for these activities, and how the success of the activities will be measured. At the same time, Plans set out what a tertiary education organisation will deliver in return for the money invested by Government.

The content of a Plan, and the criteria against which it will be assessed by the TEC, are set out in a Gazette notice. In summary, a Plan should explain how each tertiary education organisation will:

- Make sure its provision is relevant to the needs of their learners, communities, industry and business
- Align its activities with the relevant Tertiary Education Strategy priorities
- Improve its educational performance
- Improve its organisational efficiency.

We set out, in a Plan Guidance document, what we expect to fund. We then agree with individual tertiary education organisations what they will achieve over the Plan period. We determine how much we will fund each organisation and provide money to tertiary education organisations to realize their Plan commitments.

Plans for most organisations cover a three year funding period, giving a level of certainty to organisations, however previous levels of funding from the TEC do not automatically create an entitlement to future funding at the same levels. We will assess proposed Plans using the prescribed and gazetted decision-making criteria and make funding decisions.

Developing a Plan is the responsibility of each tertiary education organisation. To assist this process, we will provide performance information to all tertiary education organisations.

We actively engage with organisations in the development of their Plans, reflecting the importance of getting the best possible return on the Government's substantial investment in tertiary education.

The level of our interaction and engagement in the Plan development process will vary depending on a number of factors, including the size of the organisation, the level of funding it is seeking, and any specific performance issues (including educational, governance and financial).

Private Training Establishments (PTEs) and community providers will be primarily supported through online information and tools with direct help available from our Service Centre.

Tertiary Education Institutions (TEI) and Industry Training Organisations (ITO) are generally larger than other tertiary education organisations and their proposed Plans will be more complex in scale and scope. Our Investment Managers will work with each TEI and ITO, discussing their performance and the factors and groups that they intend to respond to in their Plans.

Each tertiary education organisation will need to demonstrate how it will respond to the education needs of the learners, communities, industries and employers it serves, consistent with its role and the Government's expectations for each part of the tertiary sector.

## **The structure of the TEC**

The TEC has 226 equivalent full-time positions (as at 1 July 2011), and an annual operating budget of just over \$45 million.

Our structure is comprised of three directorates:

### **Tertiary Investment**

This directorate comprises our investment teams, and leads our relationship with the tertiary education sector.

### **Strategy, Planning and Information**

This directorate combines our analytical capabilities and facilitates the process of developing both the internal strategies we require as an organisation, as well as the investment strategies we need to give effect to the Tertiary Education Strategy.

### **Corporate Services**

This directorate provides the corporate support services we require to be an effective organisation.

## **The 2011-2013 planning environment**

A capped tertiary education funding environment, with limited funding for enrolment volume growth, will continue over the planning period. The Tertiary Education Strategy emphasises the importance of sustainable financial performance for tertiary education organisations, which means that managing costs within existing funding streams and continuing to seek efficiency gains are essential.

The impact of the Christchurch earthquakes and ongoing events will add additional pressure to already tight discretionary Government funding and there will be an ongoing requirement for the TEC and the sector as a whole to be able to demonstrate the value gained from Government's investment in tertiary education.

Tertiary education organisations' proposed Plans need to demonstrate how they will make use of existing resources, rather than Government funding increases, to deliver on their core roles, meet Government expectations about improved performance, and contribute to achieving the Tertiary Education Strategy priorities.

## **Linking funding to performance**

From 2011, a proportion of both Student Achievement Component and Industry Training Funding will be linked to the educational performance of tertiary education organisations.

We will be shifting up to five percent of a tertiary education organisation's funding on the basis of performance against four educational performance indicators:

- Qualification completion
- Course completion
- Retention
- Progression.

Poor rates of learner achievement will result in funding reductions and may lead to interventions to improve the results of educational delivery. In developing proposed Plans, tertiary education organisations will need to focus on improving their overall educational performance. Similarly, they will need to consider the educational and financial consequences of expanding programmes where educational performance is currently low.

## Part Two: The broader context

### 2020 and beyond...

Investment in tertiary education has a long lead time, and outcomes from tertiary education can take many years to be realised. In order to make the best investment decisions we need to understand long-term trends and factors which may influence tertiary education in the future.

By 2020 the world will be a much different place. Despite the high level of change and uncertainty, it is possible to make some broad projections based on recent trends.

By 2020 the world's population will have reached 7.6 billion, and is expected to exceed 8 billion by 2025. Nearly all of the population growth will occur in developing countries. Around 70 percent of the world's population are expected to live in cities or urban areas by 2050, up from 49 percent today. This will increase pressure on food, water and land use.

Demand for food is expected to continue to grow as a result both of population growth and rising incomes. In order to feed this larger, more urban and richer population, food production must increase by 70 percent by 2050. New Zealand can and must capitalise on this.

Globally, fresh water resources are sufficient, but they are very unevenly distributed and water scarcity will reach concerning levels in an increasing number of countries or regions within countries, potentially exacerbated by climate change. Opportunities to innovate and export low carbon technology will open up for New Zealand.

These pressures will provide New Zealand with both challenges and opportunities. Compared with much of the world New Zealand is extremely well placed to respond to these pressures. New Zealand has an abundance of fresh water and land relative to our population. These factors will make New Zealand an increasingly attractive place to live.

New Zealand's primary sector – and particularly farming, horticulture, forestry and fishing - will remain the basic foundation of our economy, and these strengths need to be built on. There will be opportunity to grow and develop this sector, to increase export earnings of high value products. New Zealand is a world-leader in innovation and development in these industry areas. The potential to add value through this expertise will be enhanced. At the same time, however, care needs to be taken that natural resources are not overused in the pursuit of short-term gains.

One of the most obvious areas of impact for tertiary education is that New Zealand will need to have people with skills and training in the primary production sector. But this must include education and training for the whole spectrum of the primary sector workforce: vocational level training, technical expertise (including, for example, engineering), as well as management and innovation skills.

But in the future, New Zealand's economy will continue to broaden and diversify. Industry areas such as food and beverage, tourism, petroleum and minerals, ICT, high-value manufacturing and the creative media are all expected to increase in relative importance to New Zealand's economic growth and development. We need to be in a position to furnish a workforce appropriately skilled to support and take advantage of the opportunities these growing industries provide.

New Zealand's population will reach 5 million by the mid-2020s, but the rate of growth will drop. New Zealand will have an increasingly ageing population. The country will need to have the right health and support services, and related skills workforce in place to support our aging population. We already work closely with Health Workforce New Zealand on planning for the health workforce of the future: this will need to continue.

Despite an increasingly ageing population, advances in health and wellness will mean that people are able to work to an older age. Tertiary education will need to be able to provide education and training to allow people to retrain in order that their skills are still relevant for the changing demands of the economy.

New Zealand will increasingly become an Asian and Pacific country. It will mean a change in the way the population work, live and think.

By 2026, Māori will make up 28% of those under 15, and 19% of people aged 15-39. New Zealand has a history of underachievement for Māori and Pacific people – the very people who will form a significant part of our workforce in the next 20 years. This comes at a time when Māori are increasing their share of the economy. Between 2003 and 2009 the estimated Māori asset base has increased from \$2.6 billion to \$16.5 billion. Not only are Māori demanding a better deal from tertiary education, they increasingly have the means to realise their aspirations.

We need to deliver tertiary education solutions that work for all our young people. Our country as a whole needs to prepare a society and a workforce which is flexible, adaptable and innovative. New Zealand will need a population which is more highly skilled than ever before, with both technical and adaptive skills.

## Medium Term

This section sets out the key assumptions we have made about the factors that will affect the shape of the tertiary education system over the medium term.

### Economic assumptions

- New Zealand is slowly growing its way out of the recession. Even before the impacts of the earthquakes in Christchurch 2010 and 2011, and in Japan in March 2011, the economy was in a weak position. These shocks will further delay growth in the short term. However Treasury forecasts are for stronger growth from 2012. Real GDP is estimated to grow by 4.2 percent in 2013. *(Source: The Treasury)*
- Unemployment is still high (especially for young people) and is fluctuating. Higher unemployment generally leads to increased demand for tertiary education, particularly among young people. There may also be increased demand for vocational education and industry training specifically. *(Source: Statistics NZ HLFS)*
- Employment growth is expected to be the highest in retail trade, agriculture, hospitality, and business services, particularly in the more highly-skilled occupations of these industry areas. Demand for higher level vocational qualifications will be strong due to migration trends. *(Source: Department of Labour)*
- Export education will increase in importance for the economy. Tertiary education organisations will be actively encouraged by government to further develop export education activities.

### Demographic assumptions

- New Zealand's population is getting older overall, and more ethnically diverse. Māori, Pacific and Asian populations will increase at a faster rate than the European population. *(Source: Statistics NZ)*
- Māori will play an increasing role in the primary sector and export economy.
- In the medium-term overall demand for tertiary education is forecast to fall, but there will be pockets of increased demand, particularly in Auckland, and for degree-level and vocational qualifications. *(Source: Ministry of Education and Department of Labour)*

### Educational assumptions

- Increased publication and use of educational performance information will see students being more selective about choosing programmes of study. TEOs will increasingly focus on education performance and graduate outcomes.
- Constraints on funding may lead to a number of mergers between institutions and the greater use of shared services.
- Students, employers and industry will become increasingly important stakeholders for TEOs. TEOs will need to demonstrate they are responding to the needs of these stakeholders.
- Student fees will increase and tuition subsidies increases will be constrained.
- Tuition subsidies will be used to signal Government priorities.

## **Organisational assumptions**

- The TEC's core functions will remain unchanged, but we will give increasing effort to ensure we are fit for purpose in the future. Our new structure will focus on funding and monitoring of tertiary education organisations to provide us with solid evidence to determine tertiary education needs.
- There will be ongoing and increased expectations for the TEC to demonstrate that it is providing value for money.
- The TEC will work closely with other agencies (particularly, but not exclusively, other education agencies) to deliver outcomes which will benefit the economy.
- The impacts of the Christchurch earthquakes will be significant and ongoing. Levels of provision in the region will be lower than previously anticipated, while provision in other parts of the country will increase to partly compensate for this decrease. Foundation level learning in the region will be particularly affected as many of the region's PTEs will be unable to deliver for a significant part of 2011. Recovery from the earthquakes may create significant increased demand for building related skills. The TEC will need to be able to work flexibly to respond to the changing needs of tertiary education stakeholders in the region, and support both providers and students through this period of uncertainty.

# Part Three: New Zealand's tertiary education goals

## Government structural policy drivers

The Government has identified six main structural policy drivers to improve New Zealand's economic performance and support more sustainable growth in the future. Three of the drivers are directly related to the tertiary education system:

- Ensuring New Zealand has the skills it needs — focused on improving literacy and numeracy, youth achievement and tertiary system improvement
- Supporting innovation and business — which in turn supports the evolution and growth of industry, and
- Improving public sector performance.

## Outcomes from tertiary education

The Government's vision is for a world-leading education system that equips all New Zealanders with the knowledge, skills and values to be successful citizens in the 21st century.

A world-leading education system is an important first step towards a productive and growing economy that delivers greater prosperity, security and opportunity for all New Zealanders.

Tertiary education is now widely recognised internationally as a major enabler of economic competitiveness, in an increasingly knowledge-driven global economy. High-quality tertiary education is more important than ever before and there is an imperative for countries to raise employment skills, to sustain a globally competitive research base and to improve knowledge dissemination to the benefit of society.

Access to high-quality tertiary education enriches people's lives, increases their employment opportunities and helps to build a productive skills base to drive economic growth.

OECD research concludes that it is best policy practice to ensure that tertiary education systems are integrated into, and responsive to, the needs of labour markets. Tertiary education has now become the principal means by which young adults equip themselves with the skills required for working life, and by which working adults refresh their skills.

Widening access to higher education can assist in developing a highly skilled workforce that can increase the knowledge intensity of traditional industries, expand the capacity of innovative economic centres of activity and, in doing so, increase the potential for economic growth.

The tertiary education sector is a seedbed of research and innovation in New Zealand. Research undertaken in tertiary education organisations contributes to a significant part of our innovation and creativity — not only in the economic sphere but also in the research excellence that preserves and enhances our culture and our environment.

## Outcomes and impacts

Higher educational attainment, in terms of recognised qualifications, is associated with a range of positive outcomes, including better income and employment.

There are strong social and economic benefits in ensuring that adults have good literacy and numeracy skills, including an association with higher earnings and increased chances of being in stable employment.

Qualifications at level 4 and above provide greater opportunities for higher incomes for people who earn over the median wage. Level 4 certificates are associated with higher employment and income than school qualifications. Men with level 4 certificates have very good rates of employment and relatively high incomes due to the high demand for trades qualifications at this level.

Diplomas are associated with similar employment rates as bachelors degrees, but slightly lower income. Women with diplomas are likely to have better health, have higher overall life satisfaction, are more likely to volunteer and to read to their preschool children than women with no qualifications. These effects are less evident for men.

The following measures will be reported on each year to track the tertiary system's progress toward the final outcomes sought for New Zealand:

- Percentage of the population 15 years and over with a tertiary qualification
- Percentage of population that have bachelor's degree or higher qualification
- Earnings premium of tertiary education (bachelors degree) beyond a school qualification, measured by nominal weekly median income.

### Outcome measures

Outcome	Measure	Trend	OECD average	Target
		2010	2010	2014
New Zealanders with the knowledge, skills and values to be successful citizens in the 21st century	Percentage of the population with a tertiary qualification (Level 4 and above)	48%	28%	52%
	Percentage of population with a bachelor's degree or higher qualification	25%	20%	28%
	Earnings premium of bachelor's degree or higher beyond a school qualification	1.37 times higher (2008)	1.64 times higher (2008)	1.50 times higher

Higher educational attainment is also associated with a number of other positive outcomes such as improved health. We will include a summary report on progress of these higher level outcomes for the whole of New Zealand society as part of our

annual reporting process, with supporting information from other government agencies.

### **Outcomes Framework**

Our Outcomes Framework describes the links between the Government's investment in tertiary education, our activities and those of the tertiary education sector, and the consequential outcomes for students and New Zealand as a whole. The diagram on page 16 represents our Outcomes Framework.

Aside from direct economic benefits, tertiary education enriches lives, contributes to a vibrant society and promotes freedom of thought and expression. New Zealand's culture is enriched through tertiary education's role in the arts and creative endeavours, which also helps to transmit the wider culture, including ahuatānga Māori and tikanga Māori, within society.

## **The Tertiary Education Strategy 2010-15**

Our primary strategic driver is the Tertiary Education Strategy. The Tertiary Education Strategy is issued by the Minister for Tertiary Education and sets out the Government's long-term strategic direction for tertiary education as well as the current and medium-term priorities. The current Tertiary Education Strategy 2010 - 2015 signals the Government's expectations of the sector.

The Tertiary Education Strategy is set within the Government's overall aims for New Zealand: economic growth that delivers greater prosperity, security, and opportunities for all New Zealanders. The Government's vision is for a world-leading education system that equips New Zealanders with the knowledge, skills and values to be successful citizens in the 21st century. To achieve this, the Government expects the tertiary education system to:

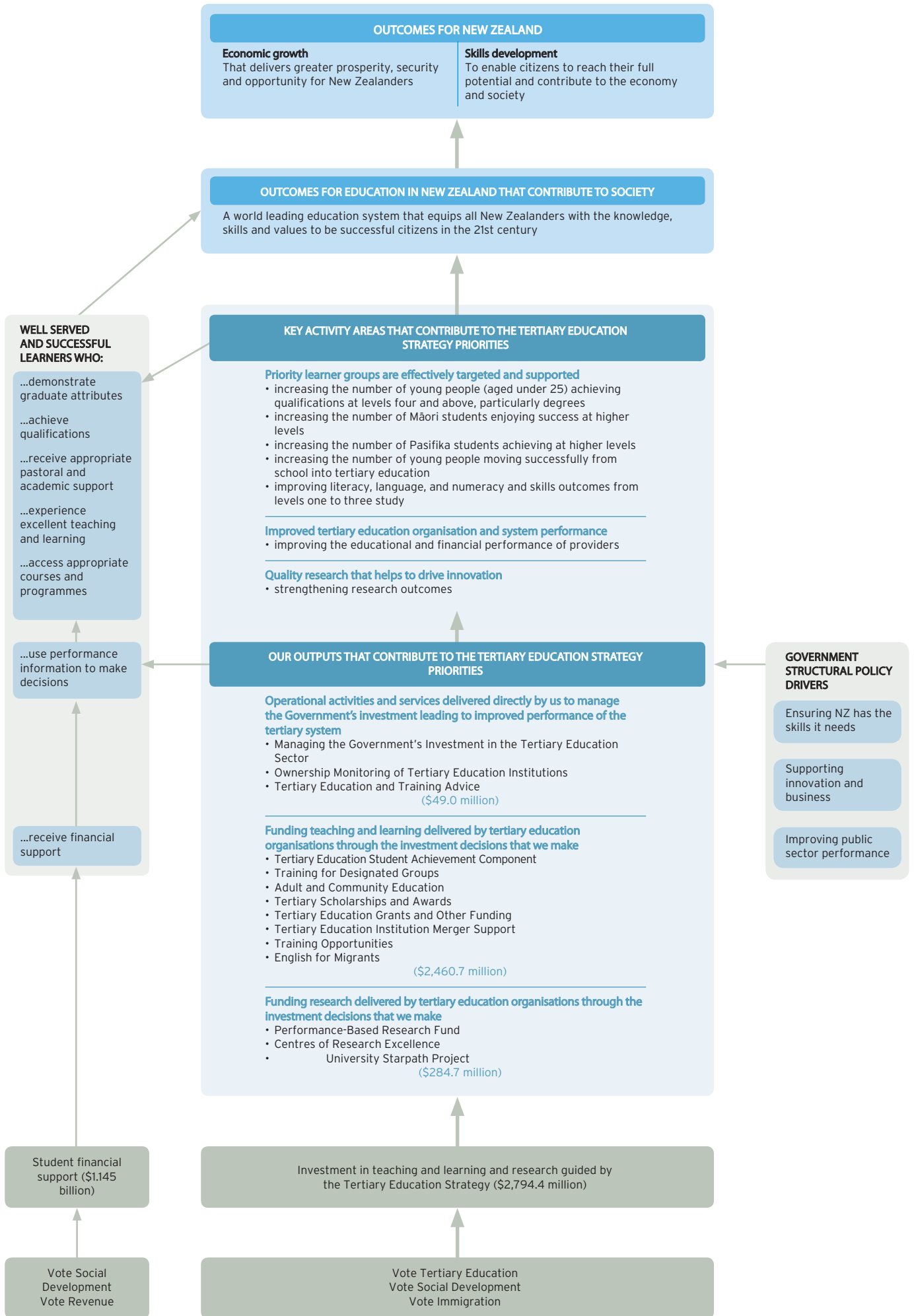
- Provide learning opportunities for New Zealanders of all backgrounds to gain world-class skills and knowledge
- Raise the skills and knowledge of the current and future workforce to meet labour market demand and social needs
- Produce high-quality research to build New Zealand's knowledge base and respond to the needs of the economy
- Enable Māori to enjoy education success as Māori.

Through the Tertiary Education Strategy, the Government has indicated clear choices about the priorities for investment and access across the whole tertiary education system.

The strategic direction sends clear messages to tertiary education organisations and students about what the Government requires for the investment provided. Tertiary education organisations are expected to focus on the priorities set out in the Tertiary Education Strategy and strengthen their engagement with students, communities and industries.

The Government expects students to take responsibility for their own performance. Providers also need to create learning environments that support progression and completion by a diverse range of students.

# Our outcomes framework



## **Tertiary Education Strategy Priorities**

The tertiary education sector is expected to work towards achieving the following priorities:

- Increasing the number of young people (aged under 25) achieving qualifications at levels four and above, particularly degrees
- Increasing the number of Māori students enjoying success at higher levels
- Increasing the number of Pasifika students achieving at higher levels
- Increasing the number of young people moving successfully from school into tertiary education
- Improving literacy, language and numeracy, and skills outcomes from levels one to three study
- Improving the educational and financial performance of providers
- Strengthening research outcomes.

Tertiary education organisations and industry training organisations are also expected to:

- Manage costs
- Continue to seek efficiency gains
- Explore additional sources of revenue
- Ensure the qualifications they offer best meet student and employer needs.

A key driver to improve the efficiency of public investment in tertiary education is to improve course and qualification completion rates.

The Government has signalled its intention to let tertiary education organisations concentrate on their job while being supported and encouraged to do it well. There is an increased emphasis on performance incentives and accountability.

Tertiary education organisations that perform well can expect less engagement with us, while we will work more intensively to improve the performance of those organisations that are not performing well.

The tertiary education system has been designed so that students are well served by their tertiary education organisations. Students are expected to be successful in completing their study, and in acquiring the skills needed to grow the New Zealand economy now and in the future.

## **Longer-term focus**

Our overall focus beyond the period of the current Tertiary Education Strategy is unlikely to change significantly, although there may be changes in emphasis of some priorities. We will undertake strategic reviews on an ongoing basis to ensure we have a better understanding of where our effort and resource need to be focused in the longer-term.

## Part Four: TEC key activity areas

The education sector's prime focus is on skills and knowledge development. New Zealand faces a big challenge to overcome its historically low productivity rates and to deliver greater prosperity and opportunity for New Zealanders. Developing skills is important for our long-term productivity and future growth.

Higher skills increase the productivity of individuals and the productivity of others they work with. Skills underpin firms' ability to innovate and apply new ideas, and adapt to competitive challenges and new markets.

Tertiary education plays a key role in improving the skills and knowledge of the workforce and in building on New Zealand's knowledge base through research. International students studying at New Zealand institutions are an additional source of skills and knowledge for the New Zealand labour market.

Under this overarching theme, we have three key activity areas which we will focus on over the next three years:

- Priority learner groups are effectively targeted and supported
- Improved tertiary education organisation and system performance
- Quality research that helps to drive innovation.

### The imperative for change

Our tertiary education system already delivers major benefits to our economy, society and environment through the development of skilled and adaptable people, and through the new ideas created by research and scholarship. However, if the country is to achieve its national vision and respond to the challenges of globalisation, accelerating technological change and the increasing importance of knowledge, the tertiary education system will need to play an even greater role and one that differs in focus. Two types of change are required.

Firstly, the tertiary education system and key sectors and communities in New Zealand need to be better connected. This is essential if New Zealand is to build from its existing strengths while also developing new strengths.

Secondly, the tertiary education system must significantly raise the skill levels of all New Zealanders so as to ensure they are adept at creating knowledge, transferring knowledge, and applying that knowledge through all parts of the economy and society.

### Where are we now?

The broad direction of travel is appropriate but progress across a number of fronts is too slow.

The investing in a Plan process is largely bedded in. Gains in system performance and learning outcomes for students have been made. Tertiary education organisations are becoming more responsive to their stakeholders.

But, the significant difference between results for Māori and Pacific students and all other groups of students must be addressed.

And there is still a huge distance to travel before the language, literacy and numeracy rates of New Zealanders are adequate for full participation in society.

New Zealand has a long tail of underachievement and far too many young people disengaging from education early.

### **Where do we want to be?**

The tertiary education system needs to deliver education and training relevant to New Zealand's economic, social and environmental needs, with significantly improved outcomes for all students, and especially for Māori and Pacific students. The education system needs to improve transitions for young people, address literacy and numeracy gaps, and, in conjunction with other agencies, ensure that funding and policy provide coherent solutions across secondary and tertiary education sectors.

The things that are being taught, the focus of research and the way these things are being done all need to be much more aligned to the needs of students, industry, employers and our society.

The quality of management in tertiary education organisations needs to be of the highest calibre to develop our most important national resource – human capital.

### **How do we get there?**

Achieving a step change in tertiary education performance will require resolve, leadership and partnership between the Government, the sector, and the TEC. There needs to be a shared commitment to growing human capital, responding to national and regional need and driving up performance.

Students, business and the community will play an increasingly important role through their expectations and influence. The views of stakeholders need to be clearly articulated and in turn heard by tertiary education organisations and responded to appropriately.

### **What will the TEC do differently?**

We are committed to providing leadership in the tertiary sector to ensure that our society gets better outcomes and better value for money from its investment in tertiary education. We have both the mandate and the tools to make a difference; for students, for employers, for industry and for society as a whole.

Improving public sector performance is one of the Government's six principal policy drivers. We will model the efficiency and effectiveness we expect to see across the tertiary education sector.

We will make greater use of our levers of Plan Guidance, funding decisions and performance monitoring in order to achieve higher levels of system and tertiary education performance.

We will invest in high quality provision and not invest in provision that is not well aligned to need or achieving acceptable student outcomes. We will shift funding between sub-sectors and across regions to meet emerging needs.

We will incentivise the right focus and behaviours through the investment plan system and ensure tertiary education organisations are meeting their commitments.

Where tertiary education organisations are not meeting their commitments, where their provision is not relevant for employers and industry or it is not achieving good outcomes for their students, we will remove funding. In the past we have done this at the margins of the system – going forward, we will have the highest expectations for quality and performance.

Our approach to high performing organisations will be hands off, while our approach to poor performing organisations will be intensive oversight. We will ensure that risk is owned by tertiary education organisations and that our monitoring work focuses more on progress against Plan commitments and medium term sustainability.

## **Key activity area one: Priority learner groups are effectively targeted and supported**

This key activity area contributes to the following Tertiary Education Strategy priorities:

- Increasing the number of young people (aged under 25) achieving qualifications at levels four and above, particularly in degrees
- Increasing the number of Māori students enjoying success at higher levels
- Increasing the number of Pasifika students achieving at higher levels
- Increasing the number of young people moving successfully from school into tertiary education
- Improving literacy, language, and numeracy, and skills outcomes from levels one to three study.

### **Why this is important**

The large disparities in tertiary education achievement in New Zealand need to be urgently addressed. Māori and Pacific people have much lower rates of achievement in tertiary education compared to other groups of students. Participation in tertiary education has increased over the past decade for both groups, but outcomes have not improved at the same rate.<sup>5</sup>

Despite these issues being the priority of successive Governments, the qualification completion gap between Māori and Pacific people, and the rest of the country is still far too big. Māori and Pacific people will be an increasingly large proportion of the population, and even larger proportion of our workforce. A step change is required from the Tertiary Education Commission, tertiary education organisations and stakeholders to address this issue.

Far too many young people are failing to leave school with the skills to make a useful contribution to the workforce and society. Young people are the principal source of new skills in the labour market, so it is important that young people are engaging in education or are in employment.

One significant initiative is Youth Guarantee which offers vocationally focused educational opportunities as well as improving transitions between school, tertiary education and work for targeted 16 - 17 year olds.

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<sup>5</sup> Between 2001-2008, Māori participation increased from 14% to nearly 17% of all enrolments. Over the same period Pacific participation increased from around 9% to nearly 12% of all enrolments. But qualification completion rates, especially at higher levels, remain low. For example, 5-year qualification completion rates (for 2005 starters) for a bachelors level degree are only 50% for Māori and 40% for Pacific, compared to 70% overall.

New Zealand has an increasingly ageing population. The growing dependency ratio (number of dependents compared to working age) will mean people need to work to a greater age. Increases in health and wellness will make this possible, but people will need to be able to grow and develop skills and knowledge throughout their working life.

The 2006 Adult Literacy and Lifeskills (ALL) survey showed that 43% of adult New Zealanders aged 16 to 65 have literacy and numeracy skills below those needed to participate fully in a modern, high-skilled economy. Studies show that increasing workforce literacy and numeracy skills results in significant increases in workplace productivity. We need to increase our focus on foundation level study (Levels 1-3) to ensure that programmes are appropriate and get the results our society needs in the most effective and efficient way.

### **What we will do**

- Use our funding and monitoring levers for tertiary education organisations to target improved participation and achievement of priority learner groups. Proposed new mechanisms and levers will be developed during 2011/12.
- Work closely with the Ministry of Education (and other agencies as appropriate) to support policy development and implementation of initiatives to improve secondary to tertiary transitions, including an expansion of the Government's Youth Guarantee programme. Ongoing work will include expanding and supporting improved outcomes from Youth Guarantee and expansion of Trades Academies.
- Continue to work actively with tertiary education organisations to require shifts in provision in alignment with Tertiary Education Strategy priorities, particularly student performance and success of priority groups. Annual measurement of performance will incentivise ongoing commitment to improvement.
- Actively manage the performance of tertiary education organisations on an annual basis, using a range of levers (including funding), where insufficient progress is being made in accordance with their Plan commitments.
- Expand the range of tertiary education performance information available to the public, including graduate destination data (for example, graduate employment and income information), to help students make decisions about the most appropriate programmes to enrol in.
- Continue current work with the Ministry of Education to consider new performance measures for measuring Māori success consistent with the goals of *Ka Hikitia*.

### **How we will measure progress**

The measurement of tertiary education performance is changing from an enrolment-driven approach to one focused on the achievement of high-quality outputs, with a specific emphasis on qualification completion rates for Māori and Pacific peoples.

## Qualification completions

Impact	Measure	Trend		Target
		2005	2009	2014
	<b>Five-year qualification completion rates</b>			
Increasing the number of Māori students enjoying success at higher levels	Māori students	42%	42%	45%
	Pacific students	40%	42%	45%
Increasing the number of Pasifika students achieving at higher levels	All students (excluding Māori and Pacific)	46%	48%	51%
	All students	45%	46%	49%

## Young people in tertiary education

Impact	Measure	Trend		Target
		2005	2009	2014
Increasing the number of young people (aged under 25) achieving qualifications at levels four and above, particularly in degrees	Number of domestic students by the age of 19 who had made the transition to tertiary education	53%	58%	63%
Increasing the number of young people moving successfully from school into tertiary education	Proportion of people aged 15 to 24 with a tertiary qualification	24%	25%	28%

## Literacy and numeracy

Impact	Measure	Trend		Target
		2005	2009	2014
Improving literacy, language, and numeracy, and skills outcomes from levels one to three study	Percentage of students who demonstrate statistically significant increases in literacy and numeracy skills as measured by the Literacy and Numeracy for Adults Assessment Tool <sup>6</sup>	New measure	New measure	75%

<sup>6</sup> This new measure includes students who are assessed as requiring further literacy and numeracy development, who have participated in level 1-3 programmes which include embedded literacy and numeracy. From 2010, the Literacy and Numeracy for Adults Assessment Tool is available for use by providers and will provide consistent and robust data about students' literacy and numeracy progress.

## Key activity area two: Improved tertiary education organisation and system performance

This key activity area contributes to the following Tertiary Education Strategy priority of improving the educational and financial performance of providers.

### Why this is important

The Government provides over \$4 billion of funding in tertiary education each year (including funding for Student Loans and Allowances). The public needs to be sure that it is getting good value for money.

The tertiary education sector has received increased Government expenditure each year since 2000. In the current economic climate, the Government has clearly signalled that it is not able to continue to increase investment in tertiary education.

In the short-term, demand for tertiary education is expected to rise, especially for university places and in areas of population growth, notably Auckland. While the country is coming out of the recession, economic growth and employment growth are still slow. This will mean ongoing pressure from young people wanting tertiary education and training as well as higher numbers of people wanting to up-skill to improve their chance of being employed or moving up in the labour market.

The effects of the Christchurch earthquakes in 2010 and 2011 will require us to work more flexibly to support provision and providers in the Canterbury region. This may involve, for example, consideration of additional funding for providers or of the effect of the earthquake on TEO performance and consequences for performance-linked funding. There may also be opportunities for the TEC to support creative approaches to shared services by Christchurch providers.

Increased student demand with the same level of funding will put pressure on tertiary education organisations to perform. They will need to be better at managing their financial performance, and they will need to be better at improving educational performance for their students. Students need to be completing qualifications which give them the skills that employers need, so they can secure employment.

As a measure of success of a high-performing system, we look to tertiary education organisations to improve the responsiveness of programmes for students, business, industry and communities.

### What we will do

- Use Plan Guidance, engagement and approval processes to support a deepening of tertiary education organisations' engagement with and responsiveness to students, employers, business, industry and communities. Plan guidance will be updated and refined annually to provide better insights to TEOs about the requirements of government, students, and key stakeholders.

- Use plan engagement to provide confidence to government that tertiary education institutions (TEIs) are meeting the tertiary education needs of industry, business, employers and communities.
- Share information between the Tertiary Education Commission and the New Zealand Qualifications Authority and implement a performance consequences framework to promote excellence in quality management and governance across the tertiary education system. Agencies will commence roll out of the new event driven data collection system from 2011.
- Collect performance data in preparation for the introduction of performance-linked funding in 2012. This will take place throughout 2011.
- Monitor risk (including ownership risk issues) and performance and undertake interventions according to our monitoring and reporting framework. We will report to the Minister on TEI risk each quarter.
- Assist tertiary education institutions to use benchmarking analysis and efficiency measures to identify opportunities for performance and efficiency improvement. All tertiary education institutions will be encouraged to take up use of the New Zealand Benchmarking Tool by the end of 2012.
- Explore ways to ensure tertiary education organisations work with students to ensure they enrol in programmes most appropriate for their circumstances. We will work with tertiary education organisations through 2012 to develop a template for Key Information Statements.

### How we will measure progress

Specific areas of improved system performance where we want to have an impact over the longer term are improved tertiary education organisation governance, financial and educational performance. We also intend to monitor how tertiary education organisations are increasingly responsive to the needs of their stakeholders including students, business, industries, and local communities.

Impact	Measure	Trend	Forecast 2011/12
Improving the educational and financial performance of providers	Standard performance measures reported, monitored and published annually	Performance measures were first published October 2010	Performance measures published
	Tertiary education organisations publish Key Information Statements to support student decision making	New measure	Under development <sup>7</sup>
	Number of high-risk tertiary education institutions measured in the six-monthly report to the Minister	In the August 2010 report 3 TEIs were assessed as high risk	<5 <sup>8</sup>

<sup>7</sup> The TEC will develop a standard reporting template for tertiary education organisations to publish information about fees, subsidy levels and educational outcomes, including labour market outcomes.

<sup>8</sup> Ongoing economic uncertainty is likely to mean increased financial and educational viability pressure for TEIs in the next year.

## **Key activity area three: Quality research that helps to drive innovation**

This key activity area contributes to the following Tertiary Education Strategy priority of strengthening research outcomes.

### **Why this is important**

Research-driven innovation will be a major factor in helping New Zealand industries become more productive. High quality research is critical to economic growth. To be productive, our country must have a strong contribution from tertiary education organisations in the area of research and innovation. Supporting innovation and business – which in turn supports the evolution and growth of industry – is one of the Government's main structural policy drivers.

As part of the tertiary education reforms that began in 2000, the Government has developed two major means of supporting research in the tertiary education sector:

- Performance-Based Research Fund
- Centres of Research Excellence

The Performance-Based Research Fund has shifted the basis of research funding from a system based on student enrolments to one where funding is allocated on the basis of research performance, as evidenced through research quality, external research income and research degree completions by postgraduate students. Research quality is measured through periodic Quality Evaluations<sup>9</sup>, in which evidence portfolios from staff eligible for the Performance-Based Research Fund are independently assessed by peer review panels. The aggregated results are publicly reported. The results of the Quality Evaluation, together with the results of the Research Degree Completions and External Research Income measures, provide the basis for annual formulaic funding allocations to participating organisations.

New Zealand's innovation system is a complex network of research organisations, tertiary education organisations, industry associations, financial institutions and communities. Centres of Research Excellence are designed to support world-class research that will contribute to New Zealand's development as a knowledge society. These centres are inter-institutional research networks, with researchers working together on a commonly agreed research plan.

### **What we will do**

- Implement the 2012 Performance-Based Research Fund Quality Evaluation as part of work to reward and encourage excellent research and research-based teaching and learning.

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<sup>9</sup> Quality Evaluation of researchers through the peer review panels is conducted every six years.

- Provide input into policy development on research-related issues and operational implications for tertiary education and the sector as a whole, on an ongoing basis.
- Continually work closely with other agencies in the science and innovation area (including the Ministry of Science and Innovation) to ensure coherence of funding and operational policy.
- Future Plan guidance documentation will include a focus on the importance of research and innovation, particularly linked to the needs of the economy, society and environment.

## How we will measure progress

Impact measures for research are based on indicators that the overall quality of research in the tertiary education sector is improving.

### Quality Evaluation

Impact	Measure	Trend		Target
		2003	2006 <sup>10</sup>	2012
Strengthening research outcomes	Average quality of research measured by the average FTE weighted quality score (out of a potential maximum score of 10)	2.59	3.26	3.75
	Number of staff in tertiary education organisations undertaking research of a world-class standard. <sup>11</sup> This is measured by the % of the PBRF eligible staff Evidence Portfolios assigned an "A" Quality Category by a peer review panel. (FTE weighted)	5.7%	10.9%	12.0%

### External Research Income

Impact	Measure	Trend	Target			
		2009	2011	2012	2013	2014
Strengthening research outcomes	External research income measured by the income generated by the tertiary education organisations participating in the PBRF	\$411m	\$427m	\$444m	\$480m	\$500m

### Relevance

Impact	Measure	Trend	Target			
		2009	2011	2012	2013	2014
Strengthening research outcomes	Plans of tertiary education organisations receiving research funding, demonstrate alignment with Government's science and research agenda	New measure	95%	95%	95%	95%

<sup>10</sup> For this measure, 2006 figures only include tertiary education organisations that participated in the 2003 evaluation.

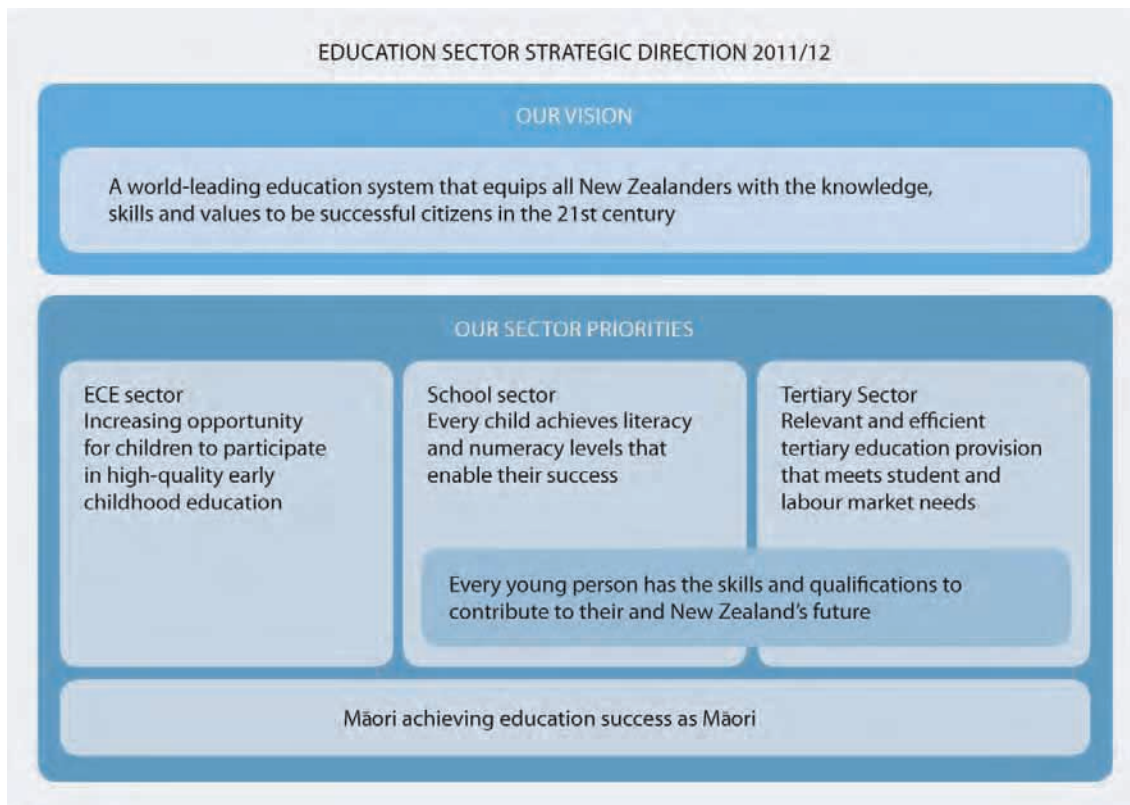
<sup>11</sup> 2006 was a partial round and the same rate of increase between 2006 and 2012 is unlikely.

# Part Five: How we work with others

## Whole of Government alignment

Working with other agencies is vital to achieving the Government's education priorities. Key government agencies include the Ministry of Education, the New Zealand Qualifications Authority, Career Services, the Ministry of Science and Innovation, the Ministry of Economic Development, the Department of Labour and the Ministry of Social Development.

### Education Sector Alignment



There are six education agencies that are directly involved in managing the education sector: The Ministry of Education, the New Zealand Qualifications Authority, the Tertiary Education Commission, the New Zealand Teacher's Council, the Education Review Office and Career Services. We have all agreed to work towards the following priorities both individually and collectively, under the following three themes:

- Leadership
- Ensuring opportunities for all
- Transitions.

## **Leadership**

The Government is, by far, the largest funder of tertiary education in our country. Agencies need to provide leadership to the sector to ensure that we are getting the best value for money for society, the best outcomes for students, and that employers have employees with the skills they need to do the job.

We will work together to provide information on what value for money means and which tertiary education organisations are providing it.

We will work to make more information available to students – on graduate outcomes and incomes, building on the information we're already publishing.

We will work to ensure the Government knows what it's buying and why – and work to implement a system whereby funding decisions can be made and adjusted on the basis of which organisations are providing the best value.

We will continue to work closely with the New Zealand Qualifications Authority to ensure alignment between our performance monitoring and their external evaluation and review system.

We will provide information on programme evaluations to tell tertiary education organisations what works, and we will coordinate information from other government agencies (for example, Department of Labour, Ministry of Economic Development), on future skills needs.

We will ensure efficiencies and effectiveness in education spending by sharing services such as IT, helpdesk services, administration services and accommodation, streamlining services and information to the public. This may include such initiatives as links between agency websites and shared services and information and communications technologies to ensure effective and efficient investment.

## **Ensuring opportunities for all**

The current tertiary education system is not delivering results for significant parts of our society. There is a long-tail of underachievement. Adult literacy rates are low. Māori and Pacific peoples are consistently represented in the lowest deciles of achievement.

There are social and economic benefits in ensuring that adults have strong literacy and numeracy skills, including higher earnings and increased chances of being in stable employment. Literacy and numeracy skills enhance access to higher level qualifications and workplace skills. Improving workforce literacy and numeracy remains a key focus of our activity.

Guided by *Ka Hikitia – Managing for Success: The Māori Education Strategy 2008–2012*, agencies are responsible for ensuring that Māori are able to access education services across the sector and are provided with information to enable good decisions about appropriate services and programmes. We will give greater attention to what we can do to strengthen the rate of change needed to achieve the goals of *Ka Hikitia*.

We will also give greater attention to what we can do to strengthen the rate of change needed to achieve the goals of the *Pasifika Education Plan 2009–2012*. Continued work across agencies will ensure young Pacific peoples are able to access education services

and are provided with information to enable good decisions about appropriate services and programmes.

## **Transitions**

Too many of our young people are leaving school and not entering paid work or study. The unemployment rate for 15-19 year olds is significantly higher than the rest of the population and over the past two years has consistently reached 25%.

The Government's Youth Guarantee programme will be expanded and improved. We will direct funding and monitoring of tertiary education organisations to incentivise appropriate responses to the needs of young people.

We will examine the regulatory settings and funding models to ensure young people have the information and guidance they need to make good education choices. Work will also include building capacity and capability in schools and tertiary education institutions.

## **Key stakeholders**

In addition to our work with government agencies, we cannot be successful in our work without involving key stakeholders to inform and support our work. We work with:

- Tertiary education institution bodies, including Universities New Zealand – Te Pōkai Tara (formerly the New Zealand Vice Chancellors' Committee); New Zealand Metropolitan ITPs; New Zealand Institutes of Technology and Polytechnics; and Te Taihū o Ngā Wānanga
- Private training education bodies: New Zealand Association of Private Education Providers; Independent Tertiary Institutions
- National bodies with a focus on Māori education: The Aotearoa Māori Providers of Training, Education & Employment
- Iwi and iwi representative bodies
- National bodies with a focus on Pacific education: Association of the Pasifika Staff in Tertiary Education; Pacific Islands Tertiary Education Providers of New Zealand
- The Industry Training Federation
- The Council of Trade Unions
- The Tertiary Education Union
- National bodies with a focus on business: Business New Zealand
- National bodies with a focus on community education: Community Learning Association through Schools; Adult and Community Education Aotearoa; ACE Strategic Alliance
- The Adult Literacy Practitioners Association
- The Literacy Alliance.

To get students' perspectives, we invite a student participant to be a non-voting member of our Board of Commissioners and we convene a Learners' Advisory Committee of the Board. We also work with other learner representative bodies, for example, the New Zealand Union of Students' Associations.

## Part Six: Developing our capability in 2011 and beyond

Late in 2010 the Minister announced changes to some of the TEC's responsibilities. At the same time, the Board of the TEC has been considering whether there are opportunities for the TEC to be more efficient and effective in its work and how the organisation can be positioned to respond to changes in the tertiary education sector.

Our Board is instituting an organisational structure based on a professional services model with thought leaders in key roles, rather than a more traditional management structure. This will result in improvements in what we achieve, the quality of what we do, and how efficiently we do it. The number of directorates has been reduced with functions distributed in a way that will maximise interdependencies between directorates. Ensuring the organisation is structured in a way that supports whole of business projects is also a core aspect of the restructure of the organisation.

The TEC's key functions are illustrated in the following diagram:

### TEC organisational functions



Our interface with tertiary education organisations will be simpler and more transparent. Our activities will be underpinned by a commitment to performance across all facets of our organisation, and to driving performance across the sector as a whole.

We will be enhancing our strategic planning capability alongside our operational flexibility in order to deliver appropriate and adaptable education funding solutions.

We are developing our capability to be an expert service provider of information. We are in the unique position to be able to gather data and information from a wide range of sources: from the country's strategic imperatives to the educational performance of individual tertiary education organisations, and including evidence and analysis of what works, both in New Zealand and in other jurisdictions. We will use our capability to

provide synthesised, useable evidence to inform our own investment decisions as well as tertiary education organisations' planning assumptions.

## **Systems and Process**

To achieve the priorities we need to extend, improve and consolidate our core business processes and streamline the systems we employ. To this end we will seek and implement a new integrated funding and contract management system. We will migrate to this new platform all existing funds and contracts and retire all legacy systems.

This new system will streamline how we manage funds and consolidate in one place the obligations that exist between the TEC and the TEOs. It will also improve decision transparency, use workflow to automate approvals and provide TEOs with significantly enhanced self-service capability. This investment will also reduce data duplication and in so doing, improve data quality and decision consistency.

Significant changes are underway in the way in which we will be funding TEOs in the future. We are moving from a funding system based almost entirely on enrolments to one where some funding will be linked to the performance of individual providers, but also one where we can make more targeted investment decisions. These changes in funding approach require more robust monitoring of TEOs' performance, which in turn requires more timely, accurate and accessible tertiary data.

Fit for purpose tertiary data is required by the education sector agencies (Ministry of Education, NZQA, TEC and StudyLink) and also by other government agencies, TEOs, students and the general public. For example, students and prospective students need timely accurate information about the quality and performance of TEOs to help them make choices about what and where they will study.

Unlike current manual systems, tertiary information needs to be collected in a seamless way and made easily accessible, through systems that reduce the cost of compliance for TEOs.

We have a role in enabling improved sector efficiency by increasing the quality and availability of tertiary information, and facilitating the sharing of best-practice knowledge. We need data and information that is much more 'fit for purpose'. This means collecting the right data, at the right time, in the right way, and with a robust framework.

Education agencies (Ministry of Education, NZQA and TEC) are working towards a shared services approach based on best-practice principles in the design and implementation of improved tertiary information management.

The cross-agency work programme will deliver:

- Robust core data registers
- 'Event-driven' data collection that records transactions of learners in near real-time
- More effective cross-agency process integration
- End-to-end design, to create a single coherent system.

Each central agency is responsible for separate components of the work to improve tertiary information. The Ministry and NZQA are responsible for the core data registers, messaging infrastructure and access, and authentication services.

The TEC is responsible for two components:

- A new mechanism to centrally capture all core learner participation and achievement events in tertiary education
- New functionality that will make tertiary information available to a wide range of end users, including TEOs, government agencies, learners and the general public.

The programme will roll-out over 2010-14, focussing initially on parts of the sector where there is greatest need for improvement, particularly the conversion to the event-driven data collection system.

ITOs will commence using event-driven data collection in 2011, with ITPs and PTEs being phased in from 2012, and other TEOs by 2014.

Future State	Current State	Gap	Priorities for the Future
Capital is allocated to the TEC's strategic priorities as outlined in the SOI. Success criteria that clearly link objectives to outcomes with clear links to the TEC's key strategic priorities.	Capital spend is primarily used to attend to historic priorities of an urgent nature.	Timeframes do not allow for well developed business cases. Insufficient involvement of all key internal stakeholders throughout the programme/project.	Capital spend is delivered to plan. There is effective governance monitoring, good design of capital projects, effective participation and impact using change management disciplines. Change impact delivers to plan expectations.
Single integrated and configurable contract-centric solution to support all funds. Supporting a simplified approach to fund implementation.	Data, process and system duplication. Missing functionality, manual processes. Poor data quality, integration and documentation.	Consolidated version of the process is required. Business Change governance mechanism to drive intelligent aligned change. Common information definitions.	Agree a standard fund process. Find a suitable single integrated system. Migrate and retire legacy.
Sector performance information is published and able to be used by stakeholders to make appropriate decisions.	Information is patchy and not always reliable.	More reliable information required. A broader range of information for stakeholders.	Development of graduate outcomes/destination and income measures.
Our policies reflect good quality business practices.	Development and review of policies and procedures are not given a sufficiently high priority nor seen as a key part of the TEC's business.	The status and nature of some policies and procedures have not kept up with the changing environment. Policies are not reviewed or updated in a timely manner.	Policies are reviewed and updated in realistic timeframes. Policies are known, understood and used appropriately by all staff.

## Measures

	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Annual Target
Capital Spend	As reported	As reported	As reported	As reported	+ /- 5% variance
<b>Core business processes delivered to plan</b>					
Effective governance	√ or X	√ or X	√ or X	√ or X	4/5
Good design	√ or X	√ or X	√ or X	√ or X	4/5
Effective Change management	√ or X	√ or X	√ or X	√ or X	4/5
<b>Sector performance information</b>					
Development of graduate outcomes/destination and income measures	N/A				√ or X
Working effectively with other education sector agencies to develop improved tertiary information	N/A				√ or X
<b>Policies</b>					
% Policies reviewed	As reported	As reported	As reported	As reported	100% of policies reviewed by due date

## Develop staff to their full potential

We are committed to developing strategies that enable the successful recruitment, retention and development of employees and which contribute to the wider sector. Our investment managers are required to have generic capabilities (e.g. relationship management) across fund types. In addition, expertise in core business practices management and leadership skills are valued. We need to attract and retain skilled individuals to deliver the TEC's core business.

Future State	Current State	Gap	Priorities for the Future
<p>Voluntary staff turnover is stable at less than 15% per year.</p> <p>We look at positive staff turnover where we promote or transfer people internally.</p>	<p>Staff turnover: 2009/10: 14.6% 2008/09: 20.3%</p> <p>The TEC has a staff turnover rate higher than the state sector average.</p>	<p>The cost of recruiting and training new staff and high staff turnover impacts negatively on productivity.</p> <p>Staff turnover can be as a result of external as well as internal environmental activity.</p> <p>Contractors and fixed term positions are used where we are unable to fill a role with a suitable candidate.</p>	<p>Training programmes for managers to improve their leadership/management skills</p> <p>Analysis of exit interviews gives an understanding of why people leave the TEC.</p> <p>Analysis of comparatives with similar organisations used to benchmark our performance in the state sector and to identify exemplars for further analysis.</p>
<p>Staff development is well funded, effectively undertaken and performance improvement measured.</p>	<p>Training and development expenditure.</p> <p>YTD 30 Nov 2010: \$128,445 actual (\$124,009 budget)</p> <p>Percentage of Individual Development Plans completed (at February 2011) – 36%</p>	<p>Training outcomes are not set nor measured equally across the TEC. Spend of allocated training budgets differs across Directorates.</p>	<p>Staff training is determined for 100% of staff as part of the Performance Development and Planning.</p> <p>Pre- and post-training measures are implemented.</p> <p>All managers' KPIs contain the requirement that all of their staff have individual development plans, and that all training plans for staff are implemented.</p>
<p>Staff engagement survey results for the TEC is at the New Zealand best practice.</p>	<p>2010 result: 51st percentile of the NZ state sector.</p> <p>2009 result: 47th percentile of the NZ state sector.</p>	<p>Staff do not know clearly what is expected of them at work.</p> <p>There is a misalignment between skills and roles.</p> <p>Open communication needs to improve across the TEC.</p>	<p>Enhance clarity of the TEC's vision for all staff. All staff know how their individual role links and contributes to the mission and purpose of the organisation.</p> <p>Managers engage with their team members and have meaningful conversations about an individual's performance.</p> <p>Every manager has a Staff Engagement Action Plan developed and agreed with their team. Action Plans for all teams are logged with Human Resources, which drives organisation interventions where appropriate.</p>
<p>The TEC demonstrates that it is committed to maintaining a working environment that promotes staff productivity and wellbeing.</p>	<p>Average sick leave days: 2010: 3.7 2009: 4.0</p>	<p>Sick leave data is variable.</p>	<p>Nurture and maintain the TEC's wellness programme.</p> <p>Implement systems changes to improve human resource data reliability.</p>

## Measures

We are implementing measures that will highlight our progress towards building a new organisation that is fit for purpose. During each quarter of 2011/12, we will monitor these new measures and report to the Board. The focus on these indicators will support the culture and organisational changes intended in the 2010/11 TEC Review.

<b>Staff Turnover</b>	<b>Quarter 1</b>	<b>Quarter 2</b>	<b>Quarter 3</b>	<b>Quarter 4</b>	<b>Annual</b>	<b>Target</b>
Voluntary staff turnover	3.0%	4.0%	4.0%	3.0%	14.0%	Less than state sector average
<b>Staff Development</b>						
% of training budget which is spent	N/A	N/A	N/A	N/A	100%	100%
% of staff with training plans	N/A	N/A	N/A	N/A	100%	100%
<b>Staff Engagement</b>						
Survey results: Actual percentile NZ state sector	N/A	N/A	N/A	N/A		Increase over 2010 survey
<b>Sick leave</b>						
% hours absent due to illness	2.6%	2.6%	2.6%	2.6%	2.6%	Less than state sector average

## Part Seven: Risks and challenges

To be successful in our role, we are required to identify and manage the internal and external risks that can impact on delivering the Tertiary Education Strategy priorities.

We have adopted a systematic approach to identifying, analysing, evaluating, mitigating and monitoring our key organisational risks. Our approach is consistent with the principles of an effective risk management system<sup>12</sup> and is designed to be integrated into management's core functions.

We include the identification and evaluation of significant operating risks as a core component of our planning and reporting process and undertake quarterly reviews by our Executive Team of our core organisational risks. We report risks to the TEC Board of Commissioners depending on the mitigated level of risk.

The following table provides an overview of our core agency and Crown risks and the mitigating strategies.

Our core organisational risks	Our response strategy: how we will mitigate this risk
<p><b>Delivery of the Government's priorities</b> Failure to deliver on the Government priorities as set out in the Tertiary Education Strategy.</p> <p>The effects of the Christchurch earthquakes may well impact on the sector's ability to deliver to these priorities</p>	<ul style="list-style-type: none"> <li>• Working closely with other government agencies to deliver on the Tertiary Education Strategy priorities</li> <li>• Effective engagement with our key stakeholders</li> <li>• Work closely with sub sectors to deliver on related priorities</li> <li>• Ensure Plans are aligned with the priorities</li> <li>• Work closely with Christchurch TEOs to ensure that student demand is met across the system as a whole without undermining the viability and sustainability of Christchurch institutions</li> </ul>
<p><b>Organisational performance</b> Not having the internal capability and capacity to deliver on the work programme. This includes transitional risks following the organisational review undertaken during 2010/11</p>	<ul style="list-style-type: none"> <li>• The Board and Executive Management working together during the transitional period 2011/12</li> <li>• Executive oversight of the work programme and major cross organisation projects</li> <li>• Review and strengthen the major cross organisation systems and processes to ensure that they are efficient and that they effectively deliver on the business requirements</li> <li>• Develop and implement comprehensive human resource strategies to attract, develop and retain staff</li> </ul>

<sup>12</sup> As set out in the Joint Australian New Zealand International Standard for Risk Management (AS/NZS ISO 31000:2009).

Our core organisational risks	Our response strategy: how we will mitigate this risk
<p><b>Fund management</b> Failure to properly manage the Crown funds for which we are responsible</p>	<ul style="list-style-type: none"> <li>• Simplify the funding mechanism and supporting systems that we are responsible for</li> <li>• Maintain clearly defined and transparent funding rules and conditions that are appropriate for the different Crown funds</li> <li>• Operate an effective and efficient tertiary education organisation monitoring system</li> <li>• Take appropriate action to recover Crown funding where necessary</li> </ul>
<p><b>Evidence-based decisions</b> Inadequate evidence base to substantiate cross organisational and agency decisions</p>	<ul style="list-style-type: none"> <li>• Integrated work programme with Ministry of Education and NZQA to strengthen quality procedures for collection and validation of information collection processes</li> <li>• Enhanced business processes underpin decision making</li> <li>• Simplification and transparency of decision making process</li> </ul>
<p><b>Legal</b> Our actions create legal risks</p>	<ul style="list-style-type: none"> <li>• Development of consistent and agreed investment framework</li> <li>• Operate effective legal compliance framework and process</li> <li>• Legal advice sought and acted on</li> </ul>

## Our medium-term financial strategy

Our financial and non-financial performance expectations, including our capital expenditure, are based on a number of assumptions on what may occur during the next three years.

The medium-term financial strategy will assist us to develop and maintain a strong financial position and a prudent level of cash reserves for reinvestment in the infrastructure and business systems required to deliver our core services into the future.

Key elements of our medium-term financial strategy include:

- Ensuring value for money in our expenditure and managing cost pressures by seeking ongoing improvement in operational efficiency
- Ensuring revenue matches or exceeds expenditure in the medium term. Where appropriate we may run surpluses and deficits to manage cyclical expenditure such as the 2012 Quality Evaluation of the Performance-Based Research Fund
- Building a strong cash position, through careful management of our assets and depreciation policies, for future capital reinvestment programmes.

# Declaration

This Statement of Intent for 2011/12 to 2013/14 is produced in accordance with sections 141 and 142 of the Crown Entities Act 2004 and section 159KE of the Education Act 1989.

This Statement of Intent describes how the Tertiary Education Commission Te Amorangi Mātauranga Matua (TEC), as the government agency responsible for planning, funding and monitoring the government's investment in New Zealand's tertiary education and training system, will go about its work over the next three years.

As Commissioners we acknowledge that, in signing this statement, we are responsible for the prospective financial statements presented, including the assumptions underlying the prospective financial statements and all other disclosures.

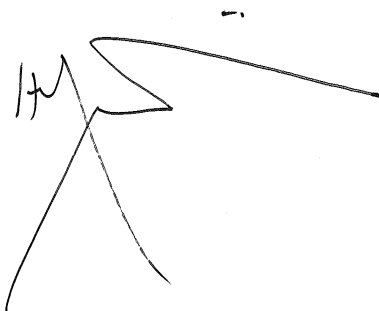
The prospective financial statements, associated assumptions and the forecast statement of service performance meet the requirements of the Crown Entities Act 2004.

These statements and assumptions are all related to prospective results forecasted in subsequent years. The TEC will not be updating these prospective financial statements following their publication.

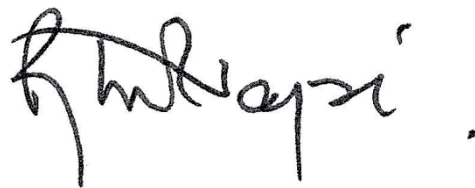
As set out in the section 142 of the Crown Entities Act, the Statement of Intent sets out the impacts the TEC seeks to achieve and the performance measures covering these activities.

We certify that the information contained in the Statement of Intent 2011/12 – 2013/14 is a fair and reasonable reflection of the TEC's operating intentions.

Signed on behalf of the Board of the Tertiary Education Commission



**Sir Wira Gardiner**  
Chair  
Tertiary Education Commission  
13 May 2011



**Robin Hapi**  
Chair  
Audit and Risk Committee  
Tertiary Education Commission  
13 May 2011

## Part Eight: Statement of Forecast Service Performance

Our output classes are grouped in the following way:

1. Operational activities and services delivered directly by us to manage the Government's investment, leading to improved performance of the tertiary system:
  - Managing the Government's investment in the tertiary education sector
  - Ownership monitoring of Tertiary Education Institutions
  - Tertiary education and training advice
2. Funding teaching and learning delivered by tertiary education organisations through the investment decisions that we make:
  - Tertiary education: Student Achievement Component
  - Training for designated groups
  - Adult and Community Education
  - Tertiary scholarships and awards
  - Tertiary education grants and other funding
  - Tertiary Education Institution merger support
  - Foundation Focussed Training Opportunities (Vote Social Development)
  - English for Migrants (Vote Immigration)
3. Funding research delivered by tertiary education organisations through the investment decisions that we make:
  - Performance-Based Research Fund
  - Centres of Research Excellence
  - Auckland University Starpath Project

Performance measures in each category vary. For the outputs delivered directly by us (managing the investment system and providing advice), the Statement of Forecast Service Performance describes what is produced by us and provides measures of the quality of those outputs. For the range of tertiary education and training programmes, we allocate funding to providers that deliver the specific services. Our outputs for these programmes consist of the advisory, payment and monitoring services described in the operational output classes, and we provide measures here of programme performance.

A significant proportion our funding is delivered on the basis of student enrolments, and a number of performance measures reflect the demand-driven nature of the funding system. Performance targets have been estimated on the basis of the best information available at the time.

## Operational activities and services delivered directly by the TEC

- Managing the Government's investment in the tertiary education sector
- Ownership monitoring of Tertiary Education Institutions
- Tertiary education and training advice

### Managing the Government's investment in the tertiary education sector

#### Budget 2011/12 - \$35.803 million

This appropriation is limited to developing, implementing and managing an investment system that aligns planning, funding, monitoring and quality assurance of tertiary education in accordance with the provisions of the Education Act 1989 and other relevant legislation.

Output measure	Actual 2009/10	Forecast 2010/11	Forecast 2011/12
Plans for tertiary education organisations demonstrate evidence of alignment with employer, community and learner needs	New measure	100%	100%
Plans for tertiary education organisations include targets for improving achievement rates for priority groups in the Tertiary Education Strategy	New measure	100%	100%
For Plans submitted for funding approval, that meet the TEC's Plan content and funding criteria, percentage that have funding approved by 1 December 2011	98%	98%	98%
Payments are made to tertiary education organisations as per the agreed contractual terms and conditions	100%	100%	100%
TEC Customer Satisfaction Survey results show continuous improvement	New measure	New measure	Under development
Number of tertiary education organisations audited by the TEC	New measure	30-35 audits	25-30 audits
The TEC intervenes, on the basis of performance and audit information in the governance of tertiary education institutions/organisations as required	New measure	0-5 interventions	0-10 interventions
Programme evaluations and cost-benefit studies are completed in accordance with the 2011/12 Programme Evaluation Plan	New measure	3-5 evaluations and studies completed	3-5 evaluations and studies completed

## Ownership monitoring of Tertiary Education Institutions

**Budget 2011/12 - \$2.567 million**

This appropriation is limited to monitoring and advisory services – including interventions – on the Government’s ownership interest in tertiary education institutions.

Output measure	Actual 2009/10	Forecast 2010/11	Forecast 2011/12
Minister is satisfied with advice on Council appointments (scale 1 to 6) <sup>13</sup>	New measure	4 or better	5 or better
Minister is satisfied with advice on intervention options (scale 1 to 6. See footnote 13)	New measure	4 or better	5 or better
Minister is satisfied with advice on monitoring of tertiary education institutions' performance (scale 1 to 6. See footnote 13)	New measure	New measure	5 or better
Minister is satisfied with advice on TEI merger support options (scale 1 to 6. See footnote 13)	New measure	New measure	5 or better

## Tertiary education and training advice

**Budget 2011/12 - \$3.837 million**

This appropriation is limited to providing advice and support to Ministers on the tertiary sector and tertiary education and training issues.

Output measure	Actual 2009/10	Forecast 2010/11	Forecast 2011/12
Number of Ministerial-related items provided to the Office of the Minister for Tertiary Education	2,704	1,100	1,150
Minister is satisfied with advice on the tertiary sector and tertiary education and training issues (scale 1 to 6. See footnote 13)	New measure	4 or better	5 or better

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<sup>13</sup> Feedback is coordinated through the Office of the Minister for Tertiary Education. Scale: 1=poor quality, 2=less than adequate, 3=just adequate, 4=adequate, 5=good, 6=very high quality.

## Funding provided by the TEC for tertiary education organisations to deliver teaching and learning

- Tertiary education: Student Achievement Component
- Training for designated groups
- Adult and Community Education
- Tertiary scholarships and awards
- Tertiary education grants and other funding
- Tertiary Education Institution merger support
- Foundation Focussed Training Opportunities (Vote Social Development)
- English for Migrants (Vote Immigration)

### Tertiary Education: Student Achievement Component

**Budget 2011/12 – \$2,006.443 million**

This appropriation is limited to funding for teaching and learning services for enrolled students in approved courses at tertiary education organisations to achieve recognised tertiary qualifications.

The Student Achievement Component (SAC) is the Government's contribution to the direct costs of teaching, learning, and other costs driven by learner numbers. SAC funding comprises two elements:

- The programme element, which relates to the types of programmes or courses approved for funding in a TEO's Plan, is based on the SAC funding categories
- The volume element, which relates to the number of valid enrolments in those programmes or courses.

The Youth Guarantee (currently part of SAC) is targeted specifically at improving the educational achievements of 16 and 17 year olds by providing them with an opportunity to participate in a range of vocational courses free of charge. The objectives of the Youth Guarantee initiative are to:

- Increase the educational achievement of targeted 16 and 17 year olds not currently engaged in education by providing them with improved access to study towards qualifications at levels 1 to 3 on the New Zealand Qualifications Framework (NZQF) in tertiary education
- Improve transitions between school, tertiary education and work.

## Participation

Output measure	Estimated Funded Actual 2009	Estimated Funded Actual 2010 (+/- 3%)	Forecast 2011 (+/- 3%)	Target 2012 (+/- 3%)	Target 2013 (+/- 3%)
<b>Number of Domestic Equivalent Full-Time Students (EFTS) by subsector</b>					
Universities	115,124	116,989	119,613	118,638	117,065
Institutes of Technology and Polytechnics	66,651	68,659	66,842	66,284	66,084
Wānanga	24,964	25,316	24,647	24,676	24,676
Private Training Establishments	21,332	20,748	24,448	25,241	25,209
Other Tertiary Education Providers	3,044	3,141	Merged with Private Training Establishments from 2011		
<b>Total Student Achievement Component</b>	<b>231,115</b>	<b>234,853</b>	<b>235,550</b>	<b>234,839</b>	<b>233,034</b>
Youth Guarantee	New fund	1,963	2,682	7,500	7,500
Youth Training <sup>14</sup>	5,634	5,253	5,222	Merged with Youth Guarantee	
<b>Total Youth Guarantee and Youth Training</b>	<b>5,634</b>	<b>7,216</b>	<b>7,904</b>	<b>7,500</b>	<b>7,500</b>
<b>Grand Total</b>	<b>236,749</b>	<b>242,069</b>	<b>243,454</b>	<b>242,339</b>	<b>240,534</b>
Number of EFTS at Level 1-3 on the New Zealand Qualifications Framework with embedded literacy and numeracy	New measure	11,082	20,200	26,500	27,900

## Level of study (Forecast modelling)

Output measure	Actual 2009	Forecast 2011	Target 2012	Target 2013
<b>Qualification Level</b>	%	%	%	%
Levels 1-3 (certificates)	21	20	20	19
Levels 4 (certificates)	12	10	10	9
Levels 5-7 (diploma)	13	13	13	13
Level 7 (degree/graduate diploma)	43	45	46	46
Levels 8-9 (postgraduate)	9	9	9	9
Level 10 (doctorate)	2	2	2	3
Total percentage	100%	100%	100%	100%

<sup>14</sup> Included for comparative purposes. From 2012 Youth Guarantee and Youth Training will be merged. Funding will be provided through Non-Departmental Output Expense Training for Designated Groups.

**Māori Participation (Plan commitments)**

Output measure	Actual 2009	Forecast 2011	Target 2012	Target 2013
Percentage of all SAC-funded EFTS which are Māori	%	%	%	%
Levels 1-3	7	6	6	6
Levels 4 and above	13	14	14	15

**Pacific Participation (Plan commitments)**

Output measure	Actual 2009	Forecast 2011	Target 2012	Target 2013
Percentage of all SAC-funded EFTS which are Pacific	%	%	%	%
Levels 1-3	2	2	2	2
Levels 4 and above	6	6	6	7

**Young people (Plan commitments)**

Output measure	Actual 2009	Forecast 2011	Target 2012	Target 2013
Percentage of all SAC-funded EFTS which are 16-25 years old	%	%	%	%
Levels 1-3	8	8	8	8
Levels 4 and above	48	49	50	50

**Course completion (Plan commitments)**

Output measure	Actual 2009	Forecast 2011	Target 2012	Target 2013
	%	%	%	%
Māori learners enrolled at level 4 and above	68	71	73	74
Pacific learners enrolled at level 4 and above	65	66	68	70
Young people aged under 25 enrolled at level 4 and above	81	82	83	83
All learners enrolled at level 4 and above	79	81	80	80

### Qualification completion (Plan commitments)

Output measure	Actual 2009	Forecast 2011	Target 2012	Target 2013
	%	%	%	%
Māori learners enrolled at level 4 and above	54	56	56	58
Pacific learners enrolled at level 4 and above	52	54	56	58
Young people aged under 25 enrolled at level 4 and above	62	64	65	67
All learners enrolled at level 4 and above	64	67	67	67

### Progression (Plan commitments)

Output measure	Actual 2009	Forecast 2011	Target 2012	Target 2013
	%	%	%	%
Progression to higher level study in the following year for all learners studying at level 1–3 in the stated year	33	35	36	37

## Training for designated groups

### Budget 2011/12 - \$297.358 million

This appropriation is limited to the purchasing and arranging of training linked to the New Zealand Qualifications Framework and the purchase of both on-job and off-job training places, including delivery of fully- or partially-funded training places and other industry-training related projects.

Industry training and Modern Apprenticeships provide systematic training in skills characteristic of, or likely to be valuable to, an industry. These programmes are delivered to people employed in that industry.

The Youth Training programme enables learners under the age of 18 with low qualifications, and who are at risk of long term unemployment, to engage in further education and training.

Gateway supports senior secondary students (Year 11 to Year 13+) undertaking structured workplace learning across a range of industries and businesses around New Zealand, while continuing to study at school.

Output measure	Actual 2009	Forecast 2011	Target 2012	Target 2013
Number of standard training measures funded (Industry training and Modern Apprenticeships) <sup>15</sup>	59,610	54,191	55,392	55,392
<b>Industry training</b>				
Proportion of trainees enrolled at ITOs who are Māori L4+	6%	7%	8%	8%
Proportion of trainees enrolled at ITOs who are Pacific L4+	1%	2%	2%	2%
Proportion of trainees enrolled at ITOs who are <25 L4+	13%	17%	17%	18%
Total trainees (placements)	201,610	181,772	175,893	166,065
Credit achievement rate (all trainees)	49%	57%	62%	67%
Average number of NZQF credits achieved per industry trainee	20	20	20	20
Programme completion rate (all trainees)	41%	60%	60%	63%
Number of STMs at Level 1-3 with embedded literacy and numeracy.	New Measure	9,000	12,000	12,000
<b>Modern Apprenticeships</b>				
Total trainees	12,124	12,421	14,000	14,000
Credit weighted programme completions	50%	55%	58%	60%

<sup>15</sup> The falling number of STMs from 2009 reflects decisions to remove funding from low value provision in the industry training sector.

Output measure	Actual 2009	Forecast 2011	Target 2012	Target 2013
<b>Youth Training (renamed Youth Guarantee from 2012)<sup>16</sup></b>				
Total trainees	5,634	5,222	7,500	7,500
Average number of NZQF credits achieved per youth trainee	20.8	20	To be developed	To be developed
Percentage of trainees moving on to further education or employment within two months of leaving Youth Training	74%	60%	To be developed	To be developed
<b>Gateway</b>				
Total participants	10,874	12,200	12,600	13,000
Average number of NZQF credits achieved per Gateway participant	9.79	10	10	10

## Adult and Community Education

### Budget 2011/12 - \$64.442 million

This appropriation is limited to providing funding for delivery of non-formal adult and community education activities and services including literacy and numeracy, and English for speakers of other languages training, through tertiary education organisations, schools and employers.

The purpose of Adult and Community Education (ACE) is to provide adults with community-based education, foundation skills and pathways into other learning opportunities that meet identified community learning needs and funded ACE priorities:

- Targeting learners whose initial learning was not successful
- Raising foundation skills
- Strengthening social cohesion.

Output measure	Actual 2009	Forecast 2011	Target 2012	Target 2013
<b>School-based adult and community education</b>				
Participation by learners in school-based programmes	New measure	24,000	24,000	24,000
Percentage of learners from the priority groups identified in the Tertiary Education Strategy (Māori, Pacific, second chance learners, learners with English language needs, learners with no formal qualification)	New measure	50%	50%	50%
Percentage of funding allocated in line with ACE priorities	New measure	100%	100%	100%

<sup>16</sup> From 2012 the Youth Guarantee initiative is to be merged with the current Youth Training programme. Appropriate performance measures for the new merged programme are still under development.

Output measure	Actual 2009	Forecast 2011	Target 2012	Target 2013
<b>Literacy and Numeracy</b>				
Intensive Literacy and Numeracy - total number of learners	5,925	5,240	5,178	4,778
Intensive Literacy and Numeracy - learners show an improvement in literacy and numeracy skills as measured against the Adult Literacy and Numeracy Learning Progressions	New measure	80%	80%	80%
Workplace Literacy Fund - total number of learners	6,457	6165	5441	5346
Workplace Literacy Fund - learners who complete programme	New measure	80%	80%	80%

## Tertiary scholarships and awards

### Budget 2011/12 - \$12.915 million

This appropriation is limited to providing scholarships for tertiary students and other awards in the tertiary sector, and the provision of scholarships and bursaries to Māori and Pasifika students. It includes training assistance under Queen Elizabeth II Study Awards and recognition of outstanding tertiary education teachers. The guidelines, criteria and process for the various scholarships and awards are available from the Ministry of Education or the Tertiary Education Commission.

Output measure	Actual 2009	Forecast 2011	Target 2012	Target 2013
Average number of medical intern places funded	314	351	351	351
Average number of other scholarship places funded	213	314	250	100

## Tertiary Education Grants and Other Funding

**National Centre for Tertiary Teaching Excellence – Budget 2011/12 - \$4.577 million**

**Other funding - Budget 2011/12 - \$28.246 million**

This appropriation is limited to providing contestable funding and miscellaneous funding to tertiary education organisations.

The appropriation includes a broad range of particular funds with specific targeted impacts primarily aimed at improving educational outcomes for priority learner groups and enhancing the educational capability of tertiary education organisations (including equity funding, literacy and numeracy capability building projects).

<b>Output measure</b>	<b>Actual 2009</b>	<b>Forecast 2011</b>	<b>Target 2012</b>	<b>Target 2013</b>
Agreements are consistent with need and purpose of fund	100%	100%	100%	100%
Clear objectives and measures for the use of funding are agreed in Plans (or other mechanisms such as funding agreements) for tertiary education organisations	New measure	100%	100%	100%

## Tertiary Education Institution Merger Support

**Budget 2011/12 - \$2.500 million**

This appropriation is limited to providing support toward the additional costs related to the merger of particular tertiary education institutions.

<b>Output measure</b>	<b>Actual 2009</b>	<b>Forecast 2011</b>	<b>Target 2012</b>	<b>Target 2013</b>
Merger milestones are met according to funding agreements	New fund	100%	100%	100%

## Foundation Focussed Training Opportunities (Vote Social Development)

### Budget 2011/12 - \$46.784 million

The TEC is contracted to administer funding for vocationally based skills training for working-age people through the Foundation Focussed Training Opportunities Programme. Funding is provided through the Vocational Skills Training appropriation in Vote Social Development. Foundation Focussed Training Opportunities has been significantly reconfigured for 2011, with the TEC-administered programme having a much greater focus on improving literacy and numeracy of learners. Performance targets are negotiated with the Ministry of Social Development annually.

Output measure	Actual 2009/10	Forecast 2010/11
Percentage of learners who complete their course of study (minimum 14 weeks training)	New measure (refocused fund)	80%
Percentage of learners who achieve employment outcomes commensurate with their benefit type and aligned job seeking obligations, within 91 days of completion of training	New measure (refocused fund)	38%
Percentage of learners who move off benefit and progress into further training or education and NZQF level two or above, within 91 days of completion of training	New measure (refocused fund)	26%

## English for Migrants (Vote Immigration)

### Budget 2011/12 - \$0.800 million

The Tertiary Education Commission is contracted to administer funding for English for Migrants programmes. Funding is provided from levies collected from migrants by Immigration New Zealand.

Output measure	Actual 2009	Forecast 2011	Target 2012	Target 2013
Effective management of contracts with training providers to deliver English Speakers of Other Languages training for migrants who have pre-purchased their tuition through Immigration New Zealand	100%	100%	100%	100%

## Funding provided by the TEC for tertiary education organisations to deliver research

- Performance-Based Research Fund
- Centres of Research Excellence
- Auckland University Starpath Project

### Performance-Based Research Fund

**Budget 2011/12 - \$250.000 million**

This appropriation is limited to funding research and research-based teaching on the basis of measured research quality in tertiary education organisations.

The primary purpose of the Performance-Based Research Fund (PBRF) is to ensure that excellent research in the tertiary education sector is encouraged and rewarded. This entails assessing the research performance of TEOs and then funding them on the basis of their performance.

The PBRF model has three elements:

- Quality Evaluation: to reward and encourage the quality of researchers (60 percent of the fund)
- Research Degree Completions: to reflect research degree completions (25 percent of the fund)
- External Research Income: to reflect external research income (15 percent of fund).

Output measure <sup>17</sup>	Estimated 2010	Forecast 2011	Target 2012	Target 2013
Research degree completions (measured by PBRF eligible research degree completions)	3,100	3,200	3,400	3,600
Percentage increase in amount of external research income for PBRF eligible providers	4%	4%	4%	4%

<sup>17</sup> A performance measure for the Quality Evaluation element of the PBRF is included as part of Key Activity Area Three: Quality research that helps to drive innovation (see page 26).

## Centres of Research Excellence

**Budget 2011/12 - \$33.716 million**

This appropriation is limited to the purchase of cooperative and collaborative tertiary research in areas of research strength in the tertiary education sector through the contestable Centres of Research Excellence Fund.

Output measure	Actual 2010/11	Forecast 2011/12	Target 2012/13	Target 2013/14
The Annual Reports of each Centre of Research Excellence covering agreed reporting areas are approved by the TEC by March of each year	100%	100%	100%	100%
Centres of Research Excellence demonstrate collaborative research creating significant levels of knowledge transfer (as measured by qualitative review of Centres of Research Excellence Annual Reports)	100%	100%	100%	100%

## Auckland University Starpath Project

**Budget 2011/12 - \$1.000 million**

This appropriation is limited to funding to support the Starpath initiatives at the University of Auckland.

Output measure	Actual 2010	Forecast 2011	Target 2012	Target 2013
Project milestones are met according to funding agreement	100%	100%	100%	100%
Funding agreement monitored and action taken as required	100%	100%	100%	100%

# Part Nine: Prospective financial information

## Statement of significant assumptions

The purpose for which these prospective financial statements have been prepared is to indicate the likely financial impact of the implementation of the TEC's vision and strategies. The information disclosed in these statements is indicative only and may not be appropriate for purposes other than that described.

The prospective financial information has been prepared on the basis of current government policies and appropriations, the Letter of Expectations from the Minister for Tertiary Education, the Memoranda of Understanding with the Ministry of Social Development and Immigration New Zealand, as well as on the basis of the Statement of Accounting Policies. If Government policies change it may have a material impact on the prospective financial statements. These prospective financial statements have been prepared on a going concern basis using the main assumptions listed below:

- The TEC has no discontinued operations during this planning period.
- Any interest earned through holding funds on behalf of Immigration New Zealand (INZ) or any grant monies will be returned to the appropriate agency.
- Personnel costs include superannuation contributions, training and contractors.
- Depreciation costs are based on the assumption that the TEC will replace assets as required.
- Amortisation costs relating to intangible assets (software) are based on the assumption that the TEC will replace or develop software as required.
- All grants payments will be fiscally neutral over the course of the year in that payments made will be offset by grant funding received, with no allowance for transfers in principle.
- Changes to any of these factors may impact the actual financial results achieved for the period covered. It is likely that this will result in variances from the information presented, and these variations may be material.

The Minister has been consulted on the operating deficits shown in these prospective financial statements for the years ending 30 June 2012 and 30 June 2013, as per the requirement noted on page 75.

The reason for these deficits is to manage cyclical costs associated with the 2012 PBRF Quality Evaluation. This is consistent with TEC's medium term financial strategy as outlined on page 38.

## Summary of key financial performance indicators for the year ended 30 June

	Budget 2011/12	Projected 2012/13	Projected 2013/14
<b>Operating Performance</b>			
Revenue (\$000)	49,507	45,327	45,412
Expenses (\$000)	51,420	47,259	45,380
Net Surplus/(Deficit) (\$000)	(1,913)	(1,932)	32
Personnel/Total Expenses (%)	50%	52%	53%
<b>Financial Performance</b>			
Closing Equity (\$000)	18,337	16,405	16,437
Working Capital Ratio	1.06	1.02	1.05

## Prospective Statement of Comprehensive Income (\$000)

	Year Ended 30 June				
	2012 Operations	2012 Grants	2012 Consolidated	2013 Consolidated	2014 Consolidated
<b>CONTINUING OPERATIONS</b>					
<b>Revenue</b>					
<b>Operating Revenue:</b>					
TEC Funding - Ministry of Education	42,207	-	42,207	38,317	38,402
TEC Funding - Ministry of Social Development (MSD)	6,660	-	6,660	6,660	6,660
TEC Funding - Immigration New Zealand (INZ)	150	-	150	150	150
<b>Total Operating Revenue</b>	<b>49,017</b>	<b>-</b>	<b>49,017</b>	<b>45,127</b>	<b>45,212</b>
<b>Grants Revenue:</b>					
Grants Revenue - MoE	-	3,104,440	3,104,440	3,111,379	3,097,105
Grants Revenue - MSD	-	46,784	46,784	46,784	46,784
Grants Revenue - INZ	-	800	800	800	800
<b>Total Grants Revenue</b>	<b>-</b>	<b>3,152,024</b>	<b>3,152,024</b>	<b>3,158,963</b>	<b>3,144,689</b>
<b>Finance Revenue:</b>					
Interest Income on Bank Deposits - Operating	490	-	490	200	200
<b>Total Finance Revenue</b>	<b>490</b>	<b>-</b>	<b>490</b>	<b>200</b>	<b>200</b>
<b>TOTAL REVENUE</b>	<b>49,507</b>	<b>3,152,024</b>	<b>3,201,531</b>	<b>3,204,290</b>	<b>3,190,101</b>
<b>EXPENSES</b>					
<b>Operating Expenses:</b>					
Personnel	25,801	-	25,801	24,719	23,829
Operating	20,178	-	20,178	15,187	13,060
Depreciation and Amortisation	5,441	-	5,441	7,353	8,491
<b>Total Operating Expenses</b>	<b>51,420</b>	<b>-</b>	<b>51,420</b>	<b>47,259</b>	<b>45,380</b>
<b>Grants Expenses:</b>					
Grants Disbursed and Accrued - MoE	-	3,104,440	3,104,440	3,111,379	3,097,105
Grants Disbursed and Accrued - MSD	-	46,784	46,784	46,784	46,784
Grants Disbursed and Accrued - INZ	-	800	800	800	800
<b>Total Grants Expenses</b>	<b>-</b>	<b>3,152,024</b>	<b>3,152,024</b>	<b>3,158,963</b>	<b>3,144,689</b>
<b>TOTAL EXPENSES</b>	<b>51,420</b>	<b>3,152,024</b>	<b>3,203,444</b>	<b>3,206,222</b>	<b>3,190,069</b>
<b>Operating Surplus/(Deficit)</b>					
Operating Deficit	(2,403)	-	(2,403)	(2,132)	(168)
Finance Income	490	-	490	200	200
<b>Total Operating Surplus</b>	<b>(1,913)</b>	<b>-</b>	<b>(1,913)</b>	<b>(1,932)</b>	<b>32</b>
<b>Other Comprehensive Income:</b>					
Other Comprehensive Income	-	-	-	-	-
<b>Total Comprehensive Income for the Year</b>	<b>(1,913)</b>	<b>-</b>	<b>(1,913)</b>	<b>(1,932)</b>	<b>32</b>

## Prospective Statement of Changes in Equity (\$000)

	Year Ended 30 June				
	2012 Operations	2012 Grants	2012 Consolidated	2013 Consolidated	2014 Consolidated
<b>Balance at 1 July</b>	20,250	-	20,250	18,337	16,405
Net Surplus (Deficit)	(1,913)	-	(1,913)	(1,932)	32
<b>Total Comprehensive Income</b>	<b>(1,913)</b>	<b>-</b>	<b>(1,913)</b>	<b>(1,932)</b>	<b>32</b>
<b>Balance at 30 June</b>	<b>18,337</b>	<b>-</b>	<b>18,337</b>	<b>16,405</b>	<b>16,437</b>

## Prospective Statement of Financial Position (\$000)

	Year Ended 30 June				
	2012 Operations	2012 Grants	2012 Consolidated	2013 Consolidated	2014 Consolidated
<b>Current Assets</b>					
Cash and Cash Equivalents	6,219	82,166	88,385	84,601	87,962
Accounts Receivable	1,000	9,400	10,400	10,400	10,400
<b>Total Current Assets</b>	<b>7,219</b>	<b>91,566</b>	<b>98,785</b>	<b>95,001</b>	<b>98,362</b>
Property, Plant and Equipment	4,693	-	4,693	4,122	3,607
Intangible Assets (Software)	13,953	-	13,953	16,376	13,562
<b>Total Non-Current Assets</b>	<b>18,646</b>	<b>-</b>	<b>18,646</b>	<b>20,498</b>	<b>17,169</b>
<b>Total Assets</b>	<b>25,865</b>	<b>91,566</b>	<b>117,431</b>	<b>115,499</b>	<b>115,531</b>
<b>Equity</b>					
General Funds	18,337	-	18,337	16,405	16,437
<b>Total Equity</b>	<b>18,337</b>	<b>-</b>	<b>18,337</b>	<b>16,405</b>	<b>16,437</b>
<b>Current Liabilities</b>					
Accounts Payable and Accrued Expenses	4,088	81,506	85,594	85,594	85,594
Redirects Payable	-	60	60	60	60
GST Payable	320	-	320	320	320
Accrued Salaries and Wages	600	-	600	600	600
Employee Benefits	800	-	800	800	800
English for Migrants - Revenue in Advance	920	1,500	2,420	2,420	2,420
Repayment Provisions	-	3,500	3,500	3,500	3,500
<b>Total Current Liabilities</b>	<b>6,728</b>	<b>86,566</b>	<b>93,294</b>	<b>93,294</b>	<b>93,294</b>
<b>Non-Current Liabilities</b>					
English for Migrants - Revenue in Advance	-	5,000	5,000	5,000	5,000
Employee Benefits	800	-	800	800	800
<b>Total Non-Current Liabilities</b>	<b>800</b>	<b>5,000</b>	<b>5,800</b>	<b>5,800</b>	<b>5,800</b>
<b>Total Liabilities</b>	<b>7,528</b>	<b>91,566</b>	<b>99,094</b>	<b>99,094</b>	<b>99,094</b>
<b>Total Equity and Liabilities</b>	<b>25,865</b>	<b>91,566</b>	<b>117,431</b>	<b>115,499</b>	<b>115,531</b>

## Prospective Statement of Cash Flow (\$000)

	As at 30 June				
	2012 Operations	2012 Grants	2012 Consolidated	2013 Consolidated	2014 Consolidated
<b>Cash Flows from Operating Activities</b>					
Cash was provided from:					
Funding - Operating MoE	42,207	-	42,207	38,317	38,402
Funding - Operating MSD	6,660	-	6,660	6,660	6,660
Funding - Operating INZ	150	-	150	150	150
Funding - Grants MoE	-	3,104,440	3,104,440	3,111,379	3,097,105
Funding - Grants MSD	-	46,784	46,784	46,784	46,784
Funding - Grants INZ	-	800	800	800	800
	49,017	3,152,024	3,201,041	3,204,090	3,189,901
<i>Cash was applied to:</i>					
Grants Payments	-	3,152,024	3,152,024	3,158,963	3,144,689
Payments to Employees	20,803	-	20,803	20,584	20,318
Other Operating Expenses	22,139	-	22,139	17,784	15,183
Capital Charge	1,538	-	1,538	1,538	1,388
	44,480	3,152,024	3,196,504	3,198,869	3,181,578
<b>Net Cash Inflows from Operating Activities</b>	<b>4,537</b>	<b>-</b>	<b>4,537</b>	<b>5,221</b>	<b>8,323</b>
<b>Cash Flows from Investing Activities</b>					
Cash was provided from:					
Sale of Property, Plant and Equipment	-	-	-	-	-
Interest Income on Bank Deposits - Operating	490	-	490	200	200
<i>Cash was applied to:</i>					
Purchase of Property, Plant and Equipment	2,470	-	2,470	1,070	1,100
Purchase of Intangible Assets (Software)	8,338	-	8,338	8,135	4,062
<b>Net Cash Outflows from Investing Activities</b>	<b>(10,318)</b>	<b>-</b>	<b>(10,318)</b>	<b>(9,005)</b>	<b>(4,962)</b>
<b>Cash Flows from Financing Activities</b>					
Cash was provided from:					
Capital Contribution	-	-	-	-	-
Interest Earned Held for Repayment - Grants	-	3,500	3,500	3,500	3,500
<i>Cash was applied to:</i>					
Repayment of Grants Surplus	-	3,500	3,500	3,500	3,500
<b>Net Cash Outflows from Financing Activities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Net Increase/(Decrease) in Cash and Cash Equivalents	(5,781)	-	(5,781)	(3,784)	3,361
Cash and Cash Equivalents at the Start of the Year	12,000	82,166	94,166	88,385	84,601
<b>Cash and Cash Equivalents at the End of the Year</b>	<b>6,219</b>	<b>82,166</b>	<b>88,385</b>	<b>84,601</b>	<b>87,962</b>

## Reconciliation to Net Surplus/(Deficit) from the Prospective Statement of Comprehensive Income (\$000)

	As at 30 June				
	2012 Operations	2012 Grants	2012 Consolidated	2013 Consolidated	2014 Consolidated
Net Surplus from Operations	(2,403)	-	(2,403)	(2,132)	(168)
Add/(Subtract) Non-Cash Items: Depreciation of Property, Plant and Equipment	1,594	-	1,594	1,641	1,615
Amortisation of Intangibles (Gain)/Loss on Disposal of Property, Plant and Equipment	3,847	-	3,847	5,712	6,876
	-	-	-	-	-
	3,038	-	3,038	5,221	8,323
Add/(Subtract) Movements in Working Capital Items:	1,499	-	1,499	0	0
	1,499	-	1,499	0	0
<b>Net Cash Flows from Operating Activities</b>	<b>4,537</b>	<b>-</b>	<b>4,537</b>	<b>5,221</b>	<b>8,323</b>

## Details of Prospective Operating Expenses (\$'000)

	As at 30 June		
	2012	2013	2014
Salaries	20,803	20,584	20,318
Contributions to Defined Contribution Plans	100	100	100
Training and Development	313	313	313
Other Personnel Expenses	4,585	3,722	3,098
<b>Total Prospective Personnel Expenses</b>	<b>25,801</b>	<b>24,719</b>	<b>23,829</b>
Property Rental	1,550	1,550	1,550
Motor Vehicles	6	6	6
Computer Operations	3,128	2,500	2,469
Consultants and Professional Services	2,316	1,391	1,078
Audit Fees - External Audit	154	154	154
Travel	1,608	1,534	812
Insurance	182	182	182
Legal Fees	260	260	260
Capital Charge	1,538	1,538	1,388
Managing Third Party Contracts	5,369	2,978	2,963
Bank Fees	44	44	44
Telephone, Tolls and Postage	328	291	291
Other Supplies and Services	2,555	1,772	1,636
Commissioners Fees	215	215	215
Panel Members Fees and Honoraria	925	772	12
<b>Total Prospective Operating Expenses</b>	<b>20,178</b>	<b>15,187</b>	<b>13,060</b>
Depreciation of Property, Plant and Equipment	1,594	1,641	1,615
Amortisation of Intangible Assets	3,847	5,712	6,876
<b>Total Prospective Depreciation and Amortisation</b>	<b>5,441</b>	<b>7,353</b>	<b>8,491</b>
<b>Total Prospective Operating Expenses</b>	<b>51,420</b>	<b>47,259</b>	<b>45,380</b>

## Details of Prospective Property, Plant and Equipment (\$000 as at 30 June)

	Opening NBV	Depreciation Charges	Purchases	Closing NBV
<b>2011/12</b>				
Computer Equipment	1,586	1,015	2,070	2,641
Motor Vehicles	-	-	-	-
Office Equipment	222	58	100	264
Furniture & Fittings	612	128	150	634
Leasehold Improvements	1,397	393	150	1,154
<b>Total</b>	<b>3,817</b>	<b>1,594</b>	<b>2,470</b>	<b>4,693</b>
<b>2012/13</b>				
Computer Equipment	2,641	1,215	670	2,096
Motor Vehicles	-	-	-	-
Office Equipment	264	50	100	314
Furniture & Fittings	634	165	150	619
Leasehold Improvements	1,154	211	150	1,093
<b>Total</b>	<b>4,693</b>	<b>1,641</b>	<b>1,070</b>	<b>4,122</b>
<b>2013/14</b>				
Computer Equipment	2,096	1,225	700	1,571
Motor Vehicles	-	-	-	-
Office Equipment	314	50	100	364
Furniture & Fittings	619	165	150	604
Leasehold Improvements	1,093	175	150	1,068
<b>Total</b>	<b>4,122</b>	<b>1,615</b>	<b>1,100</b>	<b>3,607</b>

## Details of Prospective Intangible Assets (\$000 as at 30 June)

	Opening NBV	Amortisation Charges	Purchases	Closing NBV
<b>2011/12</b>				
Software	9,462	3,847	8,338	13,953
<b>2012/13</b>				
Software	13,953	5,712	8,135	16,376
<b>2013/14</b>				
Software	16,376	6,876	4,062	13,562

# Prospective Statement of Commitments

## Statement of Commitments

It is expected that the TEC will enter into contracts resulting in the following:

<b>Non-Cancellable Operating Leases (Rental Agreements)</b>	<b>\$000</b>
Not later than one year	1,631
Later than one year and not later than two years	1,472
Later than two years and not later than five years	946
Later than five years	160
<b>Total</b>	<b>4,209</b>
<b>Capital Commitments</b>	<b>\$000</b>
Capital expenditure contracted for at balance date but not provided for:	100
<b>Non-Cancellable Contracts</b>	<b>\$000</b>
Not later than one year	1,512,600
Later than one year and not later than two years	1,595
Later than two years and not later than five years	2,288
Later than five years	-
<b>Total</b>	<b>1,516,483</b>

# Overview of TEC Appropriations 2011/12

Revenue and Expenses by Output Class		
Tertiary Education Commission Operating Outputs	Revenue \$000 (GST exclusive)	Expenses \$000 (GST exclusive)
<b>Vote :Tertiary Education</b>		
Managing the Government's Investment in the Tertiary Education Sector	35,803	38,206
Ownership Monitoring of Tertiary Education Institutions	2,567	2,567
Tertiary Education and Training Advice	3,837	3,837
<b>Total Vote Education Operating Outputs</b>	<b>42,207</b>	<b>44,610</b>
<b>Services Delivered on Behalf of other Agencies</b>		
Foundation Focussed Training Opportunities (Vote Social Development)	6,660	6,660
English for Migrants (Vote Immigration)	150	150
<b>Total Tertiary Education Commission Operating Outputs</b>	<b>49,017</b>	<b>51,420</b>

Tertiary Education Commission Grants Outputs	Revenue \$000 (GST exclusive)	Revenue \$000 (GST inclusive)	Expenses \$000 (GST inclusive)
<b>Vote: Tertiary Education</b>			
<b>Outputs Purchased from Third Parties</b>			
<b>Training for Designated Groups</b>			
Gateway	19,013	21,865	21,865
Industry Training Fund	156,302	179,747	179,747
Modern Apprenticeships Programme	49,299	56,694	56,694
Youth Training / Youth Guarantee	72,744	83,656	83,656
<b>Training for Designated Groups Total</b>	<b>297,358</b>	<b>341,962</b>	<b>341,962</b>
Centres of Research Excellence	33,716	38,773	38,773
Student Achievement Component	2,006,443	2,307,410	2,307,410
Performance Based Research Fund	250,000	287,500	287,500
Adult and Community Education	64,442	74,108	74,108
Tertiary Education Grants and Other Funding	28,246	32,483	32,483
National Centre for Tertiary Teaching Excellence	4,577	5,264	5,264
<b>Total Outputs Purchased from Third Parties</b>	<b>2,684,783</b>	<b>3,087,500</b>	<b>3,087,500</b>
<b>Benefits and Other Unrequited Expenses</b>			
<b>Tertiary Scholarships</b>			
Tertiary Scholarships - Enterprise Scholarships	500	500	500
Tertiary Scholarships - Top Achiever Doctoral Scholarships	2,148	2,148	2,148
Tertiary Scholarships - Trainee Medical Intern Grant	10,067	10,067	10,067
Tertiary Teaching Awards	200	200	200
<b>Total Tertiary Scholarships</b>	<b>12,915</b>	<b>12,915</b>	<b>12,915</b>
<b>Total Benefits and Other Unrequited Expenses</b>	<b>12,915</b>	<b>12,915</b>	<b>12,915</b>

<b>Non-Departmental Other Expenses</b>	<b>Revenue \$000 (GST exclusive)</b>	<b>Revenue \$000 (GST inclusive)</b>	<b>Expenses \$000 (GST inclusive)</b>
University Starpath Project	1,000	1,150	1,150
Tertiary Education Institution Merger Support	2,500	2,875	2,875
<b><i>Total Non-Departmental Other Expenses</i></b>	<b>3,500</b>	<b>4,025</b>	<b>4,025</b>
<b>Total Vote Education Grants</b>	<b>2,701,198</b>	<b>3,104,440</b>	<b>3,104,440</b>

<b>Grants for Services Delivered on Behalf of Other Agencies</b>	<b>Revenue \$000 (GST exclusive)</b>	<b>Expenses \$000(GST exclusive)</b>
Training Opportunities (Vote Social Development)	46,784	46,784
English for Migrants (Vote Immigration)	800	800
<b>Total Services Delivered on Behalf of Other Agencies</b>	<b>47,584</b>	<b>47,584</b>

# Notes to the Prospective Financial Statements

## Note 1: Reporting entity

The Tertiary Education Commission (TEC) is a Crown Entity and was established on 1 January 2003 pursuant to section 159C of the Education Act 1989. The TEC is domiciled in New Zealand. As such the TEC's ultimate parent is the New Zealand Crown.

The TEC is responsible for funding the Government's contribution to the tertiary sector and working with the sector to implement the Government's tertiary education priorities.

The prime objective of the TEC is to provide funding to the tertiary education sector rather than making a financial return. Accordingly, the TEC has designated itself as a public benefit entity for the purposes of New Zealand Equivalents to International Financial Reporting Standards (NZIFRS).

## Note 2: Basis of preparation

### (a) Statement of compliance

The prospective financial statements have been prepared in terms of the Education Act 1989, section 152 of the Crown Entities Act 2004, Public Finance Act 1989, which includes compliance with generally accepted accounting practice in New Zealand (NZGAAP) and FRS 42. This Statement of Intent complies with Financial Reporting Standard No. 42: *Prospective Financial Statements*.

### (b) Basis of measurement

The measurement base adopted is historical cost.

### (c) Functional and presentation currency

The prospective financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (\$000). The functional currency for the TEC is New Zealand dollars.

### (d) Critical accounting estimates and assumptions

In preparing these prospective financial statements the TEC has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual result. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

#### *Property, plant and equipment useful lives and residual value*

At each balance date the TEC reviews the useful lives and residual values of its property, plant and equipment. Assessing the appropriateness of useful life and residual value estimates of property, plant and equipment requires the TEC to consider a number of factors such as the physical condition of the asset, expected period of use of the asset by the TEC, and expected disposal proceeds from the future sale of the asset.

An incorrect estimate of the useful life or residual value will impact the depreciation expense recognised in the statement of financial performance, and carrying amount of the asset in the statement of financial position.

The TEC minimises the risk of this estimation uncertainty by:

- physical inspection of assets
- asset replacement programmes.

The TEC has not made significant changes to past assumptions concerning useful lives and residual values. The carrying amounts of property, plant and equipment are disclosed in Details of Prospective Property, Plant and Equipment.

### *Intangible assets*

In Details of Prospective Intangible Assets, certain assumptions have been made about continued useful life of intangible assets. See note 3(k) below for assumptions made on intangible assets.

#### (e) Critical judgements in applying the TEC's accounting policies

Management has exercised the following critical judgement in applying the TEC's accounting policies in the prospective financial statements:

### *Lease classification*

Determining whether a lease agreement is a finance or an operating lease requires judgement as to whether the agreement transfers substantially all the risks and rewards of ownership to the TEC.

Judgement is required on various aspects that include, but are not limited to, the fair value of the leased asset, the economic life of the leased asset, whether or not to include renewal options in the lease term and determining an appropriate discount rate to calculate the present value of the minimum lease payments. Classification as a finance lease means the asset is recognised in the statement of financial position as property, plant and equipment, whereas for an operating lease no such asset is recognised.

The TEC has exercised its judgement on the appropriate classification of equipment leases and has determined that none of its lease arrangements are finance leases.

### **Note 3: Significant accounting policies**

The accounting policies which materially affect the measurement of financial performance and financial position are set out below. These policies have been applied consistently to all periods presented in these prospective financial statements.

#### (a) Budget figures

The budget figures have been prepared in accordance with generally accepted accounting practice and NZIFRS and are consistent with the accounting policies adopted by the TEC for the preparation of the financial statements.

#### (b) Revenue

Revenue is measured at fair value of consideration received or receivable.

### *Revenue from the Crown*

The TEC is primarily funded through revenue received from the Crown, which is restricted in its use for the purpose of the TEC meeting its objectives as specified in this *Statement of Intent*. Revenue from the Crown is recognised as revenue when earned and is reported in the financial period to which it relates.

### *Interest*

Interest income is recognised using the effective interest method. Interest income on an impaired financial asset is recognised using the original effective interest rate.

#### (c) Goods and Service Tax (GST)

The prospective financial statements are stated exclusive of GST with the exception of debtors and other receivables and creditors and other payables which are stated with GST included. Net GST receivable or payable at the end of the financial year is included in the Prospective Statement of Financial Position. The TEC is not required to account for GST on its Vote Education grants revenue and expense. Where GST is irrecoverable as an input tax, then it is recognised as part of the related asset or expense.

#### (d) Income tax

The TEC is a public authority in terms of the Income Tax Act 1994 and consequently is exempt from income tax.

(e) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks both domestic and international, other short-term, highly liquid investments, with original maturities of three months or less, and bank overdrafts.

(f) Debtors and other receivables

Debtors and other receivables are initially measured at fair value. Debtors and other receivables are recorded at their expected realisable value after providing for doubtful and uncollectible debts.

(g) Superannuation scheme

Obligations for contributions to KiwiSaver and the State Sector Retirement Savings Scheme are accounted for as defined contribution superannuation schemes and are recognised as an expense in the Prospective Statement of Comprehensive Income as incurred.

(h) Provisions

The TEC recognises a provision for future expenditure of uncertain amount or timing when there is a present obligation (either legal or constructive) as a result of a past event, it is probable that expenditure will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as finance cost.

(i) Financial instruments

*Non-derivative financial instruments*

The TEC is party to non-derivative financial instruments as part of its normal operations. These financial instruments include bank accounts, short-term deposits, debtors and other receivables and creditors and other payables. All financial instruments are recognised in the Prospective Statement of Financial Position and all revenues and expenses in relation to financial instruments are recognised in the Prospective Statement of Comprehensive Income.

All financial instruments are shown at their carrying value which approximates their fair value. Cash and cash equivalents comprise cash balances and call deposits. Debtors and other receivables are recognised at fair value and subsequently at amortised cost.

(j) Property, plant and equipment

*Recognition and measurement*

Property, plant and equipment consists of leasehold improvements, furniture and office equipment, computer equipment, and motor vehicles.

Property, plant and equipment are recorded at historical cost, less accumulated depreciation and impairment losses. The cost of property, plant and equipment at the date of transition to NZIFRS was determined by reference to its fair value at that date.

*Additions*

The cost of an item of property, plant and equipment is recognised as an asset only when it is probable that future economic benefits or service potential associated with the item will flow to the TEC and the cost of the item can be measured reliably.

Where an asset is acquired at no cost, or for a nominal cost, it is recognised at fair value when control over the asset is obtained.

*Disposals*

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are included in the Prospective Statement of Comprehensive Income.

### *Subsequent costs*

Costs incurred subsequent to initial acquisition are capitalised only when it is probable that future economic benefits or service potential associated with the item will flow to the TEC and the cost of the item can be measured reliably. The costs of day-to-day servicing of property, plant and equipment are recognised in the Prospective Statement of Comprehensive Income as they are incurred.

### *Depreciation*

Depreciation is provided on a straight-line basis on all property, plant and equipment, other than land, at rates that will write off the cost (or valuation) of the assets to their estimated residual values over their useful lives.

The cost of leasehold improvements is capitalised and depreciated over the unexpired period of the lease or the remaining useful lives of the improvements, whichever is shorter. Items under construction are not depreciated. The total cost of a capital project is transferred to the appropriate asset class on its completion and then depreciated.

The useful lives and associated depreciation rates of major classes of assets were estimated as follows:

Computer equipment	4 years	25% straight line
Office equipment	5 years	20% straight line
Furniture & fittings	10 years	10% straight line
Leasehold improvements	4-10 years	10-25% straight line
Motor vehicles	5 years	20% straight line

The residual value and life of an asset is reviewed, and adjusted if applicable, at each financial year-end.

### (k) Intangible assets

#### *Software acquisition and development*

Intangible assets consist of items of acquired software. These are capitalised on the basis of the costs incurred to acquire and to bring to use. Costs that are directly associated with the development of software for internal use by the TEC, are recognised as an intangible asset. Direct costs include the software development, employee costs and those staff training costs directly related to enabling the item of software. All other staff training costs are recognised as an expense when incurred.

Costs associated with maintaining items of software are recognised as an expense when incurred.

Costs associated with the development and maintenance of the TEC's website are recognised as an expense when incurred.

#### *Amortisation*

The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its useful life. Amortisation begins when the asset is available and ceases at the date that the asset is derecognised. The amortisation charge for each period is recognised in the Prospective Statement of Comprehensive Income. The useful life and associated amortisation rates were estimated as follows:

Computer software	4-5 years	20-25% straight line
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### (l) Impairment of non-financial assets

Property, plant and equipment and intangible assets that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the asset's fair value less costs to sell. The TEC currently has no assets carried at a revalued amount. For assets not carried at a revalued amount, the total impairment loss is recognised in the Prospective Statement of

Comprehensive Income. For assets not carried at a revalued amount, the amount of any reversal of impairment loss is recognised in the Prospective Statement of Comprehensive Income.

(m) Employee entitlements

Provision is made in respect of the TEC's liability for annual, long service, retirement and sick leave. Fair value is determined from the market-based evidence by an independent actuary.

Employee entitlements that the TEC expects to be settled within 12 months of balance date are measured at undiscovered nominal values based on accrued entitlements at current rates of pay. These include salaries and wages accrued up to balance date, annual leave earned, but not yet taken at balance date, retiring and long service leave entitlements expected to be within 12 months, and sick leave.

The TEC recognises a liability for sick leave to the extent that compensated absences in the coming year are expected to be greater than the sick leave entitlement earned in the coming year. The amount is calculated based on the unused sick leave entitlement that can be carried forward at balance date; to the extent the TEC anticipates it will be used by staff to cover those future absences.

(n) Lease payments

The TEC leases all its office premises and where prudent, office equipment. As all risks of ownership are retained by the lessor, these leases are classified as operating leases. Operating lease expenses are recognised on a systematic basis over the period of the lease in the Prospective Statement of Comprehensive Income.

(o) Contingent liabilities

Contingent liabilities are disclosed at the point at which the contingency is evident.

(p) Commitments

Future expenses and liabilities to be incurred on contracts that have been entered into at balance date are disclosed as commitments to the extent that there are equally unperformed obligations.

(q) Statement of cash flows

Cash means cash balances on hand, held in bank accounts, and demand deposits.

Operating activities include all activities other than investing and financing activities. The cash inflows include all receipts from the sale of goods and services and other sources of revenue that support the TEC's operating and distribution activities. Cash outflows include payments made to employees, suppliers, and for distribution expenses and taxes.

Investing activities are those activities relating to the acquisition and disposal of current and non-current securities and other non-current assets.

Financing activities are those activities relating to changes in equity and debt capital structure of the TEC.

(r) Cost of service statements

The cost of service statements, as reported in the Prospective Statement of Service Performance, report the net cost of services for the outputs of the TEC and are represented by the costs of providing the output less all the revenue that can be allocated to these activities.

(s) Cost allocation

The TEC has derived the net cost of service for each significant activity using the cost allocation system outlined below.

*Cost allocation policy*

Direct costs are charged directly to significant activities. Indirect costs are allocated to significant activities based on direct hours.

"Direct costs" are those costs directly attributable to a significant activity.

"Indirect costs" are those costs which cannot be identified in an economically feasible manner with a specific significant activity.

The cost of internal services not directly charged to activities is allocated as overheads using appropriate cost drivers such as full-time equivalents (FTEs) and direct labour hours.

(t) Changes in accounting policies

There have been no changes in accounting policy that impact the financial years covered by these prospective statements.

(u) Creditors and other payables

Creditors and other payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method.

# Appendices

## Appendix 1: TEC functions

### Functions of the TEC under the Education Act 1989

The functions of the TEC are to:

- give effect to the Tertiary Education Strategy by:
  - prescribing and publishing guidance on the content of, and processes associated with seeking funding approval for, proposed Plans
  - prescribing and publishing guidance on the criteria the TEC will use to assess proposed Plans
  - assessing proposed Plans and deciding whether they will receive funding approval by applying the relevant assessment criteria
  - determining the amount of funding payable to organisations by applying the appropriate funding mechanisms
  - allocating funding to organisations that have Plans
  - allocating funding to organisations that are not required to have Plans in order to receive funding
  - prescribing what Plan summaries must contain for the purposes of public inspection
  - building the capability of organisations
- provide advice to the Minister on
  - the activities and performance of the tertiary education sector generally
- develop details of how to implement funding mechanisms
- implement funding mechanisms
- conduct applied policy and programme research, monitoring, and evaluation
- monitor the performance of organisations that receive funding from the TEC including by measuring performance against specified outcomes
- undertake any functions that the Minister directs the TEC to undertake under section 159J
- undertake any functions delegated to the TEC, including (without limitation) functions relating to the funding of organisations other than under section 159YA or 159ZC
- undertake any other function given by this Act, the Industry Training Act 1992, the Modern Apprenticeship Training Act 2000, or any other enactment.

The Education Act 1989 also instructs the TEC to:

- comply with any direction of the Minister given under section 103 of the Crown Entities Act 2004
- work closely with the stakeholders of tertiary education providers and industry training organisations
- work closely with tertiary education providers and industry training organisations.

## **Functions under the Industry Training Act 1992**

The TEC must have regard to the following matters in determining whether to approve funding for an industry training organisation's proposed Plan:

- the amount of training to which it relates, and the likely number of trainees to be trained in accordance with it
- the desirability of introducing into the organisation's industry (or the organisations' industries) skills (whether new skills or enhanced existing skills) likely to increase its (or their) international competitiveness
- the desirability of extending industry training to industries, or areas of any industry (or industries), where industry training linked to nationally recognised qualifications has not traditionally been available
- the desirability of extending industry training to people of a kind or description specified in the TEC's statement of intent as people to whom industry training linked to nationally recognised qualifications has not traditionally been available (whether within any industry or industries, or generally).

The TEC also has the following functions under the Act:

- to promote the wide availability within industry of high quality industry training linked to nationally recognised qualifications
- to promote the availability of industry training linked to nationally recognised qualifications to people of a kind or description specified in the TEC's Statement of Intent as people to whom such training has not traditionally been available (whether within any industry or industries, or generally)
- to administer and disburse public money appropriated by Parliament for the purpose of industry training
- to promote, in accordance with its Statement of Intent, the protection of the interests of people receiving training under apprenticeship contracts or technician's contracts and people receiving training under programmes of industry training recognised under the Act
- to ensure that there are in place, and monitor and ensure the effectiveness of, systems to maintain at a satisfactory level the quality and effectiveness of industry training
- to exercise the powers and perform the functions of resolving coverage disputes and issuing or revoking certificates of exemption from payment of a levy.

## **Functions under the Modern Apprenticeships Training Act 2000**

The TEC's main function under the Modern Apprenticeships Training Act is to promote apprenticeship training by entering into funding agreements.

In determining whether to enter into a funding agreement, the TEC must have regard to the desirability of avoiding unnecessary duplication of effort (in light of the existence of other funding arrangements) and consult the New Zealand Qualifications Authority.

A funding agreement must:

- specify agreed levels of performance for the apprenticeship co-ordinator or co-ordinators (or prospective apprenticeship co-ordinator or co-ordinators) concerned
- provide for the variation, suspension, and termination, of funding or of the funding agreement or of both, if the specified levels of performance are not achieved.

An industry training organisation may agree with the TEC to perform its functions and duties stated in an industry or industries other than the industry or industries in respect of which the industry training organisation is recognised under the Act.

The TEC also has the following functions under the Act:

- to develop and recommend to the Minister a code of practice, to offer guidance, consistent with the Act, about the responsibilities relating to apprenticeship training of apprenticeship coordinators, employers, and apprentices
- to make the approved code of practice available
- to monitor apprenticeship co-ordinators' performance
- to try to find new employers with whom apprentices can complete their training, if it is impracticable for them to complete their training with an existing employer
- to administer and disburse public money appropriated by Parliament for the purpose of apprenticeship training.

The TEC may require a co-ordinators to give information:

- to determine the extent to which the agreed levels of performance specified in a funding agreement are being or have been met, the TEC may, by written notice to the apprenticeship co-ordinator, require an apprenticeship co-ordinator to give the TEC in writing any specified financial report, or statistical or other information, relating to the apprenticeship co-ordinator's activities under the agreement.

## **Appendix 2: Other matters**

### **General operating and legislative compliance**

The TEC will continue to contribute to whole-of-government strategies in areas relevant to its role and functions. As outlined in this Statement of Intent, the TEC is giving priority and value to building and further developing strong and effective linkages and partnerships within the Government sector. In the performance of its duties, and in addition to its specific compliance requirements as specified in the Education Act 1989, the Industry Training Act 1992, the Crown Entities Act 2004 and the Public Finance Act 1989, the TEC will assess its compliance with all relevant legislation as part of its risk management.

### **Statement in terms of section 11(d) of the Industry Training Act 1992**

In terms of section 11(d) of the Industry Training Act 1992, the TEC specifies that Māori, Pacific peoples and women are people to whom industry training has not traditionally been available.

### **Matters requiring Ministerial approval**

#### **Determining the design of mechanisms that the TEC uses to fund organisations**

As required by section 159L of the Education Act 1989, the Minister determines the design of the funding mechanisms that the TEC uses to fund organisations. The TEC develops the details of how to give expression to the Minister's determination and implements the funding mechanisms.

#### **Acquisitions**

When assets are being acquired that are equal to or greater than 50 percent of the TEC's Public Equity, Ministerial approval will be obtained prior to the acquisition proceeding. The TEC does not anticipate any investments of this magnitude during the 2010—13 period.

#### **Divestments**

When assets are being divested that are equal to or greater than 10 percent of the TEC's Public Equity, Ministerial approval will be obtained prior to the divestment proceeding. The TEC does not anticipate any divestments of this magnitude during the 2011—14 period.

#### **Increases to appropriations and baselines**

The Minister will be consulted on any matter that is likely to require an increase in existing appropriations and baselines, or to impact on the Crown's Balance Sheet. Suitable approvals will be sought if considered appropriate by the Minister.

### **Matters requiring Ministerial consultation**

#### **Use of reserves and material impacts on the TEC's balance sheet**

Any reserves held by the TEC can only be used in ways that contribute to its goals and are consistent with its functions. In conjunction with its risk management policy, prudent management of reserves is required. The TEC will consult with the Minister before committing to draw on its reserves to fund operating activity. Where an acquisition or divestment (not being a major transaction) is considered by the TEC to have a material impact on the TEC's Income Statement in any given year and that transaction is not disclosed in the Statement of Intent, the Minister will be consulted prior to the acquisition or divestment proceeding.

### **Reporting**

#### **Annual report**

As soon as practicable after the end of each financial year, the TEC will prepare an Annual Report as specified in section 150 of the Crown Entities Act 2004.

The Annual Report will include information as specified in sections 151-156 of the Crown Entities Act 2004, including information on compliance with its obligation to be a good employer.

The Annual Report will also include information specified in section 159KF of the Education Act 1989, including how the Commission is monitoring, and how it will report on, progress in giving effect to the Tertiary Education Strategy.

### **Other reporting**

The TEC will keep the Government advised of issues likely to impinge on its responsibilities or that may expose the Crown to significant risk. This requires the TEC to be aware of any possible implications that Government decisions and actions may have on wider government policy issues; and advising the Minister and the Minister's agent as soon as practicable; and to keep the Minister and their agent informed of significant issues that are controversial or likely to be discussed in the public arena, or that require action or a response by the Minister at some later stage. The general expectation is that the TEC will keep the Minister and their agent informed and will allow for sufficient time for comment before implementing strategic initiatives such as:

- Significant changes in the scope or nature of operations and the TEC's capability
- Seeking approval for revenue changes
- Responding to a major change in the operating environment.

The TEC will provide the Minister with any information that the Minister requires that relates to any aspect of the TEC's activities pursuant to section 133 of the Crown Entities Act 2004. The TEC will provide the Minister of Finance with any information requested by the Minister in connection with the exercise of his or her powers under Part 4 of the Crown Entities Act 2004.

### **Other financial provisions**

#### **Investment of funds and use of derivatives**

From time to time, the TEC has a requirement to invest surplus funds on a short-term basis. These investments are made in keeping with the requirements of the Crown Entities Act 2004. The TEC will not enter into a derivative instrument, or amend the terms of a derivative instrument, without the prior written consent of the Minister of Finance.

#### **Distribution of surpluses to the Crown**

The TEC is subject to section 165 of the Crown Entities Act 2004 and, as such, may be required to pay to the Crown a sum equal to the whole or any part of a net surplus of the TEC, as determined in accordance with generally accepted accounting practice or any other basis that may be agreed between the Minister of Finance and the TEC.

#### **Capital charge payable**

The TEC is subject to section 166 of the Crown Entities Act 2004 and, as such, must pay to the Crown a capital charge in respect of the net assets of the TEC of an amount, and at the times, prescribed by the capital charge rules.

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