



Annual Report

For the year ended 30 June 2011

Tertiary Education Commission
Te Amorangi Mātauranga Matua
PO Box 27-048 Wellington 6141
www.tec.govt.nz

ISSN: 978-0-478-32021-3



Annual Report

For the year ended 30 June 2011

Contents

Chair’s Foreword: The Year in Review	6
Message from the Acting Chief Executive	7
Who are we?	8
Strategic Context and Outcomes	9
TEC Priorities	13
Priority Area One: Priority learner groups are effectively targeted and supported	15
Priority Area Two: Improved tertiary education organisation and system performance	19
Priority Area Three: Quality research that helps to drive innovation	22
Working with others	24
Organisational Capability	28
Managing Our Risk	32
Financial information	35
Audit Report	36
Statement of Responsibility	38
Statement of Service Performance	39
Operational activities and services delivered directly by the TEC	39
Funding provided by the TEC for tertiary education organisations to deliver teaching and learning	43
Funding provided by the TEC for tertiary education organisations to deliver research	57
Financial Statements	59

Chair's Foreword: The Year in Review

The past year, my first as the Chair of the Tertiary Education Commission Board, has been one of challenges. From earthquakes and our response to them, through to changes in funding rules and a Board-led review of the TEC, the year has been one of change and meeting challenges.

This Annual Report provides details on what we, as an organisation have achieved, while also providing data on how the tertiary education sector is improving its long term performance.

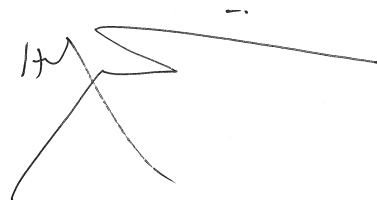
Our three key priority areas for 2010/11 were:

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

This Annual Report charts our progress on meeting these priority areas while also providing information on the financial performance of the TEC. The Board is particularly impressed with the results the TEC has achieved during the year.

The Board-led review of the TEC focused on what changes were required to give effect to the Minister's expectation that the TEC focus on the management of the sector through investment plans, and funding and monitoring of the performance of tertiary education organisations. It also ensured that the TEC could maintain its focus on core operations, as well as the planning activities and support services for those core operations.

As we move forward into a new year, I am confident that the TEC has the leadership, staff, and skills required to manage the Government's investment in tertiary education.



SIR WIRA GARDINER
CHAIR | TERTIARY EDUCATION COMMISSION
30 JUNE 2011

Message from the Acting Chief Executive

Overall the 2010/11 year has been a challenging one in tertiary education. Throughout the year, unforeseen events, such as the ongoing earthquakes in Canterbury, have had an effect on the delivery of education and training and the ability of learners to participate.

The TEC has responded to the needs of Canterbury by working to support affected providers including continuing to fund the Canterbury-based tertiary education organisations (TEOs) most impacted by the earthquakes at the level of provision agreed in 2011 investment Plans.

At the same time, challenging economic conditions have led to a decline in levels of engagement in industry training, but a rise in enrolments at universities.

During the year, the TEC made significant progress on new approaches to incentivising better performance from TEOs. In September 2010, we published detailed educational performance information about TEOs for the first time. This data, which will be released annually, is the first step in a process to make more information available for students, parents, and other interested parties.

The TEC also completed the policy work required to introduce an element of performance-linked funding for TEOs which will take effect in 2012. This has included working with organisations to develop the operational aspects, and to ensure all organisations are aware of the effect a performance element will have on their funding.

At the same time, the TEC's monitoring of tertiary education has led to changes in the way we monitor and fund Industry Training Organisations (ITOs). The changes the TEC made to monitoring ITOs have ensured funding is used appropriately and reflects demand and achievement.

During the year TEC staff have completed the mid-term review of the seven Centres of Research Excellence. Building on the work of the Sector Reference Group for the Performance-Based Research Fund, the TEC released the Guidelines for the 2012 Quality Evaluation and released the on line tool for submitting evidence portfolios.

The TEC itself has also undergone significant change during the year. Following a decision to transfer the TEC's policy work to the Ministry of Education, the TEC Board initiated a review to ensure the TEC is focussed on its core function of giving effect to the Tertiary Education Strategy through engaging on, funding and monitoring TEO plans. As a result the TEC has a new, more streamlined structure.



DR COLIN J WEBB
ACTING CHIEF EXECUTIVE | TERTIARY EDUCATION COMMISSION
30 JUNE 2011

Who are we?

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.¹

We do this by:

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

The role of the TEC

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

Tertiary education organisations, government agencies, business, communities and learners all play a part in contributing to successful tertiary education outcomes. The TEC is the agency responsible for implementing tertiary education policy, funding, monitoring and sector management. We allocate approximately \$2.8 billion a year on behalf of the Government to fund tertiary education provision.²

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.

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.

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

² This figure includes only funding the TEC allocates, and does not include student support funding (approx. \$1.1 billion).

Strategic Context and Outcomes



The Tertiary Education Strategy

The Minister for Tertiary Education has issued the Tertiary Education Strategy 2010 - 2015, setting out the Government's long-term strategic direction for tertiary education and its current and medium-term priorities. It signals the Government's expectations of the sector over the next three to five years and beyond.

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 learners about what the Government requires for the Government investment provided. Tertiary education organisations are expected to focus on the priorities set out in the Tertiary Education Strategy and strengthen their engagement with communities and industries.

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

Giving effect to the Tertiary Education Strategy

The tertiary sector is expected to:

- > improve the performance of learners in target priority groups by:
 - increasing the number of young people achieving qualifications at higher levels
 - increasing Māori and Pacific student achievement
 - increasing the number of young people moving successfully from school into tertiary education
 - improving literacy, language and numeracy skills and outcomes from levels one to three study
- > improve course and qualification completion rates
- > improve the educational and financial performance of providers
- > strengthen 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.

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 others. As overall performance improves, this will mean a shift towards lighter handed oversight by the Government.

The tertiary education system has been designed so that learners are well served by their tertiary education organisations. Learners 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.

Outcomes framework

The TEC's outcomes framework describes the links between the Government's investment in tertiary education, the activities of the TEC and the tertiary education sector, and the consequential impacts and outcomes for learners and New Zealand as a whole. The diagram on page 12 represents our outcomes framework.

Effective tertiary education has a direct impact on the economy by increasing employment opportunities for learners and helping to build the skills needed to drive economic growth. The tertiary education system also produces high-quality research to build on New Zealand's knowledge base, responding to the needs of the economy and addressing environmental and social challenges.

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 āhuatanga Māori and tikanga Māori, within society.

A strong national culture can be a source of economic strength and increase feelings of security. Tertiary education can also serve to raise awareness of environmental issues.

Outcomes and impacts

We will report on, and use outcome indicators to inform our decision making.

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

We are moving towards measuring the relationship between tertiary education qualifications and income. Until we have a satisfactory measure, 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 with a tertiary qualification
- > percentage of the population that have a bachelor's degree or higher qualification
- > earnings premium of tertiary education beyond a school qualification, measured by nominal weekly median income.

Outcome measures

MEASURE	TREND		TARGET 2013	PROGRESS 2010
	1998	2008		
Percentage of the population 25-64 years old with a tertiary qualification (Level 4 and above)	44%	50%	52%	48% ³
Percentage of population that have a bachelor's degree or higher qualification	10%	18% ³	22%	25% ⁴
Earnings premium of bachelor's degree or higher beyond a school qualification ⁵	New measure	New measure	1.50 times higher	1.37 times higher

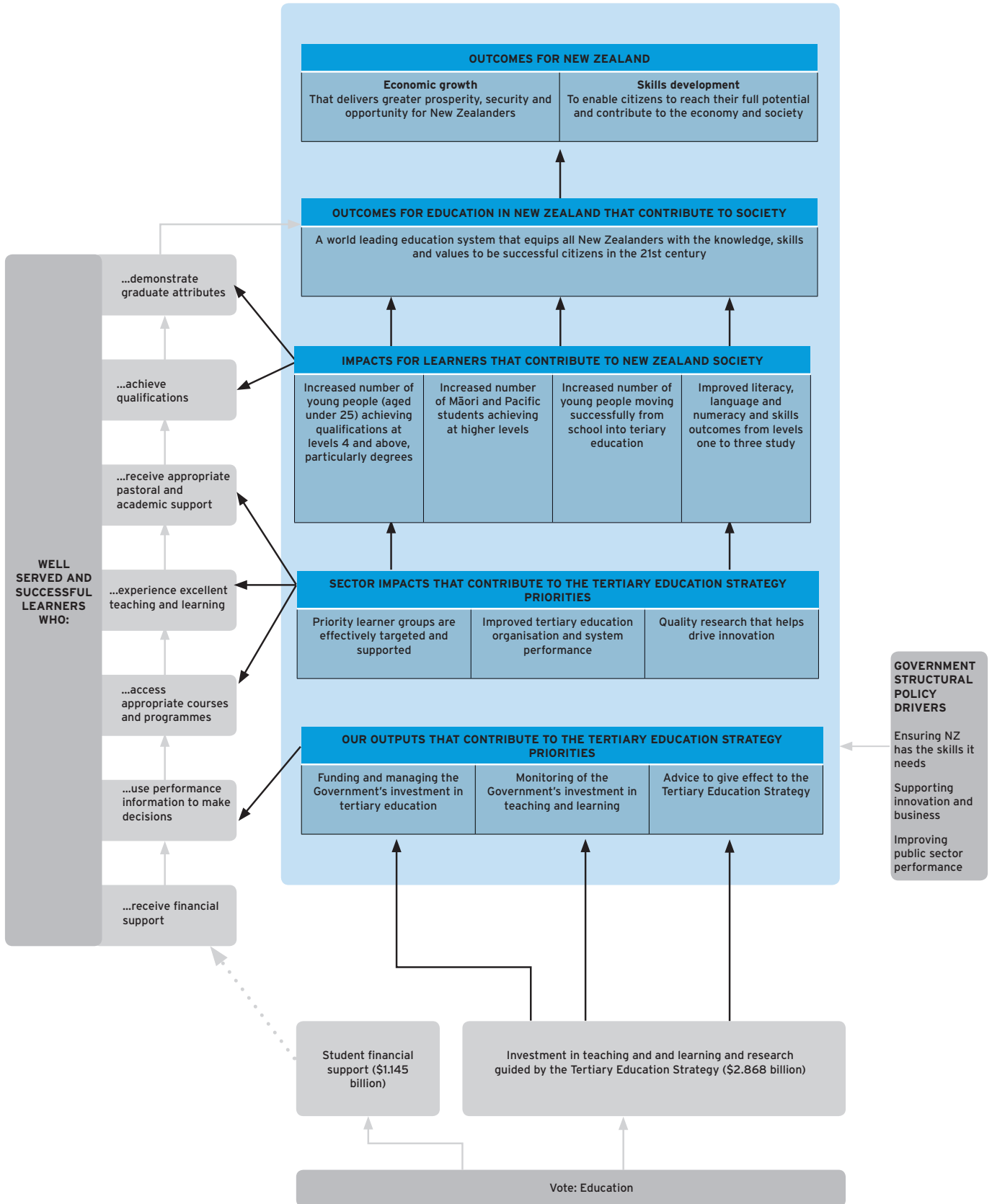
Higher educational attainment is also associated with a number of other positive outcomes such as improved health. We will include a summary report on progress of these higher level outcomes for the whole of New Zealand society as part of our annual reporting process, with supporting information from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

³ Trend data used for setting this measure in the 2009/10 - 2011/12 Statement of Intent could not be replicated. 2010 progress data is therefore not directly comparable to the trend.

⁴ As the 2010 result has already exceeded the 2013 target, the target for 2014 has been increased to 28% in the 2011/12 - 2013/14 Statement of Intent.

⁵ This measure differs to the Statement of Intent 2009/10 - 2011/12. Earnings premium data used for the Statement of Intent could not be replicated.

Outcomes framework



TEC Priorities



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 businesses' 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.

Our three key priority areas for 2010/11 were:

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

Response to Canterbury Earthquakes

There have been significant impacts on tertiary education organisations following the September 2010 and February 2011 earthquakes in the Canterbury region. The TEC has responded to these impacts through continuing to fund the Canterbury based tertiary education organisations most affected by the earthquakes at the level of provision agreed in 2011 Investment Plans.

In response to the reconstruction needs of the Canterbury region we have been working alongside the Built Environment Training Alliance (BETA) cluster of Industry Training Organisations to produce a statement of skills requirements in the construction industry. This information will enable planning of delivery of trades qualifications in 2012 to meet the anticipated demand.

TEC is also facilitating an integrated framework for Industry Training Organisations and Institutes of Technology and Polytechnics to contribute to the *Skills for Canterbury* package announced in Budget 2011. It is envisaged that this framework will culminate in closer working relationships between Industry Training Organisations and Institutes of Technology and Polytechnics.

Priority Area One: Priority learner groups are effectively targeted and supported

Why is this important?

Trends show that Māori and Pacific school leavers are least likely to go into tertiary education, with just over half enrolling within two years.

Participation rates for Māori learners did not change between 2007 and 2008. Māori school leavers are less likely than others to enter higher levels of tertiary study. They are also less likely to continue in tertiary study after their first year, reducing the proportion of learners completing qualifications.

A gradual improvement has been seen in the participation level of Pacific peoples. Pacific learners are less likely than European and Asian learners to enter higher levels of tertiary study. While Pacific learners continue in study at similar rates to others, they are less likely to pass all of their courses and complete a qualification.

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.

In 2006, just over half of the New Zealand adult population had sufficient literacy and numeracy skills to participate fully in a knowledge society.⁶

What did we do?

WHAT WE SAID WE WOULD DO 2010/11 - 2012/13

Provide advice (to tertiary education organisations) setting out the changes needed to improve participation, first year attrition rates, qualification completion and progression rates for Māori and Pacific peoples

Work to improve secondary to tertiary transitions

Provide advice (to tertiary education organisations) on creating incentives for more young people to achieve qualifications at level 4 and above

WHAT WE HAVE DONE IN YEAR 1 (2010/11)

Achieved - ongoing

Funded the institutes of technology and polytechnic, and private training establishment sectors to develop and publish best practice models for teaching literacy and numeracy to Māori and Pacific peoples.

Funded industry training organisations to engage more effectively with Māori and Pacific communities and trainees.

A new INTELL application includes disaggregated data on Māori and Pacific peoples' achievement in 2008 against Educational Performance Indicators (EPIs). This evidence based data will support tertiary education organisations to understand and improve their performance.

On target to achieve - ongoing

In September 2010 providers were notified of 2011 Youth Guarantee allocations.

TEC ran four best practice workshops for Youth Guarantee providers (two in Auckland, and one each in Wellington and Christchurch).

Work commenced on the merging of the Youth Training and Youth Guarantee funds into a new Youth Guarantee fund announced as part of Budget 2011.

Achieved - ongoing

Investment Plans for all tertiary education organisations included changes to promote increasing provision at Level 4 and above.

⁶ The 2006 Adult Literacy and Life Skills Survey found that 43% and 44% of New Zealand adults (between 16-65) have "low levels" of document literacy and prose literacy respectively, and 51% have "low levels" of numeracy.

WHAT WE SAID WE WOULD DO
2010/11 - 2012/13

WHAT WE HAVE DONE IN YEAR 1 (2010/11)

Ensure that our funding approach and Plan Guidance sets expectations for tertiary education organisations to focus on learner performance and success of priority groups identified in the Tertiary Education Strategy	<p>Achieved - ongoing</p> <p>Funding allocations for 2011 were determined using data on previous performance, with the lowest performing organisations receiving no funding.</p> <p>Investment briefs based on Plan Guidance set clear expectations for tertiary education organisations and Investment Plans include a focus on learner performance and success for priority groups.</p> <p>Investment Plans contained performance commitments increasing the proportion of Level 1 - 3 provision, which includes embedded literacy and numeracy provision.</p>
Require stretch targets in all tertiary education organisations' Plans	<p>Achieved - ongoing</p> <p>Investment Plans include stretch targets to ensure that each tertiary education organisation's performance commitments include participation of Tertiary Education Strategy priority groups relevant to the tertiary education organisation, student achievement and meaningful qualifications.</p>
Enter into performance management discussions with tertiary education organisations if sufficient progress is not being made	<p>Achieved - ongoing</p> <p>All industry training organisations were audited in 2010/11. Funding recoveries were made from 18 industry training organisations.</p> <p>Performance consequences were applied when monitoring of other tertiary education organisations indicated performance concerns.</p> <p>Funding allocations for private training establishments in 2012 were determined using 2010 performance information.</p>
Introduce performance-linked funding	<p>On target to achieve in 2012</p> <p>Four performance indicators (student progression, student retention, course completion, and qualification completion) for assessing tertiary education organisations' performance in Student Achievement Component performance-linked funding were agreed.</p> <p>Two performance indicators (credit completion and programme completion) for assessing industry training organisation performance in the Industry Training Fund were agreed.</p> <p>2009 performance data was used to set benchmarks for performance in 2011.</p>
Publish performance information on tertiary education organisations	<p>Achieved</p> <p>Performance information was published for all tertiary education organisations.</p>

How do we measure progress?

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

Five year qualification completion rates

MEASURE	2007	TREND 2008	TARGET 2013	PROGRESS 2010
Māori learners	42%	42%	44%	42%
Pacific peoples learners	38%	37%	40%	42% ⁷
All learners (excluding Māori and Pacific peoples)	47%	48%	50%	48%
All learners	46%	46%	48%	46%

Young people in tertiary education

MEASURE	2007	TREND 2008	TARGET 2013	PROGRESS 2010
Proportion of people aged 15-24 with a tertiary qualification ⁸	25%	24%	28% (2014)	25%

Literacy and numeracy

MEASURE	TREND 2009	TARGET 2013	PROGRESS 2010
Percentage of learners who demonstrate statistically significant increases in literacy and numeracy skills as measured by the Literacy and Numeracy for Adults Assessment Tool	N/A	75%	At 30 June 2011, 325 providers were using the Assessment Tool. Providers will report data from 2013 ⁹

⁷ As the 2010 result has already exceeded the 2013 target, the target for 2014 has been increased to 45% in the 2011/12 - 2013/14 Statement of Intent.

⁸ This measure differs to the Statement of Intent 2009/10 - 2011/12 as data was not comparable.

⁹ This new measure includes learners 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, all providers receiving LLN funding are required to use the the Literacy and Numeracy for Adults Assessment Tool, however providers are not required to report progress until 2013 once the Tool has been fully implemented. At 30 June 2011 325 providers were using the Assessment Tool.

Youth Guarantee

The Youth Guarantee programme aims to improve the educational achievements of targeted 16 and 17 year olds by providing them with fees-free access toward qualifications at Levels 1 to 3 on the New Zealand Qualifications Framework. The programme intends to improve transitions between school, tertiary education and work not only for disengaged youth, but also increasing education performance for young Māori and Pacific learners.

The Youth Guarantee initiative began in 2010 and is currently in its second year. In 2010, the TEC allocated \$25 million to both institutes of technology and polytechnics and private training establishments to provide nearly 2,000 Youth Guarantee places. Additional funding was provided in 2011, increasing Youth Guarantee funding to around \$32 million.

In November 2010, TEC held four regional best practice workshops for Youth Guarantee providers. One of the main themes of the workshops was the levels of pastoral care some students required and the impact this had on retention and completions. However, providers reported that the majority of students were engaged and excited about learning and they predicted that demand for Youth Guarantee would continue to grow.

Performance-linked funding

Performance-linked funding is one of a number of approaches intended to improve educational outcomes for students and employers and improve value for taxpayers' money. Performance-linked funding will be targeted to encourage all tertiary education organisations to reach an acceptable standard of educational performance.

During 2010/11 the TEC continued work on developing systems and processes for implementing performance-linked funding, including:

- > four performance indicators for assessing tertiary education organisations' performance in Student Achievement Component performance-linked funding were agreed
- > two performance indicators for assessing industry training organisation performance in the Industry Training Fund were agreed
- > 2009 performance data was used to set performance benchmarks for 2011
- > tertiary education organisations were consulted on how the qualifications completions data should be calculated for performance-linked funding purposes
- > tertiary education organisations were provided with information on the impact of performance-linked funding on their 2009 data to enable them to focus on areas for improvement in 2011.

Priority Area Two: Improved tertiary education organisation and system performance

Why this is important

The Government provides over \$4 billion of funding in tertiary education each year (including funding for Student Loans and Allowances). More than 700,000 New Zealanders participate in tertiary study. More than 35,000 businesses and more than 180,000 learners are involved in industry training every year. 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.

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 did we do?

WHAT WE SAID WE WOULD DO
2010/11 - 2012/13

WHAT WE HAVE DONE IN YEAR 1 (2010/11)

Provide advice (to tertiary education organisations) to improve the links between education success and good financial performance

On target to achieve - ongoing

A tertiary education institution self-assessment Governance Assessment Tool has been distributed to institutes of technology and polytechnics, universities and wānanga. It was also adapted for use by and provided to the industry training organisations. The tertiary education institution Financial Monitoring Framework has been revised in consultation with the TEI sector and communicated to the sector. The TEC has published its annual report on tertiary education institution sector performance.

Make tertiary education organisations' performance information public

Achieved

Performance information was published for all tertiary education organisations.

Simplify and make more transparent the way in which the funds are allocated

On target to achieve - ongoing

The first stage of the Integrated Provider Management Project is complete. Once implemented, the system will enable the TEC to more efficiently and effectively manage the funding of the tertiary education sector including:

- > Streamlining the process of provider engagement
- > Personalising information flows for providers
- > Increasing data quality and accuracy.

Significant further work is still required to achieve this goal.

WHAT WE SAID WE WOULD DO
2010/11 - 2012/13

WHAT WE HAVE DONE IN YEAR 1 (2010/11)

<p>Share information between the TEC and NZQA and implement a performance consequences framework to promote excellence in quality management across the tertiary education system</p>	<p>Achieved - ongoing</p> <p>Participation in the NZQA Targeted Review of Qualifications. Information sharing with NZQA. Performance consequences framework agreed and implemented.</p>
<p>Seek greater alignment of our performance monitoring and NZQA's external evaluation and review processes</p>	<p>Achieved - ongoing</p> <p>Sharing monitoring information with NZQA. Information on tertiary education organisation's performance provided when requested.</p>
<p>Develop and implement performance-based funding for the next round of Plans</p>	<p>Achieved</p> <p>The detail on how the TEC will implement performance-linked funding was announced in August 2010. Systems and tools have been developed to calculate the funding implications for tertiary education organisations.</p>
<p>Monitor performance and undertake performance-related interventions where necessary</p>	<p>Achieved - ongoing</p> <p>Performance consequences were applied when monitoring of tertiary education organisations indicated performance concerns.</p>
<p>Implement changes resulting from the Education (Polytechnics) Amendment Act</p>	<p>Achieved</p> <p>Regular meetings held with institutes of technology and polytechnic council Chairs. Governance evaluation undertaken using the Governance Assessment Tool.</p>
<p>Provide advice to the Minister on governance arrangements for tertiary education institutions</p>	<p>Achieved - ongoing</p> <p>Advice has been provided on appointments to universities and wānanga and PTEs.</p>
<p>Assist tertiary education institutions to use benchmarking analysis and efficiency measures to identify opportunities for performance and efficiency improvement</p>	<p>On target to achieve - ongoing</p> <p>During the period an overview of sector performance, as measured by the New Zealand Benchmarking Tool, was presented to institute of technology and polytechnic council Chairs. The tool has also been used to inform closer collaboration within the sector.</p>
<p>Work with the sector to develop data to measure course and programme relevance for employers, business, industries, communities and learners</p>	<p>On target to achieve - ongoing</p> <p>Initial scoping was conducted to develop cost/benefit data for selected industries. This information will be used to develop tertiary education organisations' Key Information Statements.</p>

How do we 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, and financial and educational performance.

MEASURE	TREND	FORECAST 2010/11	ACTUAL 2010/11	VARIANCE/COMMENTS
Tertiary education organisations' responsiveness to business, industries, community and learner needs	N/A	Under development	2010 Plan Guidance required all Plans to show evidence of consultation with and responsiveness to the needs of learners, employers, industries, communities and iwi. All providers are required to make Plans or Plan summaries available to the public through their websites	TEC expects future Plans to more fully elaborate TEOs' engagement with stakeholders and the impact that engagement has had on their planned offering
Number of high-risk tertiary education institutions measured in the six-monthly report to the Minister and to the Cabinet Expenditure Control Committee ¹⁰	11 (At October 2009)	<11	3	At August 2010

Improving value for money from industry training

During 2010/11 the TEC worked with industry training organisations to make a number of changes to the funding and monitoring system for industry training.

The TEC carried out reviews of industry training organisations in 2010 and 2011 which identified a number of areas that require performance improvement. These reviews led to the recovery of \$4.3 million from industry training organisations relating to trainees for whom there was no evidence that they were in employment. In response the TEC has developed funding rules governing industry training organisations' use of funding, improved the systems that track trainees, and strengthened the monitoring processes for industry training organisations.

The changes that the TEC made to the industry training system have helped to ensure that the funding paid to industry training organisations better reflects demand for high-quality training arrangements. It has also enabled the Government to reprioritise existing funding to areas of high demand and quality.

¹⁰ The Tertiary Education Commission is no longer required to report to Cabinet Expenditure Control Committee, however we will continue six-monthly reporting to the Minister for Tertiary Education.

Priority Area Three: Quality research that helps to drive innovation

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.

What did we do?

WHAT WE SAID WE WOULD DO
2010/11 - 2012/13

WHAT WE HAVE DONE IN YEAR 1 (2010/11)

Make improvements to the design of the Performance-Based Research Fund	<p>Achieved</p> <p>Revised business rules for the Research Degree Completions (RDC) component of the Performance-Based Research Fund were agreed.</p> <p>Workshops were held with the sector to discuss the changes to the data collection for the RDC measure.</p>
Implement the 2012 Performance-Based Research Fund Quality Evaluation	<p>On target to achieve in 2012</p> <p>Panel members have been confirmed for 12 panels and two Expert Advisory Groups. The Panels have been developing their panel specific guidelines.</p> <p>An information technology system for the collection of evidence portfolios has been developed and released for the sector's use.</p>
Issue guidance to the sector for the 2012 Quality Evaluation of the Performance-Based Research Fund	<p>Achieved</p> <p>The 2012 Quality Evaluation Guidelines were published in July 2010 for the sector's use.</p>
Monitor the performance of the Centres of Research Excellence	<p>Achieved - ongoing</p> <p>The Centres of Research Excellence reports showed all contracted activities to date were provided.</p>
Undertake the mid-term evaluation of Centres of Research Excellence	<p>Achieved</p> <p>Mid-term reviews completed in 2010/11 showed that Centres of Research Excellence are on track to meet their goals.</p>
Provide advice to the Minister on research related issues.	<p>Achieved - ongoing</p> <p>Advice was provided to the Minister on Partnerships for Excellence, the Starpath project and honouring Top Achievers Doctoral or Enterprise Scholarships after the Canterbury earthquakes.</p>

How do we measure progress?

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

MEASURE	TREND 2003	2006 ¹¹	TARGET 2012	COMMENT
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	Data will be available once the 2012 PBRF Quality Evaluation round has been held in December 2012
Number of staff in tertiary education organisations undertaking research of a world-class standard. ¹² 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%	

MEASURE	TREND 2005	2009	FORECAST 2010	ACTUAL 2010	VARIANCE/COMMENTS
External research income measured by the income generated by the tertiary education organisations participating in the PBRF	\$286m	\$411m ¹³	\$358m	\$403m	Result was above target but was a decrease from the updated 2009 result. This may be due to the downturn in the economy

Mid-term Review of Centres of Research Excellence

New Zealand's Centres of Research Excellence (CoREs) have developed a strong identity in New Zealand's research environment since their establishment in 2002. These collaborative organisations enable scientists from universities, Crown Research Institutes and other organisations to work together on research projects, to produce truly innovative and excellent science as well as train a new generation of scientists.

The TEC completed a review of all seven CoREs at the mid-term of their six year contracts. The review showed CoREs are meeting expectations in all areas of activity. The TEC Board has confirmed funding levels for each CoRE for the second half of their contracts (July 2011 to June 2014).

Over the first half of the current contract, the TEC has emphasised the importance of demonstrating the quality of research. In response to this, all CoREs have introduced better overall quality management systems during the past three years. All CoREs have systems to monitor progress in research programmes and ensure regular contestable processes in the allocation of funding to support research. Individual investigators in CoREs are required to demonstrate the alignment of research to the overall research strategy.

Perhaps the greatest contribution of CoREs is the role they carry out in training future generations of researchers to deliver excellent strategic research. As part of this, all CoREs deliver programmes in research communication and dissemination, and all have well established outreach programmes.

¹¹ For this measure, 2006 figures only include tertiary education organisations that participated in the 2003 evaluation.

¹² 2006 was a partial round and the same rate of increase between 2006 and 2012 is unlikely.

¹³ Updated figure from the forecast figure in the 2010/11 - 2012/13 Statement of Intent.

Working with others



Key stakeholders

In order to be successful in meeting our aims, we work closely with key stakeholders to inform and support our work. In 2010/11 we worked closely with:

- › Tertiary education institution bodies, including Universities New Zealand - Te Pōkai Tara; 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 providing information about the tertiary system, tertiary priorities, and Māori participation and progress in tertiary study
- › National bodies with a focus on Pacific education: Association of the Pasifika Staff in Tertiary Education; Pacific Islands Tertiary Education Providers of New Zealand
- › AUT and Learning State to design, develop and implement Pasifika Leadership programmes for middle and senior public servants
- › 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
- › Health Workforce New Zealand (HWNZ) - to provide information on health related education, alignment of TEC investment to HWNZ workforce development priorities and the introduction of a shorter graduate entry programme for medical students who already

have a degree.

- › The Adult Literacy Practitioners Association
- › The Literacy Alliance.

To get students' perspectives on our processes and decisions, a student participant is 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.

Our collaboration with other government agencies

We work with many government agencies and tertiary education bodies to make best use of our resources and achieve maximum benefit across the public sector for the community, industry and learners. We will continue to contribute to targeted cross agency work through collaborative projects with other agencies. In 2010/11 we developed and maintained strong and effective working relationships with:

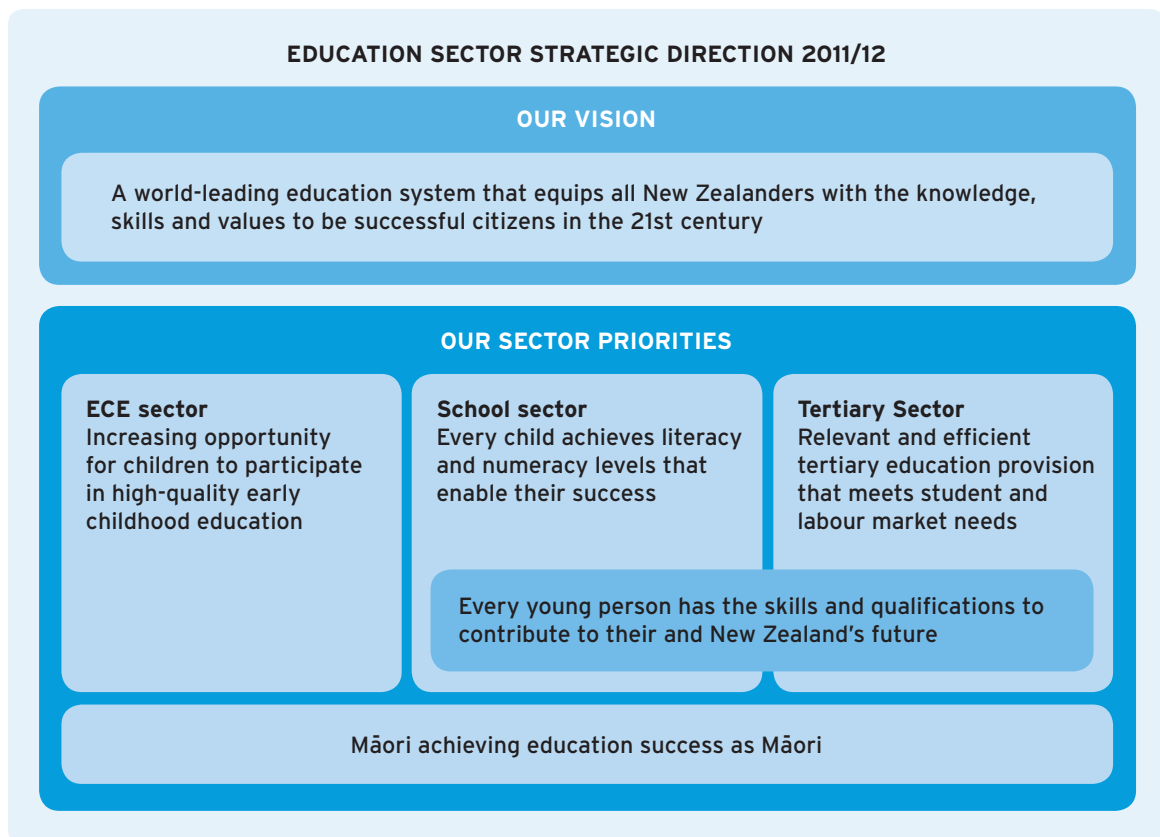
- › Central agencies: The Treasury; Department of the Prime Minister and Cabinet; and the State Services Commission
- › Auditing agencies: Office of the Auditor General; Audit New Zealand
- › Agencies involved in research and innovation: Ministry of Research, Science and Technology; Foundation for Research, Science and Technology (implementation of government decisions regarding business research and development, recommendations from the Crown Research Institutes Taskforce, the allocation of university overhead costs attributable to the Health Research Council, options for future funding of KAREN (Kiwi Advanced Research and Evaluation Network), and the provision of science, technology, engineering and mathematics subjects)¹⁴

¹⁴ MoRST and FRST merged to form the Ministry of Science and Innovation from 1 Feb 2011

- > Agencies concerned with economic growth and skills growth and development: Ministry of Economic Development on new government investment in food research and manufacturing capability, the provision of tertiary education in Auckland, the food and beverage information project; Department of Labour on skills issues in relation to the government's economic growth agenda; Ministry of Social Development; New Zealand Trade and Enterprise; Ministry of Youth Development; Ministry of Pacific Island Affairs; and Te Puni Kōkiri on interagency projects to work towards progressing Māori and Pacific learners' achievement in tertiary education.

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 shared priorities across the sector as appropriate to each agencies' particular role and responsibilities:

Raise skills in literacy and numeracy achievement: Implementation of workplace literacy and numeracy programmes.



Implement Youth Guarantee: Examining the regulatory settings and funding models, and ensuring young people have the information and guidance they need to make good education choices. It also includes building capacity in schools and tertiary institutions.

Relevant and efficient tertiary education that meets learners' and labour market needs: Considering value for money in the student support, fees and tuition subsidies areas, continuation of the targeted review of qualifications, working with the polytechnics to strengthen their businesses, and a new quality assurance framework for the tertiary sector.

Ensure that Māori young people enjoy success in the education system: Work across agencies is 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. In 2010/11 we worked with iwi and iwi representative bodies providing information about the tertiary system, tertiary priorities, and Māori participation and progress in tertiary study. We also worked with Te Puni Kōkiri on projects to progress Māori learners' achievement in tertiary education.

Lift education success rates for Pacific peoples: We will implement the Pasifika Education Plan. 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. In 2010/11 we worked with the Ministry of Pacific Islands Affairs and other government agencies on projects to work towards progressing Pacific learners' achievement in tertiary education.

Value for money, better public services and shared technologies: Ensure efficiencies and effectiveness in education spending by sharing services such as IT, helpdesk services, administration services and accommodation, as well as 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 (ICT) to ensure effective and efficient investment in conjunction with the Education Sector ICT Standing Committee. In 2010/11 we worked with the Ministry of Education, NZQA and the Ministry of Social Development on the Sector Information programme which seeks to co-ordinate the work required to upgrade core information registers and tertiary data collection systems.

Organisational Capability



Organisational development

In September 2010, the Board announced a review of the TEC to ensure it was 'fit for purpose' and able to deliver the Government's priorities for tertiary education. The announcement followed a number of significant changes impacting on the way the TEC operates, including the clarification that the Ministry of Education is the Minister's principal advisor on policy relating to tertiary education and changes to the Training Opportunities fund.

The review of the TEC focused on what changes were required to give effect to the Minister's expectation that the TEC focus on the management of the sector through Investment Plans, and funding and monitoring of the performance of tertiary education organisations. The Board's vision includes achieving more efficient management and a more customer-focussed culture within the TEC. The review has resulted in fewer directorates, each with clearer accountabilities. This is to ensure that the TEC can maintain its focus on core operations, as well as the planning activities and support services for those core operations. At the same time, the new structure ensures a greater emphasis on achieving the Government's Tertiary Education Strategy priorities.

The arrival of the new Chief Executive at the conclusion of the review process (from 4 July 2011) will ensure that the TEC stays focussed on the vision and direction of the organisation going forward.

Other activities

To support improved business processes and provide better guidance to staff and managers regarding best practice in the areas of discipline, performance management, the TEC Code of Conduct and health and safety, our policies were updated and enhanced.

An on-line exit interview process was introduced to replace the previous system of interviews. This saves staff time, enhances confidentiality, improves accessibility and allows for improved data extraction and analysis from the completed responses.

A TEC Wellness Programme was introduced which included educational seminars regarding health and wellness, as well as activities such as yoga, walking groups and massage. There was very good staff participation in the programme and positive feedback.

The Gallup Engagement survey was completed in August 2010 and analysis undertaken of results with managers. The process of planning for follow-up initiatives commenced but implementation was interrupted by the review process which subsequently significantly reconfigured work teams and directorates. Nevertheless, useful data regarding staff views of the organisation was obtained from the survey and will continue to be used for organisational development initiatives.

Human resources

As at 30 June 2011 the number of established positions in the new TEC structure was 220, with appointments made to 176 positions. At this time the review process and transition to the new structure was still in progress and there were further appointments pending (under offer), a number of vacancies still to be filled, as well as redundant staff serving out their notice periods.

Systems and processes

Accurate, timely and consistent data and information are essential for us to carry out our core business. We need to have systems and processes that support us in achieving the Government's tertiary education priorities in an efficient manner.

We have made significant progress in the development and implementation of key ICT infrastructure projects.

In September 2010, as part of the Tertiary Intelligence Programme (INTELL), we published data on the performance of Student Achievement Component funded tertiary education organisations for the general public. ITO performance data was published later in the year.

In February 2011 the Industry Training Register was implemented. More than a quarter of a million ITO transactions have since been captured to 30 June 2011.

Phase 1 of the tool to support the 2012 PBRF Quality Evaluation round has been developed and made available to eligible tertiary education organisations to enable them to commence the uploading of Evidence Portfolios.

We have enhanced a key process at the Service Centre with the integration of the phone system to our Contact Management System (TCM). This allows us to access information and present it to the Service Centre staff as soon as the call is received.

We have implemented a Google Search Appliance, allowing more effective search of a number of information repositories from a single location. In addition we have executed a number of projects to upgrade IT infrastructure - both at the server and storage level. This means increased performance, reliability and capacity of the platforms on which our IT systems and services reside.

Governance and accountability

Members of the Tertiary Education Commission are appointed by the Minister for Tertiary Education in accordance with Section 28(1)(a) of the Crown Entities Act 2004. The Board of Commissioners (the Commission) comprises at least six, but not more than nine, members. The positions of Chair and Deputy Chair are appointed by the Minister for Tertiary Education. The Commission also appoints a non-voting Learner Participant to work with it, on an annual basis.

The Commissioners

Membership of the Commission at 30 June 2011:

- > Sir Harawira Gardiner
- > Deirdre Dale
- > Jim Donovan
- > Robin Hapi
- > Ian Boyd
- > Anthony Hall
- > Pauline Winter
- > David Do, Learner Participant, non-voting

Bill Rosenberg served on the Board until 31 May 2011.

Further information on the background of each Commissioner is available at www.tec.govt.nz

Committees

The Commission has established the following Committees:

Audit and Risk Committee

- > Robin Hapi (Chair)
- > Jim Donovan
- > Pauline Winter

Human Resources Advisory Committee

- > Deirdre Dale (Chair)
- > Anthony Hall
- > Ian Boyd

2011 Learners' Advisory Committee

- > Bill Rosenberg (Chair) until 31 May 2011
- > David Do, Learner Participant
- > David Bristow
- > James O'Malley
- > Jaqualene Poutu
- > Rachel Boyack-Mayer
- > Ralph Springett
- > Jo Davey
- > Matthew Hansen
- > Sam McKenzie
- > Deni Tokunai

The terms of reference for each of these committees are reviewed annually.

Managing Our Risk



The TEC reviewed its approach to risk management during the year resulting in a revised Risk Management Framework being approved. The approach is consistent with the principles of an effective risk management system¹⁵ and is designed to meet the operating needs of the TEC and be integrated into management’s core functions. Central to the operation of the Framework is the oversight role that the Executive Team has for the core organisational risk. In this oversight role the Executive Team has adopted a systematic approach to identify, analyse, evaluate, mitigate and monitor our key organisational risks. The Executive Team undertook quarterly reviews of the core organisational risks.

The following table provides an overview of our core organisational risks and the mitigating strategies. The risks are largely the same as those set out in the 2010/11 - 2012/13 Statement of Intent. The mitigating actions reflect a combination of the generic and enduring strategies as well as those that relate to a specific activity delivered during the year. As well as the areas of ongoing risk management focus such as fund management, there were a number of unplanned events that occurred that required direct oversight by management to ensure that the related risks were being managed to an acceptable level. These events included those internal to the TEC, such as the organisational review, and those external, such as the Canterbury earthquakes.

OUR CORE ORGANISATIONAL RISKS

OUR RESPONSE STRATEGY: HOW WE MANAGED THE RISK

<p>Delivery of the Government’s priorities Failure to deliver on the Government priorities as set out in the Tertiary Education Strategy</p>	<ul style="list-style-type: none"> > Worked closely with other government agencies to deliver on the Tertiary Education Strategy priorities > Effective engagement with our key stakeholders (refer page 25 of the Annual Report) > Including performance targets for priority groups as an integral part of the TEO Plans > Provision of tools such as the Benchmarking Tool and the Governance Assessment Tool to strengthen the ITPs’ performance > Publication of performance information
<p>Organisational performance Not having the internal capability and capacity to deliver on the work programme. The organisational review and shift of the policy function back to the Ministry of Education were two events that needed to be managed during the year.</p>	<ul style="list-style-type: none"> > Worked closely with the Ministry of Education on the transfer of the policy function to the Ministry. Subsequent to the transfer the TEC regularly met with the Ministry on the policy work programme > The Executive Team worked closely with Commissioners during the period of the Board-led review of the TEC structure to implement the new operating model and structure. As part of this the Executive Team kept close oversight of the work programme and major cross-organisation projects to enable prioritisation of activities so that key deliverables were achieved. The TEC also introduced appropriate arrangements to support staff during the review process > Reviewed and strengthened the major cross-organisation systems and processes to ensure that they are efficient and that they effectively deliver on the business requirements. This included introducing the governance structure for the major systems programmes and related projects

¹⁵ 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 MANAGED THE RISK

Fund management

Failure to properly manage the Crown funds that we are responsible for

- › Continued simplification of funding mechanisms and supporting systems that we are responsible for. Developed a strategy to use the publication of performance information and performance-linked funding as an incentive to improve sector performance
- › Maintained clearly defined and transparent funding rules and conditions that are appropriate for the different Crown funds. This included reviewing and introducing revised funding rules for the ITO sector that took affect from January 2011
- › Operated an effective and efficient tertiary education organisation monitoring system. Introduced new Industry Training Register (ITR) system for receiving data from ITOs and monitoring performance
- › During the year we worked closely with MSD and the affected TEOs to manage the impact of the reduction in funding from MSD to TEC for managing the Training Opportunities programme
- › Designed and implemented funding strategy to support TEOs affected by the Canterbury earthquakes
- › Took appropriate action to recover Crown funding where necessary (refer action taken for the ITOs)

Evidence-based decisions

Inadequate evidence base to substantiate cross organisational and agency decisions

- › Developed and implemented an integrated work programme with the Ministry of Education and NZQA to strengthen quality of procedures for collection and validation of information
- › Development of the data warehouse (INTELL application) to make available relevant information/data to inform decision making processes
- › Enhanced business processes underpin decision making
- › Simplification and transparency of decision making process

Legal

Our actions create legal risks

- › Developed a consistent and agreed investment framework
- › Operated an effective legal compliance framework and process that included the annual legal compliance assessment
- › Legal advice was sought and acted on as appropriate

Financial information

Audit Report	36
Statement of Responsibility	38
Statement of Service Performance	39
Operational activities and services delivered directly by the TEC	39
Funding provided by the TEC for tertiary education organisations to deliver teaching and learning	43
Funding provided by the TEC for tertiary education organisations to deliver research	57
Financial Statements	59

Independent Auditor's Report

To the readers of Tertiary Education Commission's financial statements and non-financial performance information for the year ended 30 June 2011

The Auditor-General is the auditor of the Tertiary Education Commission (the Commission). The Auditor-General has appointed me, Julian Tan, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and non-financial performance information of the Commission on her behalf.

We have audited:

- > the financial statements of the Commission on pages 59 to 87, that comprise the statement of financial position as at 30 June 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and notes to the financial statements that include accounting policies and other explanatory information; and
- > the non-financial performance information of the Commission that comprises the statement of service performance on pages 39 to 58 and the report about outcomes on page 11.

Opinion

In our opinion:

- > the financial statements of the Commission on pages 59 to 87:
 - comply with generally accepted accounting practice in New Zealand; and
 - fairly reflect the Commission's:
 - financial position as at 30 June 2011; and
 - financial performance and cash flows for the year ended on that date.
- > the non-financial performance information of the Commission on pages 11 and 39 to 58:
- > complies with generally accepted accounting practice in New Zealand; and
- > fairly reflects the Commission's service performance and outcomes for the year ended 30 June 2011, including for each class of outputs:
 - its service performance compared with forecasts in the statement of forecast service performance at the start of the financial year; and
 - its actual revenue and output expenses compared with the forecasts in the statement of forecast service performance at the start of the financial year.

Our audit was completed on 4 October 2011. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Commissioners and our responsibilities, and we explain our independence.

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements and non-financial performance information are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements and non-financial performance information. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and non-financial performance information. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and non-financial performance information, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Commission's preparation of the financial statements and non-financial performance information that fairly reflect the matters to which they relate. We consider internal control in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control.

An audit also involves evaluating:

- > the appropriateness of accounting policies used and whether they have been consistently applied;
- > the reasonableness of the significant accounting estimates and judgements made by the Board of Commissioners;
- > the appropriateness of the reported non-financial performance information within the Commission's framework for reporting performance;
- > the adequacy of all disclosures in the financial statements and non-financial performance information; and
- > the overall presentation of the financial statements and non-financial performance information.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and non-financial performance information. We have obtained all the information and explanations we have required and we believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Board of Commissioners

The Board of Commissioners is responsible for preparing financial statements and non-financial performance information that:

- > comply with generally accepted accounting practice in New Zealand;
- > fairly reflect the Commission's financial position, financial performance and cash flows; and
- > fairly reflect the Commission's service performance and outcomes.

The Board of Commissioners is also responsible for such internal control as is determined necessary to enable the preparation of financial statements and non-financial performance information that are free from material misstatement, whether due to fraud or error.

The Board of Commissioner's responsibilities arise from the Crown Entities Act 2004.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and non-financial performance information and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and the Crown Entities Act 2004.

Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the New Zealand Institute of Chartered Accountants.

In addition to the audit, we have completed results focused assurance reviews of industry training organisations for the Commission during the year ended 30 June 2011.

Other than the audit and these assurance engagements, we have no relationship with or interests in the Commission.



JULIAN TAN
AUDIT NEW ZEALAND
ON BEHALF OF THE AUDITOR-GENERAL
WELLINGTON, NEW ZEALAND

Matters relating to the electronic presentation of the audited financial statements and non-financial performance information

This audit report relates to the financial statements and non-financial performance information of the Tertiary Education Commission (the Commission) for the year ended 30 June 2011 included on the Commission's website. The Commission's Board of Commissioners is responsible for the maintenance and integrity of the website. We have not been engaged to report on the integrity of the website. We accept no responsibility for any changes that may have occurred to the financial statements and non-financial performance information since they were initially presented on the website.

The audit report refers only to the financial statements and non-financial performance information named above. It does not provide an opinion on any other information which may have been hyperlinked to or from the financial statements and non-financial performance information. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and non-financial performance information as well as the related audit report dated 4 October 2011 to confirm the information included in the audited financial statements and non-financial performance information presented on this website.

Legislation in New Zealand governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

Statement of Responsibility

In terms of the Crown Entities Act 2004, the Board is responsible for the preparation of the Tertiary Education Commission's financial statements and the statement of service performance, and for the judgements made in them.

The Board of the Tertiary Education Commission has the responsibility for establishing, and has established, a system of internal control designed

to provide reasonable assurance as to the integrity and reliability of financial reporting.

In the Board's opinion, these financial statements and statement of service performance fairly reflect the financial position and operations of the Tertiary Education Commission for the year ended 30 June 2011.

Signed on behalf of the Board of Commissioners:



SIR WIRA GARDINER
CHAIR
TERTIARY EDUCATION COMMISSION

4 OCTOBER 2011



ROBIN HAPI
CHAIR, AUDIT AND RISK COMMITTEE
TERTIARY EDUCATION COMMISSION

4 OCTOBER 2011

Statement of Service Performance

Operational activities and services delivered directly by the TEC

Managing the Government's Investment in the Tertiary Education Sector

We manage a 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 Cost	FORECAST FOR THE YEAR ENDED 30 JUNE 2011 \$000	ACTUAL FOR THE YEAR ENDED 30 JUNE 2011 \$000
Appropriation revenue as per SOI	34,491	34,491
Contribution to the Productivity Commission	(70)	(70)
ITP Benchmarking Transfer from Capital to Operating	1,250	1,250
Tertiary Learner Event Collection Project	0	300
Interest revenue	439	731
Total revenue	36,110	36,702
Total expenses	36,110	40,579
Surplus/(deficit)	0	(3,877)

OUTPUT MEASURE	2010/11 TARGET	2010/11 ACTUAL	VARIANCE/COMMENTS
2011 - 13 Plan Guidance sets out expectations for tertiary education organisations to implement the Tertiary Education Strategy during the next Plan cycle	Achieved	Plan Guidance for 2011 Plans was published on the TEC website on 2 June 2010	Achieved
Plans for tertiary education organisations demonstrate evidence of alignment with employer, community and learner needs	100%	100%	Achieved
Plans for tertiary education organisations include targets for improving achievement rates for priority groups in the Tertiary Education Strategy	100%	100%	Achieved
For Plans submitted for funding approval, that meet the TEC's Plan content and funding criteria, % that have funding approved by 1 December 2010	98%	TEIs, ITOs - 100% Other TEOs - 91% (664 Plans) by 1 December 2010; 9% (67 Plans) after 1 December 2010	Partially Achieved
Payments are made to tertiary education organisations as per the agreed contractual terms and conditions	100%	Not achieved. Between 1 March 2011 and 30 June 2011, 99% of 5,381 payments were paid on time. Between 1 July 2011 and 28 February 2012, information was available to measure that payments were made to the correct TEO and of the correct amount but it was difficult to extract the information on the timeliness of the payment. Further enhancements were implemented from 1 March 2011 to provide the detail reports on the timeliness dimension of the payments. During the year all 15,997 payments were paid to the correct TEO and in the right amount	Follow up of all outstanding payments is now managed by each investment team in conjunction with the Finance Team. Development of reporting for this measure has now been finalised and the business process describing the approach to using the new reporting tool has been determined

OUTPUT MEASURE	2010/11 TARGET	2010/11 ACTUAL	VARIANCE/COMMENTS
Service Centre customer satisfaction results are at or above the average of other state sector agencies participating in the Kiwis Count survey	Results for first six months of 2011 are at or above the average from the 2009 Kiwis Count survey	Not available	Will be reported in 2011/12 when results of survey are available
Number of tertiary education organisations audited by the TEC	25-30 audits	37 ITOs audited 11 PTEs audited	Achieved 48 Audits
The TEC intervenes, on the basis of performance and audit information, in the governance of tertiary education institutions/ organisations as required	0-10 interventions	0	Achieved
Tertiary education organisation performance information is published annually in the first quarter of the financial year	First time information published	Tertiary performance information for SAC funded TEOs was published on TEC's website in September 2010 ITO performance information was published in December 2010	Achieved
Programme evaluations are completed in accordance with the 2010/11 Programme Evaluation Plan	3-5 programme evaluations	3	Achieved Evaluations of the Intensive Literacy and Numeracy Fund, the Workplace Literacy Fund and the changes in the governance model for ITPs were completed

Ownership Monitoring of Tertiary Education Institutions

We monitor how well the tertiary education institutions are performing in relation to governance, financial and educational performance and provide advice to the Minister for Tertiary Education to make sure that the Crown's ownership interest is protected.

Output Cost

	FORECAST FOR THE YEAR ENDED 30 JUNE 2011 \$000	ACTUAL FOR THE YEAR ENDED 30 JUNE 2011 \$000
Appropriation revenue as per SOI	2,567	2,567
Interest revenue	32	52
Total revenue	2,599	2,619
Total expenses	2,599	2,357
Surplus/(deficit)	0	262

OUTPUT MEASURE	2010/11 TARGET	2010/11 ACTUAL	VARIANCE/COMMENTS
Minister is satisfied with advice on Council appointments (scale 1 to 6, 1=poor quality, 2=less than adequate, 3=just adequate, 4=adequate, 5=good, 6=very high-quality) ¹⁶	4 or better	5	Mechanism for reporting is under review to ensure we can improve quality and timeliness of data for 2011/12
Advice on monitoring of tertiary education institutions performance to the Minister and for the Cabinet Expenditure Control Committee as graded by central agencies (scale 1 to 6, 1=poor quality, 2=less than adequate, 3=just adequate, 4=adequate, 5=good, 6=very high-quality)	4 or better	5	Achieved The Crown entity six monthly reporting process to Cabinet ECC has now been discontinued
Minister is satisfied with advice on intervention options (scale 1 to 6, 1=poor quality, 2=less than adequate, 3=just adequate, 4=adequate, 5=good, 6=very high-quality)	4 or better	4	Mechanism for reporting is under review to ensure we can improve quality and timeliness of data for 2011/12

¹⁶ This scale, used by central agencies to grade advice, has been adopted for our other measures of advice quality.

Tertiary Education and Training Policy Advice

We provide policy advice, analysis and information to Ministers on tertiary education-related matters.¹⁷

Output Cost	FORECAST FOR THE YEAR ENDED 30 JUNE 2011 \$000	ACTUAL FOR THE YEAR ENDED 30 JUNE 2011 \$000
Appropriation revenue as per SOI	5,637	5,637
Transfer of policy function to MoE	0	(1,091)
Interest revenue	69	92
Total revenue	5,706	4,638
Total expenses	5,706	4,598
Surplus/(deficit)	0	40

OUTPUT MEASURE	2010/11 TARGET	2010/11 ACTUAL	VARIANCE/COMMENTS
Number of Ministerial-related items provided to the Office of the Minister for Tertiary Education	1,100	1,422	Achieved
Minister is satisfied with policy advice (scale 1 to 6, 1=poor quality, 2=less than adequate, 3=just adequate, 4=adequate, 5=good, 6=very high-quality)	4 or better	4	The TEC's policy function transferred to the Ministry of Education from December 2010

¹⁷ From 2011 our policy function has been transferred to the Ministry of Education. This appropriation has been renamed Tertiary Education and Training Advice

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

Tertiary Education: Student Achievement Component

The Student Achievement Component (SAC) is the Government's contribution to the direct costs of teaching, learning, and other costs driven by learner numbers for enrolled students in approved courses at tertiary education organisations to achieve recognised tertiary qualifications.

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.

Output Cost

	FORECAST FOR THE YEAR ENDED 30 JUNE 2011 \$000	ACTUAL FOR THE YEAR ENDED 30 JUNE 2011 \$000
Appropriation revenue as per SOI	1,827,487	
Agreed variations approved as part of Baseline updates	7,381	
Total revenue	1,834,868	1,833,736
Total expenses	1,834,868	1,832,740
Surplus/(deficit)	0	996

OUTPUT MEASURE	2010/11 TARGET	2010/11 ACTUAL	VARIANCE/COMMENTS
Number of Domestic Equivalent Full-Time Students (EFTS) by sub-sector:			
Universities	117,569 ±3%	118,066	Achieved
Institutes of technology and polytechnics	69,765 ±3%	67,614	Not achieved
Wānanga	25,914 ±3%	25,003	Below the ±3% threshold due to a 1-2% increase in the average rate per EFTS in both 2010 and 2011
Private training establishments	21,680 ±3%	20,560	
Other tertiary education providers	3,103 ±3%	3,118	Achieved
Youth Guarantee	2,250 ±3%	1,806	Not Achieved ¹⁸
Total	240,281 ±3%	236,167	Achieved
Numbers of EFTS at Level 1-3 in institutes of technology and polytechnics' courses with embedded literacy and numeracy	6,000 EFTS in Institutes of technology and polytechnics	15,676	Achieved

The variability allowance of ±3% aligns with the 97% to 103% range allowed for tertiary education organisations' actual EFTS delivered against the 100% of EFTS for which they are funded.

The following indicators are standard measures of educational performance and we use them to measure the overall performance of the tertiary education system:

- > participation in tertiary education
- > progression from one form of tertiary education to further study
- > rates of successful completion of courses
- > qualification completion rates

¹⁸ Youth Guarantee EFTS are not separately identifiable in the SDR forecast data. Therefore, the numbers stated are the actual enrolments reported as at 30 April 2011. This is likely to understate Youth Guarantee and overstate the other EFTS for ITPs and PTEs. From 2012 Youth Guarantee will be merged with the Youth Training programme and SDR data issues will not be relevant.

Participation: Percentage of Learners and Level of Study

The table below shows the distribution of all SAC-funded enrolments across different levels of study.

OUTPUT MEASURE	2010 TARGET	2010 ACTUAL
Qualification Level	%	%
Levels 1 - 3 (certificates)	20	19
Levels 4 (certificates)	12	12
Levels 5 - 7 (diploma)	14	13
Level 7 (degree/graduate diploma)	43	45
Levels 8 - 9 (postgraduate)	9	9
Level 10 (doctorate)	2	2
Total percentage	100%	100%

Participation: Māori Learners and Level of Study

Since 2000, Māori have participated in tertiary education at significantly higher rates than non-Māori, relative to their proportion of the population. Much of this participation growth has been at levels 1-3 and Māori remain under represented at levels 4 and above.

OUTPUT MEASURE	2010 TARGET	2010 ACTUAL	VARIANCE/COMMENTS
Proportion of all EFTS who are Māori aged 16 to 25 years	%	%	
Levels 1 - 3	32	34	Achieved
Levels 4 and over	12	12	Achieved

Participation: Pacific Learners and Level of Study

Pacific peoples' participation in tertiary education is increasing with faster enrolment growth in recent years than for domestic students overall. Although enrolments in bachelor-level study have tracked upwards, Pacific peoples remain under represented at levels 4 and above, relative to their proportion of the population.

OUTPUT MEASURE	2010 TARGET	2010 ACTUAL	VARIANCE/COMMENTS
Proportion of all EFTS who are Pacific aged 16 to 25 years	%	%	
Levels 1 - 3	15	15	Achieved
Levels 4 and over	7	7	Achieved

Participation: All young people aged 16 to 25 years

For young people, participation at higher levels of tertiary education is dependent on the preparation they receive in secondary school. Level 1-3 study prepares students to progress to higher levels of tertiary education, providing important opportunities for those who left school without the preparation necessary for higher level study.

OUTPUT MEASURE	2010 TARGET	2010 ACTUAL	VARIANCE/COMMENTS
Proportion of EFTS who are aged 16 to 25 years by level	%	%	
Levels 1 - 3	13	13	Achieved
Levels 4 and over	87	87	Achieved

Progression

Progression to further study is one indicator of the effectiveness of tertiary study in providing skills and knowledge that enable students to move on to higher levels of structured learning. Progression is a particularly important indicator of system success for study at levels 1 - 3, as the Government's main priority in funding levels 1 - 3 is to prepare students to undertake higher levels of tertiary study.

OUTPUT MEASURE	2010 TARGET	2010 ACTUAL	VARIANCE/COMMENTS
Progression to higher level study in the following year for all learners studying at level 1 - 3 in the stated year	27%	34%	Achieved
Progression to higher level study in the following year for all learners studying at all levels in the stated year	21%	26%	Achieved

Successful course completion rates

Successful completion of courses is an immediate measure of the educational performance of the tertiary system within an academic year. It indicates tertiary education organisations' success in ensuring learners are well matched to the courses in which they enrol and in teaching and supporting learners to succeed.

OUTPUT MEASURE	2010 TARGET	2010 ACTUAL	VARIANCE/COMMENTS
Māori learners enrolled at level 4 and above	68%	72%	Achieved
Pacific learners enrolled at level 4 and above	63%	69%	Achieved
Young people aged under 25 enrolled at level 4 and above	81%	82%	Achieved
All learners enrolled at level 4 and above	79%	81%	Achieved

Qualification completion rates

Qualification completion rates provide a good indication of how successful tertiary providers are in helping their students to complete qualifications. Students who complete a qualification tend to earn significantly more than those who complete a number of courses but do not complete a qualification.

OUTPUT MEASURE	2010 TARGET	2010 ACTUAL	VARIANCE/COMMENTS
Māori learners enrolled at level 4 and above	53%	52%	Not Achieved See narrative below
Pacific learners enrolled at level 4 and above	52%	52%	Achieved
Young people aged under 25 enrolled at level 4 and above	62%	61%	Not Achieved See narrative below
All learners enrolled at level 4 and above	68%	64%	Not Achieved See narrative below

Because of the way the qualification completion indicator is designed, the rate may change between years for reasons unrelated to educational performance. An increase in the number of enrolments in a programme or NZQF grouping will tend to depress the corresponding completion rate, whereas a decrease in enrolments will tend to lift it. Additional enrolments in programmes that take longer to complete (higher level programmes are multi-year) will result in lower qualification completion rates until enrolment levels reach maturation.

Youth Guarantee

The purpose of the Youth Guarantee initiative is to improve the educational achievements of targeted 16 and 17 year olds by providing them with an opportunity to participate in a range of vocational courses free of charge.

From 1 January 2012 the Youth Guarantee programme is to be merged with the current Youth Training programme. Appropriate measures will be developed during 2011, and will likely include: participation and progression measures as well as labour market outcomes and credit achievement measures.

Participation

OUTPUT MEASURE	2010 TARGET	2010 ACTUAL	VARIANCE/COMMENTS
Number of Youth Guarantee EFTS - all levels	2,000	1,925	Not Achieved 2010 actual result slightly below target as Youth Guarantee is a new fund. The TEC expects enrolments in Youth Guarantee to increase to forecast levels in 2011

Training for Designated Groups

We fund tertiary education organisations to provide both on-job and off-job training, including fully or partially funded training places.

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 Cost

	FORECAST FOR THE YEAR ENDED 30 JUNE 2011 \$000	ACTUAL FOR THE YEAR ENDED 30 JUNE 2011 \$000
Appropriation revenue as per SOI	304,407	
Agreed variations approved as part of Baseline updates	(35,900)	
Total revenue	268,507	255,544
Total expenses	268,507	251,450
Surplus/(deficit)	0	4,094

OUTPUT MEASURE	2010/11 TARGET	2010 CALENDAR YEAR ACTUAL ¹⁹	VARIANCE/COMMENTS
Industry training			
Total trainees	149,000	102,930	N/A
Average number of National Qualifications Framework credits achieved per industry trainee	20	22	N/A
Number of standard training measures funded ²⁰	56,000	51,539	N/A
Modern Apprenticeships			
Total trainees	14,000	11,634	The number of Standard Training Measures (STMs) and trainees in 2010 has declined as a result of changes to operational policy rules and economic conditions
Average completion time for Modern Apprenticeships	Under development	Under development	In 2009 the 5 year completion rate was 37% for all Modern Apprenticeships
Youth Training			
Total trainees	4,000	4,083	Achieved
Average number of National Qualifications Framework credits achieved per youth trainee	20	29 (1 July 2010 to 30 March 2011) ²¹	Achieved
Percentage of trainees moving on to further education or employment within two months of leaving Youth Training	65%	72% (1 July 2010 to 30 March 2011) ²¹	Achieved
Gateway			
Total participants	11,500-12,000 in 365 schools	11,366 in 363 schools	Not Achieved. Lags in reporting, because the last day for Term 2 is later than usual, as well as the impact of the Canterbury earthquakes are likely reasons for places being slightly lower than the 11,913 achieved for the 2010 calendar year A total of 12,498 places are funded for the 2011 calendar year at 374 schools
Average number of National Qualifications Framework credits achieved per Gateway participant	10	15 ²¹	Achieved

¹⁹ The numbers reported in the progress column are for the 2010 calendar year and cannot be compared to the 2010/11 forecast. Results for the 2010 calendar year have been provided as 2010/11 data is not available.

²⁰ A standard training measure is the amount of training required for a trainee to achieve 120 National Qualifications Framework credits. Funding is based on the number of standard training measures provided by an industry training organisation in a calendar year.

²¹ These figures use a reporting period with a three month lag, to allow providers to confirm the 2 month labour market outcomes and credit achievement details.

Adult and Community Education

We provide funding to schools, community organisations and tertiary education institutions to deliver community and adult education courses, including literacy and numeracy and English for speakers of other languages training.

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 Cost	FORECAST FOR THE YEAR ENDED 30 JUNE 2011 \$000	ACTUAL FOR THE YEAR ENDED 30 JUNE 2011 \$000
Appropriation revenue as per SOI	69,653	
Agreed variations approved as part of Baseline updates	(582)	
Total revenue	69,071	69,047
Total expenses	69,071	67,642
Surplus/(deficit)	0	1,405

OUTPUT MEASURE	2010/11 TARGET	2010/11 ACTUAL	VARIANCE/COMMENTS
School-based adult and community education			
Participation by learners in school-based programmes	24,000	20,561	Not Achieved Adult and community education priorities were refocused as part of Budget 2009 with 2010 being the first year of delivery under the new purchasing framework. The lower participation figure reflects the impact of the new priorities as well as the impact of the Canterbury earthquakes
Percentage of learners from the priority groups identified in the Tertiary Education Strategy (Māori, Pacific, second chance learners, English language needs, learners with no formal qualification)	50%	Not achieved	Reporting mechanism is being redesigned to ensure data can be captured

OUTPUT MEASURE	2010 TARGET	2010 ACTUAL	VARIANCE/COMMENTS
Literacy and Numeracy			
Total number of learners – Intensive Literacy and Numeracy ²²	5,100	5,466	Achieved
Intensive Literacy and Numeracy learners show an improvement in literacy and numeracy skills as measured against the Adult Literacy and Numeracy Learning Progressions	80%	Not available at this time	In 2010, the TEC released a world-leading Assessment Tool to enable literacy and numeracy gain to be measured. Literacy and numeracy gains data will be available from 2013 when providers are first required to report
Total number of learners – Workplace Literacy Fund	8,900	7,501	Not achieved Target was set in error. Amended target is 7,266
Workplace Literacy Fund learners complete programme	80%	79%	Not achieved

Tertiary Scholarships

We fund scholarships for tertiary students and other awards in the tertiary sector, including: training assistance under Queen Elizabeth II Study Awards and recognition of outstanding tertiary education teachers.

Output Cost	FORECAST FOR THE YEAR ENDED 30 JUNE 2011 \$000	ACTUAL FOR THE YEAR ENDED 30 JUNE 2011 \$000
Appropriation revenue as per SOI	16,165 ²³	
Agreed variations approved as part of Baseline updates	(656)	
Total revenue	15,509	12,846
Total expenses	15,509	11,427
Surplus/(deficit)	0	1,419

OUTPUT MEASURE	2010/11 TARGET	2010/11 ACTUAL	VARIANCE/COMMENTS
Average number of medical intern places funded	314	302	Not achieved Fewer sixth year medical students than anticipated by University of Auckland and University of Otago
Average number of other scholarship places funded	603	252	No new Top Achiever Doctoral Scholarships or Enterprise Scholarships were awarded in 2010. Existing scholarships are being honoured

²² Foundation Learning Pool was renamed Intensive Literacy and Numeracy.

²³ Figure is different from that in the 2010/11 - 2012/13 Statement of Intent as the Statement of Intent figure included Science and Mathematics Awards administered by the Ministry of Education.

Tertiary Teaching Awards

We provide funding via Ako Aotearoa (National Centre for Tertiary Teaching Excellence) for tertiary teaching awards. The awards aim to recognise and encourage excellence in tertiary education teaching and provide an opportunity for teachers to further their careers and share good practice with others.

Output Cost	FORECAST FOR THE YEAR ENDED 30 JUNE 2011 \$000	ACTUAL FOR THE YEAR ENDED 30 JUNE 2011 \$000
Appropriation revenue as per SOI	200	
Agreed variations approved as part of Baseline updates	0	
Total revenue	200	200
Total expenses	200	200
Surplus/(deficit)	0	0

OUTPUT MEASURE	2010/11 TARGET	2010/11 ACTUAL	VARIANCE/COMMENTS
Number of Awards awarded	10	12	Achieved

Tertiary Education Grants and Other Funding

We provide contestable 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).

Output Cost	FORECAST FOR THE YEAR ENDED 30 JUNE 2011 \$000	ACTUAL FOR THE YEAR ENDED 30 JUNE 2011 \$000
Appropriation revenue as per SOI	21,155	
Agreed variations approved as part of Baseline updates	5,208	
Total revenue	26,363	25,963
Total expenses	26,363	25,269
Surplus/(deficit)	0	694

OUTPUT MEASURE	2010/11 TARGET	2010/11 ACTUAL	VARIANCE/COMMENTS
Agreements are consistent with need and purpose of fund	Achieved	Achieved	No new funding allocated in 2010/11
Agreements are monitored and action taken as required	Achieved	Achieved	

University of Auckland Starpath Project

This appropriation supports the Starpath initiatives at the University of Auckland. The Starpath project aims to identify barriers to secondary school students entering tertiary education and disseminate best practice to overcome those barriers.

Output Cost	FORECAST FOR THE YEAR ENDED 30 JUNE 2011 \$000	ACTUAL FOR THE YEAR ENDED 30 JUNE 2011 \$000
Appropriation revenue as per SOI	5,650	
Agreed variations approved as part of Baseline updates	(4,440)	
Total revenue	1,210	1,210
Total expenses	1,210	1,210
Surplus/(deficit)	0	0

Tertiary Education Organisation Component - Capability Fund²⁴

This appropriation provides financial contributions to the cost of tertiary education organisations maintaining and enhancing their capability to deliver quality and relevant education, and to develop their distinctive roles in the network of tertiary education provision.

Output Cost	FORECAST FOR THE YEAR ENDED 30 JUNE 2011 \$000	ACTUAL FOR THE YEAR ENDED 30 JUNE 2011 \$000
Appropriation revenue as per SOI	194,326	
Agreed variations approved as part of Baseline updates	1,130	
Total revenue	195,456	195,449
Total expenses	195,456	195,076
Surplus/(deficit)	0	373

Tertiary Education and Training Grants²⁵

This appropriation provides living support for students at risk who need to move away from home to pursue alternative education options.

Output Cost	FORECAST FOR THE YEAR ENDED 30 JUNE 2011 \$000	ACTUAL FOR THE YEAR ENDED 30 JUNE 2011 \$000
Appropriation revenue as per SOI	40	
Agreed variations approved as part of Baseline updates	0	
Total revenue	40	40
Total expenses	40	0
Surplus/(deficit)	0	40

²⁴ This appropriation was disestablished effective 1 January 2011. Funding was transferred into the Tertiary Education: Student Achievement Component appropriation or the Tertiary Education Grants and Other Funding appropriation. Performance measures for this funding are included with those appropriations as appropriate.

²⁵ This appropriation was disestablished effective 1 January 2011. No grants have been awarded from this scheme since 2009.

Quality Reinvestment Programme

Support for institutes of technology and polytechnics and wānanga through the Quality Reinvestment Programme to develop and maintain a high-quality network of tertiary education provision aligned with the core roles of the sector as expressed in the Tertiary Education Strategy.

Output Cost	FORECAST FOR THE YEAR ENDED 30 JUNE 2011 \$000	ACTUAL FOR THE YEAR ENDED 30 JUNE 2011 \$000
Appropriation revenue as per SOI	1,075	
Agreed variations approved as part of Baseline updates	1,621	
Total revenue	2,696	2,696
Total expenses	2,696	2,696
Surplus/(deficit)	0	0

Tertiary Education Institution Merger Support

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

Output Cost	FORECAST FOR THE YEAR ENDED 30 JUNE 2011 \$000	ACTUAL FOR THE YEAR ENDED 30 JUNE 2011 \$000
Appropriation revenue as per SOI	0	
Agreed variations approved as part of Baseline updates	5,000	
Total revenue	5,000	5,000
Total expenses	5,000	5,000
Surplus/(deficit)	0	0

OUTPUT MEASURE	2010/11 TARGET	2010/11 ACTUAL	VARIANCE/COMMENTS
Merger milestones are met according to funding agreements	100%	100%	All milestones in the merger agreement between the Eastern Institute of Technology and Tairāwhiti Polytechnic were met

Training Opportunities

The Ministry of Social Development commissions us to purchase and administer Training Opportunities programmes. Training Opportunities assists people with low qualifications or limited skills to gain recognised qualifications, and to move into sustainable employment and/or higher levels of tertiary education.

Output Cost	FORECAST FOR THE YEAR ENDED 30 JUNE 2011 \$000	ACTUAL FOR THE YEAR ENDED 30 JUNE 2011 \$000
Revenue		
Operations	7,660	6,661
Distributions	88,157	68,818
Total Revenue	95,817	75,479
Expenses		
Operations	7,660	6,009
Distributions	88,157	68,818
Total Expenses	95,817	74,827
Surplus/(deficit)	0	652

OUTPUT MEASURE	2010/11 TARGET	2010/11 ACTUAL	VARIANCE/COMMENTS
Average number of learners in training	7,000	5,529	Not Achieved
Percentage of learners who move on to employment or further tertiary training outside of Training Opportunities within two months of leaving the programme	70%	72%	Achieved

Training Opportunities has been significantly reconfigured for 2011, with the TEC - administered programme (now known as Foundation Focussed Training Opportunities) having a much greater focus on improving literacy and numeracy of learners.

The purpose of Foundation Focussed Training Opportunities programmes is to enable learners with low qualifications, and who are at risk of long term unemployment, to engage in further education and training.

With effect from 1 January of this year, the TEC contracted 4,226 learner places for delivery in 2011.

Systems changes are required in order to develop appropriate performance measures for the reconfigured programme. Measures will likely be based on targets agreed between the TEC and the Ministry of Social Development in the Service Level Agreement, including labour market outcomes and credit achievement.

Foundation Focused Training Opportunities (FFTO)

OUTPUT MEASURE	2011 TARGET	PROGRESS 01 JAN 2011 - 30 JUNE 2011	VARIANCE/COMMENTS
Total number of distinct learner places contracted to the TEC	4,226	5,876	Achieved

English for Migrants

Immigration New Zealand commissions us to administer the English for Migrants programme. This programme is aimed at ensuring migrants have sufficient English language skills to assist their integration into New Zealand society and the labour market. Funding is provided from levies collected from migrants by Immigration New Zealand.

Output Cost

	FORECAST FOR THE YEAR ENDED 30 JUNE 2011 \$000	ACTUAL FOR THE YEAR ENDED 30 JUNE 2011 \$000
Revenue		
Operations	500	223
Interest	0	223
Distributions	2,500	880
Total Revenue	3,000	1,326
Expenses		
Operations	500	446
Distributions	2,500	880
Total Expenses	3,000	1,326
Surplus/(deficit)	0	0

OUTPUT MEASURE	2010/11 TARGET	2010/11 ACTUAL	VARIANCE/COMMENTS
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	Achieved	Achieved	

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

Centres of Research Excellence

This appropriation provides funding for cooperative and collaborative tertiary research in areas of research strength in the tertiary education sector through the contestable Centres of Research Excellence Fund.

Output Cost

	FORECAST FOR THE YEAR ENDED 30 JUNE 2011 \$000	ACTUAL FOR THE YEAR ENDED 30 JUNE 2011 \$000
Appropriation revenue as per SOI	33,488	
Agreed variations approved as part of Baseline updates	0	
Total revenue	33,488	33,339
Total expenses	33,488	33,339
Surplus/(deficit)	0	0

OUTPUT MEASURE	2010/11 TARGET	2010/11 ACTUAL	VARIANCE/COMMENTS
The Annual Reports of each Centre of Research Excellence covering agreed reporting areas are approved by the TEC by March 2011	Reports approved	Reports approved	All CoRE Annual Reports detailed activities during 2010 in all required areas
The 2010/11 mid-term review of Centres of Research Excellence demonstrates alignment with programme purpose	Review completed	Review completed	The mid-term review demonstrated that CoREs are meeting the goals of the CoRE programme

Tertiary Education Organisation Component – Performance-Based Research Fund²⁶

We fund tertiary education organisations for excellent research and research-based teaching, based on measured research quality.

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 the fund).

Output Cost

	FORECAST FOR THE YEAR ENDED 30 JUNE 2011 \$000	ACTUAL FOR THE YEAR ENDED 30 JUNE 2011 \$000
Appropriation revenue as per SOI	250,000	
Agreed variations approved as part of Baseline updates	0	
Total revenue	250,000	250,000
Total expenses	250,000	250,000
Surplus/(deficit)	0	0

OUTPUT MEASURE	2010/11 TARGET	2010/11 ACTUAL	VARIANCE/COMMENTS
Research degree completions ²⁷ (measured by PBRF eligible research degree completions)	2,550	3,333	Achieved
Percentage increase in amount of external income for PBRF eligible providers	3.6%	-1.9%	Not Achieved This may be due to the downturn in the economy

²⁶ From 2011/12 the appropriation is simply known as the Performance-Based Research Fund

²⁷ 2010 Calendar year

Financial Statements

Statement of Comprehensive Income

For the year ended 30 June 2011

	NOTES	2011 ACTUAL \$000	2011 BUDGET \$000	2010 ACTUAL \$000
REVENUE				
Operating Revenue:				
TEC Funding - Ministry of Education (MoE)		43,084	42,625	50,072
TEC Funding - Ministry of Social Development (MSD)		6,661	7,660	7,661
TEC Funding - Immigration New Zealand (INZ)		223	500	171
Gain on Sale of Property, Plant and Equipment		8	-	73
Total Operating Revenue		49,976	50,785	57,977
Grants Revenue:				
Grants Revenue - MoE		3,068,506	3,061,917	3,055,793
Grants Revenue - MSD		68,818	88,157	88,157
Grants Revenue - INZ		880	2,500	937
Total Grants Revenue		3,138,204	3,152,574	3,144,887
Finance Revenue:				
Interest Income on Bank Deposits - Operating		875	540	923
Total Finance Revenue		875	540	923
TOTAL REVENUE		3,189,055	3,203,899	3,203,787
EXPENSES				
Operating Expenses:				
Personnel	2	26,486	27,342	27,298
Operating	3	22,730	18,989	24,885
Depreciation	4	1,791	1,442	1,638
Amortisation and Impairment Losses	5	3,437	3,552	2,545
Total Operating Expenses		54,444	51,325	56,366
Grants Expenses:				
Grants Disbursed and Accrued - MoE		3,058,368	3,061,917	3,042,001
Grants Disbursed and Accrued - MSD		68,818	88,157	88,157
Grants Disbursed and Accrued - INZ		880	2,500	937
Total Grants Expenses		3,128,066	3,152,574	3,131,095
TOTAL EXPENSES		3,182,510	3,203,899	3,187,461
Operating Surplus/(Deficit)				
Operating Deficit		(4,468)	(540)	1,611
Grants Surplus		10,138	-	13,792
Finance Income		875	540	923
Total Operating Surplus		6,545	-	16,326
Other Comprehensive Income:				
Other Comprehensive Income		-	-	-
Total Comprehensive Income for the Year		6,545	-	16,326

Explanations of major variances against budget are provided in Note 15. The accompanying notes form part of these financial statements.

Statement of Changes in Equity

For the year ended 30 June 2011

	NOTES	2011 ACTUAL \$000	2011 BUDGET \$000	2010 ACTUAL \$000
Equity at the Start of the Year		23,909	21,569	20,775
Accrual for Repayment of Grants Surplus to MoE	6	(10,138)	-	(13,792)
Capital Contribution	25	-	-	600
Total Comprehensive Income		6,545	-	16,326
Equity at the End of the Year		20,316	21,569	23,909

The accompanying notes form part of these financial statements.

Statement of Financial Position

As at 30 June 2011

	NOTES	2011 ACTUAL \$000	2011 BUDGET \$000	2010 ACTUAL \$000
Current Assets				
Cash and Cash Equivalents	7	55,229	101,744	104,751
GST Receivable		-	-	28
Prepayments		428	-	526
Debtors and Other Receivables	8	4,221	10,400	2,526
Total Current Assets		59,878	112,144	107,831
Non-Current Assets				
Property, Plant and Equipment	9	3,210	6,475	4,316
Intangible Assets (Software)	10	12,377	9,662	10,565
Total Non-Current Assets		15,587	16,137	14,881
Total Assets		75,465	128,281	122,712
Current Liabilities				
Creditors and Other Payables	11	31,539	93,272	74,743
GST Payable		1,526	320	-
Employee Entitlements	12	1,735	1,400	1,776
English for Migrants - Revenue in Advance		1,181	2,420	1,200
Provision for Rent on Surplus Property	13	135	-	291
Repayment Accruals	6	12,468	3,500	14,018
Total Current Liabilities		48,584	100,912	92,028
Non-Current Liabilities				
English for Migrants - Revenue in Advance		6,091	5,000	6,067
Employee Entitlements	12	474	800	708
Total Non-Current Liabilities		6,565	5,800	6,775
Total Liabilities		55,149	106,712	98,803
Net Assets		20,316	21,569	23,909
Equity				
General Funds		20,316	21,569	23,909
Total Equity		20,316	21,569	23,909

The accompanying notes form part of these financial statements.

Statement of Cash Flows

For the year ended 30 June 2011

	NOTES	2011 ACTUAL \$000	2011 BUDGET \$000	2010 ACTUAL \$000
Cash Flows from Operating Activities				
Cash was provided from:				
Funding - Operating MoE		43,084	42,625	50,219
Funding - Operating MSD		6,661	7,660	7,661
Funding - Operating INZ		223	500	171
Funding - Grants MoE		3,068,506	3,061,917	3,057,211
Funding - Grants MSD		71,124	88,157	88,157
Funding - Grants INZ		880	2,500	786
Interest Income on Bank Deposits - Grants		2,057	3,500	-
		3,192,535	3,206,859	3,204,205
Cash was applied to:				
Grants Payments		3,171,212	3,152,574	3,142,237
Payments to Employees		26,761	24,017	27,160
Other Operating Expenses		21,748	19,106	24,796
Capital Charge		1,793	1,538	1,712
GST - Net		1,554	-	64
		3,223,068	3,197,235	3,195,969
Net Cash Outflows from Operating Activities	14	(30,533)	9,624	8,236
Cash Flows from Investing Activities				
Cash was provided from:				
Sale of Property, Plant and Equipment		8	-	73
Interest Income on Bank Deposits - Operating		875	540	923
		883	540	996
Cash was applied to:				
Purchase of Property, Plant and Equipment		552	4,100	713
Purchase of Intangible Assets (Software)		5,382	4,820	4,497
		5,934	8,920	5,210
Net Cash Outflows from Investing Activities		(5,051)	(8,380)	(4,214)
Cash Flows from Financing Activities				
Cash was provided from:				
Capital Contribution		-	-	600
Interest earned held for repayment		-	-	3,021
		-	-	3,621
Cash was applied to:				
Repayment of Forfeited English for Migrant Funds		181	-	1,413
Repayment of Grants Surplus		13,757	3,500	49,237
		13,938	3,500	50,650
Net Cash Outflows from Financing Activities		(13,938)	(3,500)	(47,029)
Net Decrease in Cash and Cash Equivalents		(49,522)	(2,256)	(43,007)
Cash and Cash Equivalents at the Start of the Year		104,751	104,000	147,758
Cash and Cash Equivalents at the End of the Year		55,229	101,744	104,751

The GST (net) component of operating activities reflects the net GST paid and received with the Inland Revenue Department. The GST (net) component has been presented on a net basis, as the gross amounts do not provide meaningful information for financial statement purposes. The accompanying notes form part of these financial statements.

Notes to the Financial Statements

Note 1: Statement of Accounting Policies for the year ended 30 June 2011

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's principal function is to give effect to the Tertiary Education Strategy.

The TEC is also required to:

- › operate the tertiary funding system generally
- › monitor the performance of tertiary education organisations
- › provide policy advice to the Minister for Tertiary Education.

The TEC has designated itself as a public benefit entity for the purposes of New Zealand Equivalents to International Financial Reporting Standards (NZIFRS).

The financial statements of the TEC are for the year ended 30 June 2011. The financial statements were authorised for issue by the Board of the TEC on 4 October 2011.

Basis of preparation

Statement of compliance

The financial statements have been prepared in terms of the Education Act 1989, section 152 of the Crown Entities Act 2004, and in compliance with New Zealand generally accepted accounting practice. They comply with NZIFRS and other applicable Financial Reporting Standards, as appropriate for public benefit entities.

Basis of measurement

The measurement base adopted is historical cost.

Functional and presentation currency

The 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.

Critical accounting estimates and assumptions

In preparing these 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 Comprehensive Income, 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 Note 9.

Retirement and long service leave

Note 12 provides an analysis of the exposure in relation to estimates and uncertainties surrounding retirement and long service leave liabilities.

Intangible assets

In Note 10, certain assumptions have been made about continued useful life of intangible assets. Refer to page 74 for assumptions made on intangible assets.

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 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 the renewal options are included 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 none of its lease arrangements are finance leases.

Significant accounting policies

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

Budget figures

Budget figures are those approved by the TEC and submitted in the Statement of Intent prior to the commencement of the financial year.

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.

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 performance measures as specified in the 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 Income on Bank Deposits - Operating

Interest income is recognised using the effective interest method. Interest income on an impaired financial asset is recognised using the original effective interest rate. The interest earned is used in the TEC operations.

Interest Income on Bank Deposits - Grants

Interest income is recognised using the effective interest method. Interest income on an impaired financial asset is recognised using the original effective interest rate. Interest earned on Grants funds is paid to the Crown.

Goods and Service Tax (GST)

The 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 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.

Income tax

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

Cash and cash equivalents

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

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 impairment (doubtful and uncollectible debts).

Impairment of a receivable is established when there is objective evidence that the TEC will not be able to collect amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy, and default in payments are considered indicators that the debtor is impaired.

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 a finance cost.

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 Statement of Financial Position and all revenues and expenses in relation to financial instruments are recognised in the 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.

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 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 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 estimated 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.

Intangible assets

Software acquisition

Intangible assets consist of items of acquired and developed software. These are capitalised on the basis of the costs incurred to acquire and to bring them 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 and employee costs directly related to enabling the item of software. 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 Statement of Comprehensive Income. The useful life and associated amortisation rates were estimated as follows:

Computer software	4 years	25%	straight line
-------------------	---------	-----	---------------

Impairment of property, plant, equipment and intangible 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 higher of asset's fair value less costs to sell and value in use. If an asset's carrying amount exceeds its recoverable amount, the asset is impaired and the carrying amount is written down to the recoverable amount. The TEC currently has no assets carried at a revalued amount. For assets not carried at a revalued amount, the total impairment loss or the amount of any reversal of impairment loss is recognised in the Statement of Comprehensive Income.

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.

Short-term employee entitlements

Employee entitlements that the TEC expects to be settled within the 12 months of balance date are measured at undiscounted 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 settled 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.

Long-term employee entitlements

Entitlements that are payable beyond 12 months, such as long service leave and retirement leave have been calculated on an actuarial basis.

The calculations are based on:

- likely future entitlements accruing to staff, based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement and contractual entitlements information
- the present value of the estimated future cash flows.

The discount rate is based on the weighted average of interest rates for government stock with terms to maturity similar to those of the relevant liabilities. The inflation factor is based on the expected long-term increase in remuneration for employees.

Superannuation scheme

Defined contribution 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 Statement of Comprehensive Income as incurred.

Defined benefit scheme

TEC makes contributions to the Government Superannuation Fund, which is a multi-employer defined benefit scheme. Insufficient information is available to use defined benefit plan accounting, as it is not possible to determine from the terms of the scheme the extent to which the scheme's surplus or deficit will affect future contributions by individual employers, as there is no prescribed basis for allocation. The scheme is therefore accounted for as a defined contribution scheme.

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. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the term of the lease in the Statement of Comprehensive Income.

Contingent liabilities

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

Commitments

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

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.

Cost of service statements

The cost of service statements, as reported in the 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.

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 as full time equivalents (FTEs) and direct labour 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.

For the year ended 30 June 2011, indirect costs accounted for 49% (2010: 42%) of the TEC's total costs.

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.

Changes in accounting policies

There have been no changes in accounting policies for the year ended 30 June 2011.

Standards, amendments, and interpretations issued that are not yet effective that have been early adopted

Standards, amendments, and interpretations issued that are not yet effective that have been early adopted, and which are relevant to the TEC, are:

NZ IAS 24 Related Party Disclosures (Revised 2009) replaces NZ IAS 24 Related Party Disclosures (Issued 2001) and is effective for reporting period commencing on or after 1 January 2011. The revised standard:

- i) Removes the previous disclosure concessions applied by the TEC for arms-length transactions between the TEC and entities controlled or significantly influenced by the Crown. The effect of the revised standard is that more information is required to be disclosed about transactions between the TEC and entities controlled or significantly influenced by the Crown.
- ii) Provides clarity on the disclosure of related party transactions with Ministers of the Crown. The clarification could result in additional disclosures should there be any related party transactions with Ministers of the Crown.
- iii) Clarifies that related party transactions include commitments with related parties.

The TEC has adopted the revised standard for the year ended 30 June 2011. Additional disclosures have been included in Note 16.

NZ IFRS 9 Financial Instruments will eventually replace NZ IAS 39 Financial Instruments: Recognition and Measurement. NZ IAS 39 is being replaced through the following 3 main phases: Phase 1 Classification and Measurement, Phase 2 Impairment Methodology, and Phase 3 Hedge Accounting. Phase 1 has been completed and has been published in the new financial instrument standard NZ IFRS 9. NZ IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in NZ IAS 39. The approach in NZ IFRS 9 is based on how an entity manages its financial assets (its business model) and the contractual cash flow characteristics of the financial assets. The financial liability requirements are the same as those of NZ IAS 39, except for when an entity elects to designate a financial liability at fair value through the surplus/deficit. The new standard is required to be adopted for the year ended 30 June 2014. The TEC has not yet assessed the effect of the new standard and expects it will not be early adopted.

Note 2: Personnel Expenses

	2011	2010
Salaries	22,428	22,595
Contributions to Defined Benefit and Contribution Plans*	167	181
Increase/(Decrease) in Employee Entitlements	(216)	30
Training and Development	442	424
Other Personnel Expenses	3,665	4,068
Total Personnel Expenses	26,486	27,298

* Contributions to Defined Benefit and Contribution Plans include contributions to KiwiSaver and Government Superannuation fund.

Note 3: Operating Expenses

	2011 ACTUAL \$000	2010 ACTUAL \$000
Property Rental	1,524	1,476
Motor Vehicles	24	14
Computer Operations	3,155	2,771
Consultants and Professional Services	3,084	7,354
Audit Fees for Financial Statements Audit	154	130
Other Fees Paid to External Auditors*	18	85
Restructuring	2,432	-
Travel	736	784
Insurance	117	126
Legal Fees	155	114
Capital Charge	1,793	1,712
Managing Third Party Contracts	7,099	8,158
Bank Fees	35	47
Telephone, Tolls and Postage	305	326
Other Supplies and Services	1,496	1,487
Commissioners Fees	185	195
Panel Members Fees and Honoraria	158	19
Loss on Disposal of Fixed Assets	260	87
Total Operating Expenses	22,730	24,885

* The fees paid to the principal auditor were for the review of Industry Training Organisations.

Note 4: Depreciation

	2011 ACTUAL \$000	2010 ACTUAL \$000
Computer Equipment	1,104	939
Office Equipment	61	66
Furniture and Fittings	124	126
Leasehold Improvements	502	495
Motor Vehicles	-	12
Total Depreciation	1,791	1,638

Note 5: Amortisation and Impairment Losses

	2011 ACTUAL \$000	2010 ACTUAL \$000
Intangible Amortisation (Software)	3,437	2,545
Impairment Losses	-	-
Total Amortisation and Impairment Losses	3,437	2,545

Note 6: Repayment Accruals

	GRANTS MOE SURPLUS \$000	GRANTS MSD SURPLUS \$000	OPERATING INZ SURPLUS \$000	TOTAL \$000
Balance at 30 June 2009	46,196	3	244	46,443
Surplus Accumulated During 2010	(32,442)	-	17	(32,425)
Balance at 30 June 2010	13,754	3	261	14,018
Surplus Repaid During the Period	(13,754)	(3)	-	(13,757)
Accrual for Repayment of Grants Surplus to MoE	10,138	-	-	10,138
Interest Earned Held for Repayment	2,023	-	33	2,056
Prior Period Adjustment	13	-	-	13
Balance at 30 June 2011	12,174	-	294	12,468

Note 7: Cash and Cash Equivalents

	2011 ACTUAL \$000	2010 ACTUAL \$000
Cash on Hand	1	1
Bank Accounts	41,228	90,750
Trading Bank Deposits - On Call	14,000	14,000
Total Cash and Cash Equivalents	55,229	104,751
Weighted Average Effective Interest Rates		
Short-Term Deposits	3.95%	3.56%

The carrying value of short-term deposits with maturity dates of three months or less approximates their fair value

Note 8: Debtors and Other Receivables

	2011 ACTUAL \$000	2010 ACTUAL \$000
Tertiary Operations	5,172	2,350
Other Accounts Receivable	132	176
Provision for Impairment (Doubtful Debts)	(1,083)	-
Total Debtors and Other Receivables	4,221	2,526

The carrying value of receivables approximates their fair value.

As at 30 June 2011 and 2010, all overdue receivables have been assessed for impairment and appropriate provisions applied as detailed below:

	GROSS	IMPAIRMENT	NET
As at 30 June 2011			
Not Past Due	3,251	-	3,251
Past Due 1-30 days	232	-	232
Past Due 31-60 days	133	-	133
Past Due 61-90 days	127	-	127
Past Due > 91 days	1,561	(1,083)	478
Total	5,304	(1,083)	4,221
As at 30 June 2010			
Not Past Due	2,506	-	2,506
Past Due 1-30 days	-	-	-
Past Due 31-60 days	-	-	-
Past Due 61-90 days	-	-	-
Past Due > 91 days	20	-	20
Total	2,526	-	2,526

The provision for impairment has been calculated based on expected losses for the TEC's pool of debtors. Expected losses have been determined based on an analysis of the TEC's losses in previous periods, and a review of specific debtors.

Movements in the provision for impairment of receivables are as follows:

	2011 ACTUAL \$000	2010 ACTUAL \$000
Balance at 1 July	-	2,355
Additional Provision Made During the Year	1,083	-
Receivables Written Off During the Year	-	(2,355)
Balance at 30 June	1,083	-

Note 9: Property, Plant and Equipment

The cost, accumulated depreciation and carrying amounts of the various classes of Property, Plant and Equipment are as follows:

	BALANCE AT 1 JULY 10 \$000	ADDITIONS FOR THE YEAR \$000	DISPOSALS \$000	BALANCE AT 30 JUNE 11 \$000
As at 30 June 2011				
Cost				
Furniture and Fittings	1,610	-	-	1,610
Office Equipment	715	3	-	718
Computer Equipment	6,819	791	777	6,833
Leasehold Improvements	3,276	22	-	3,298
Motor Vehicles	62	-	-	62
Work in Progress	230	783	695	318
Total Cost	12,712	1,599	1,472	12,839

	BALANCE AT 1 JULY 10 \$000	DEPRECIATION FOR THE YEAR \$000	DISPOSALS \$000	BALANCE AT 30 JUNE 11 \$000
Accumulated Depreciation				
Furniture and Fittings	996	124	-	1,120
Office Equipment	485	61	-	546
Computer Equipment	4,941	1,104	558	5,487
Leasehold Improvements	1,912	502	-	2,414
Motor Vehicles	62	-	-	62
Work in Progress	-	-	-	-
Total Depreciation	8,396	1,791	558	9,629
Carrying Amounts				
	BALANCE AT 1 JULY 10 \$000			BALANCE AT 30 JUNE 11 \$000
Furniture and Fittings	614			490
Office Equipment	230			172
Computer Equipment	1,878			1,346
Leasehold Improvements	1,364			884
Motor Vehicles	-			-
Work in Progress	230			318
Total Carrying Amounts	4,316			3,210
As at 30 June 2010				
	BALANCE AT 1 JULY 10 \$000	ADDITIONS FOR THE YEAR \$000	DISPOSALS \$000	BALANCE AT 30 JUNE 11 \$000
Cost				
Furniture and Fittings	1,610	-	-	1,610
Office Equipment	460	255	-	715
Computer Equipment	6,103	955	239	6,819
Leasehold Improvements	3,055	221	-	3,276
Motor Vehicles	226	-	164	62
Work in Progress	766	631	1,167	230
Total Cost	12,220	2,062	1,570	12,712

	BALANCE AT 1 JULY 10 \$000	DEPRECIATION FOR THE YEAR \$000	DISPOSALS \$000	BALANCE AT 30 JUNE 11 \$000
Accumulated Depreciation				
Furniture and Fittings	870	126	-	996
Office Equipment	420	65	-	485
Computer Equipment	4,220	939	218	4,941
Leasehold Improvements	1,416	496	-	1,912
Motor Vehicles	186	12	136	62
Work in Progress	-	-	-	-
Total Depreciation	7,112	1,638	354	8,396

	BALANCE AT 1 JULY 09 \$000	BALANCE AT 30 JUNE 10 \$000
Carrying Amounts		
Furniture and Fittings	740	614
Office Equipment	40	230
Computer Equipment	1,883	1,878
Leasehold Improvements	1,639	1,364
Motor Vehicles	40	-
Work in Progress	766	230
Total Carrying Amounts	5,108	4,316

Note 10: Intangible Assets (Software)

As at 30 June 2011	BALANCE AT 1 JULY 10 \$000	ADDITIONS \$000	DISPOSALS \$000	IMPAIRMENT \$000	BALANCE AT 30 JUNE 11 \$000
Cost					
Computer Software	19,883	2,352	4,123	-	18,112
Work in Progress	2,458	5,422	2,221	-	5,659
	22,341	7,774	6,344	-	23,771
	BALANCE AT 1 JULY 10 \$000	AMORTISATION \$000	DISPOSALS \$000	IMPAIRMENT \$000	BALANCE AT 30 JUNE 11 \$000
Accumulated Amortisation					
Computer Software	11,776	3,437	3,819	-	11,394
	11,776	3,437	3,819	-	11,394
	BALANCE AT 1 JULY 10 \$000				BALANCE AT 30 JUNE 11 \$000
Carrying Value					
Computer Software	8,107				6,718
Work in Progress	2,458				5,659
	10,565				12,377

There are no restrictions over the title of the TEC's intangible assets, nor are any intangible assets pledged as security for liabilities.

As at 30 June 2010

	BALANCE AT 1 JULY 09 \$000	ADDITIONS \$000	DISPOSALS \$000	IMPAIRMENT \$000	BALANCE AT 30 JUNE 10 \$000
Cost					
Computer Software	15,726	4,284	127	-	19,883
Work in Progress	2,333	4,840	4,715	-	2,458
	18,059	9,124	4,842	-	22,341
Accumulated Amortisation					
Computer Software	9,313	2,545	82	-	11,776
	9,313	2,545	82	-	11,776
Carrying Amounts					
Computer Software	6,413				8,107
Work in Progress	2,333				2,458
	8,746				10,565

Note 11: Creditors and Other Payables

	YEAR ENDED 30 JUNE 11 \$000	YEAR ENDED 30 JUNE 10 \$000
Grants		
Creditors and Other Payables	1,604	1,940
Accrued Expenses	25,472	67,397
Redirects Payable*	41	37
	27,117	69,374
Operations		
Creditors and Other Payables	490	1,417
Accrued Expenses	3,932	3,937
Withholding Tax Payable	-	15
	4,422	5,369
Total Creditors and Other Payables	31,539	74,743

* Redirects payable represent Training Opportunities and Youth Training trainee allowances returned and unclaimed.

Maturity Grouping

Creditors and other payables are non-interest bearing and are normally settled on 30-day terms, therefore the carrying value of creditors and other payables approximates their fair value.

Note 12: Employee Entitlements

	YEAR ENDED 30 JUNE 11 \$000	YEAR ENDED 30 JUNE 10 \$000
Accrued Salaries and Wages	376	434
Annual Leave	1,151	1,261
Sick Leave	39	33
Long Service Leave	300	360
Retiring Allowance	343	396
Total Employee Entitlements	2,209	2,484
Current	1,735	1,776
Non-Current	474	708
Total Employee Entitlements	2,209	2,484

The TEC has engaged the service of an external actuary to calculate long service leave and retiring allowance liabilities. The valuation result is most sensitive to the difference between the assumed rates of interest and salary escalation, and assumed resignation rates. The table below shows the impact on the valuation result of varying the assumed rates of salary growth and resignation rates leaving all other assumptions unaltered.

CHANGE IN ASSUMPTIONS	LONG SERVICE	RETIRING	TOTAL
No Change	300	343	643
Salary Growth: 2.0% per year	286	322	608
Salary Growth: 4.0% per year	315	365	680
Resignation Rates: 150% of Assumed	286	339	625
Resignation Rates: 50% of Assumed	317	346	663

Note 13: Provision for Rent on Surplus Property and Lease Make Good

The TEC leases office facilities in Auckland and Wellington which contain floor space in excess of current requirements. This provision recognises the value of the rental payable in relation to this space over the remaining lease term. In all cases the remaining term is 4 years or less.

The provision was fully used during the year ended 30 June 2011. The remaining balance represents the Provision for Lease Make Good on Auckland and Wellington offices.

Movements for the provision are as follows:

	2011 ACTUAL \$000	2010 ACTUAL \$000
Balance at 1 July	291	881
Additional provisions made	-	-
Amount used	(156)	(590)
Balance at 30 June	135	291

Note 14: Reconciliation of the Net Surplus/(Deficit) from Operations with the Net Cash Flows from Operating Activities

	2011 ACTUAL \$000	2010 ACTUAL \$000
Net Surplus	6,545	16,326
Add Non-Cash Items:		
Depreciation of Property, Plant and Equipment	1,791	1,638
Amortisation of Intangibles	3,437	2,545
Loss on Disposal of Property, Plant and Equipment	260	-
	12,033	20,509
Add/(Less) Movements in Working Capital Items:		
Debtors and Other Receivables	(1,695)	1,565
GST Payable/(Receivable)	1,554	(64)
Creditors and Other Payables	(43,493)	(11,908)
Redirects Payable	4	7
Accrued Salaries and Wages	(41)	138
English for Migrants	(19)	(151)
Prepayment	98	(274)
Provisions	(156)	(590)
	(43,748)	(11,277)
Add/(Less) Interest Income:		
Interest income - Grants	2,057	-
Interest Income - Operating	(875)	(996)
Net Cash Flows from Operating Activities	(30,533)	8,236

Note 15: Statement of Material Variances

	2011 ACTUAL \$000	2011 BUDGET \$000	2010 ACTUAL \$000
STATEMENT OF FINANCIAL PERFORMANCE			
Operating Revenue	49,976	50,785	57,977
Revenue was less than budget primarily due to the transfer of the Policy function to the Ministry of Education, the reduction in funding for Foundation Focus Training Opportunities (formerly known as Training Opportunities) and the lower than forecast number of inbound migrants participating in English for Migrants scheme.			
Grants Revenue	3,138,204	3,152,574	3,144,887
The main impact of these movements was in Training for Designated Groups appropriation. This includes the net effects of transfers of funding from 2009/10 and transfers of funding from 2010/11 to out years.			
Operating Expenses	54,447	51,325	56,366
Expenses were more than budget primarily due to the costs associated with the Review and initial costs associated with the Performance Based Research Fund.			
Grants Expenses	3,128,066	3,152,574	3,131,095
Expenses were lower than budget reflecting lower than forecast participation in Training for Designated Groups, Bright Futures and Medical Interns. Adult Community Education, Student Achievement Component and Tertiary Education Grants and Other Funding were also lower than budget.			
STATEMENT OF FINANCIAL POSITION			
Debtors and Other Receivables	4,221	10,400	2,526
The level of debtors and other receivables was less than budget due to closer alignment of payment levels with performance.			
Creditors and Other Payables	31,539	93,272	74,743
The level of creditors and other payables was less than budget due to the following impacts: project deliverables being met prior to balance date, the migration of additional grants funds to regular payment schedules in TEC's primary funding system, and the Tertiary Education Organisation Component appropriation being disestablished on 31 December 2010.			

Note 16: Related Party Disclosure

The TEC is a Crown Entity. The Crown significantly influences the role of the TEC as well as being its major source of income.

The TEC undertook to purchase education, training and research on behalf of the Crown and entered into contracts with universities, wānanga, private training establishments, polytechnics, industry training organisations and schools. These contracts were negotiated at arm's length and followed normal commercial enterprise conditions.

Current Commission Members

Commission Chair Sir Harawira Gardiner was appointed at 1 June 2010. He is the Chairman of Ngati Awa Group Holdings Limited which has indirect connection to Ngati Awa Tertiary Training Organisation. For the year ended 30 June 2011 an amount of \$643,536 (2010: \$67,896) has been paid to Ngati Awa Tertiary Training Organisation for the provision of education, training and other services. The amount outstanding at 30 June 2011 was nil (2010: \$8,360).

Sir Harawira Gardiner is also the Commissioner of Fraser High School until 7 July 2010. For the period 1 July 2010 to resignation date an amount of \$51,309 (2010: \$51,309) has been paid to this organisation for the provision of education, training and other services. The amount outstanding at 30 June 2011 was nil (2010: Nil).

Sir Harawira Gardiner is also the Director of Healthcare of New Zealand Limited. From the date of appointment to 30 June 2011 an amount of \$150,852 has been paid to this organisation for the provision of education, training and other services. The amount outstanding at 30 June 2011 was nil.

Commissioner Ian Boyd was appointed at 1 December 2009. He is the Chief Executive of FITEC. For the year ended 30 June 2011 an amount of \$13,872,312 (2010: \$6,705,629) has been paid to this organisation for the provision of education, training and other services. The amount outstanding at 30 June 2011 was nil (2010: Nil).

Commissioner Deirdre Dale is a member of Te Mana Whakahaere Council for Te Wānanga o Aotearoa. For the year ended 30 June 2011 an amount of \$154,382,854 (2010: \$154,590,308) has been paid to this organisation for the provision of education, training and other services. The amount outstanding at 30 June 2011 was nil (2010: Nil).

Commissioner Deirdre Dale is also the Chair of Whitireia Performing Arts Trust. For the year ended 30 June 2011 an amount of \$180,235 (2010: \$380,179) has been paid to this organisation for the provision of education, training and other services. The amount outstanding at 30 June 2011 was nil (2010: Nil).

Commissioner Jim Donovan is a National Council Member of the Institute of Directors. From the date of appointment to 30 June 2011 an amount of \$410 has been paid to this organisation for the provision of services. The amount outstanding at 30 June 2011 was nil.

Commissioner Anthony Hall was appointed at 1 December 2009. He is the Council Chair of Community Colleges New Zealand Limited. For the year ended 30 June 2011 an amount of \$4,131,507 (2010: \$2,649,229) has been paid to this organisation for the provision of education, training and other services. The amount outstanding at 30 June 2011 was nil (2010: Nil).

Anthony Hall is also a Pro Chancellor of Lincoln University. For the year ended 30 June 2011 an amount of \$42,467,207 (2010: \$20,985,011) has been paid to this organisation for the provision of education, training and other services. The amount outstanding at 30 June 2011 was \$43,125 (2010: Nil).

Anthony Hall is also a Council member of Telford Polytechnic Excellence. For the year ended 30 June 2011 an amount of \$6,347,900 (2010: \$7,371,233) has been paid to this organisation for the provision of education, training and other services. The amount outstanding at 30 June 2011 was nil (2010: Nil).

Commissioner Robin Hapi is a Deputy Chair of Te Wānanga o Raukawa and Chairman of the Finance Audit and Risk Sub-Committee for this organisation from January 2008. For the year ended 30 June 2011 an amount of \$16,403,842 (2010: \$14,600,585) has been paid to this organisation for the provision of education, training and other services. The amount outstanding at 30 June 2011 was nil (2010: Nil).

Commissioner Robin Hapi is also the Director of Business and Economic Research Limited. From the date of appointment to 30 June 2011 an amount of \$8,050 has been paid to this organisation for the provision of services. The amount outstanding at 30 June 2011 was nil.

Commissioner Pauline Winter was appointed at 1 December 2009. She is the Director of the Office of Pasifika Advancement, AUT University. For the year ended 30 June 2011 an amount of \$158,793,059 (2010: \$92,423,413) has been paid to this organisation for the provision of education, training and other services. The amount outstanding at 30 June 2011 was \$714,662 (2010: Nil).

Retired Commission Members

Commission Chair David Shand's brother-in-law is a consultant to the Agriculture Industry Training Organisation. David Shand retired as the Commission Chair in February 2010. For the period up to the retirement an amount of \$14,017,899 was paid to this organisation for the provision of education, training and other services.

Commissioner Kaye Turner is the Chair of Career Services, and retired as a commissioner in May 2010. For the period up to the retirement an amount of nil has been paid to this organisation for the provision of staff support services.

Commissioner John Blakey is the Chief Executive Officer and board member at Competenz, and retired as a commissioner in September 2009. For the period up to the retirement, an amount of \$5,969,143 has been paid to this organisation for the provision of education, training and other services.

Commissioner Graeme Fraser is the owner of 444 Limited, and retired as a commissioner in September 2009. For the period up to the retirement an amount of nil has been paid to this organisation for professional service for the Land-Based Review Steering Group.

Commissioner Bill Rosenberg is the Policy Director for the Council of Trade Unions, and retired as a commissioner in May 2011. For the period up to retirement an amount of \$360,625 (2010: \$832,500) has been paid to this organisation for the provision of education, training and other services. The amount outstanding at 30 June 2011 was nil (2010: \$75,000).

The above mentioned Commissioners did not participate in the engagement or decision making that resulted in these arrangements.

Other Key Management Personnel

Director Strategic Information and Evidence, Barbara Tebbs's partner is a Director of Virtual Interview. For the year ended 30 June 2011, an amount of \$1,528 (2010: \$2,553) has been paid to Virtual Interview for the provision of contractual services. The amount outstanding at 30 June 2011 was nil (2010: Nil).

The above mentioned Director did not participate in the engagement or decision making that resulted in these arrangements.

Payments to Crown Influenced Tertiary Education Institutions

Tertiary Education Commission has provided Crown-owned tertiary education institutions with funding for the provision of education, training and other services. The following table details the amounts paid to each institution.

	YEAR ENDED 30 JUNE 11 \$000	YEAR ENDED 30 JUNE 10 \$000
Universities		
The University of Auckland	431,032	415,631
University of Waikato	98,759	97,177
Massey University	219,669	220,294
Victoria University of Wellington	178,564	174,721
University of Canterbury	165,380	159,214
Lincoln University	41,917	36,375
University of Otago	302,787	291,122
Auckland University of Technology	156,550	152,864
	1,594,658	1,547,398
Polytechnics		
Aoraki Polytechnic	21,555	24,864
Bay of Plenty Polytechnic	28,960	34,650
Unitec New Zealand	92,075	84,360
Christchurch Polytechnic Institute of Technology	56,903	54,797
Eastern Institute of Technology	40,495	28,344
Wellington Institute of Technology	34,353	33,292
Universal College of Learning	36,637	39,647
Manukau Institute of Technology	67,028	63,605
Nelson Marlborough Institute of Technology	26,887	28,068
Northland Polytechnic	33,414	35,296
Otago Polytechnic	35,450	37,141
Whitireia Community Polytechnic	29,863	28,679
Southern Institute of Technology	36,156	36,408
Tairāwhiti Polytechnic	7,339	15,407
Western Institute of Technology Taranaki	18,756	18,846
Wairariki Institute of Technology	31,242	32,707
Waikato Institute of Technology	53,009	50,686
Open Polytechnic of New Zealand	48,062	45,885
Tai Poutini Polytechnic	21,834	26,315
Telford Rural Polytechnic	6,257	12,627
	726,275	731,624
Wānanga		
Te Wānanga O Aotearoa	153,958	152,357
Te Wānanga O Raukawa	13,418	14,948
Te Whāre Wananga O Awanuiarangi	26,226	25,495
	193,602	192,800
Total Payments to Tertiary Education Institutions	2,514,535	2,471,822

Ministerial Disclosures

The Treasury advises that responsible ministers Honourable Steven Joyce and Honourable Dr. Wayne Mapp have certified that they have no related party transactions for the year ended 30 June 2011.

Key Management Personnel Compensation

	2011 ACTUAL \$000	2010 ACTUAL \$000
Salaries and Other Short Term Benefits	2,413	2,465
Post Employment Benefits	-	-
Other Long Term Benefits	-	11
Termination Benefits	282	-
Total Key Management Personnel Compensation	2,695	2,476

Key Management Personnel

Up to 31 May 2011, the key management personnel are Commissioners, the Chief Executive, Deputy Chief Executive and seven Directors. From 1 June 2011 to balance date, the key management personnel included the Commissioners, the Acting Chief Executive, and three General Managers.

Note 17: Commission Fees

Commission members earned the following fees during the twelve months:

	FEES YEAR ENDED 30 JUN 11 \$	FEES YEAR ENDED 30 JUN 10 \$
Current Commission Member		
Sir Harawira Gardiner (Chair)	42,000	3,500
Ian Boyd	20,000	11,667
Deirdre Dale	20,000	20,000
Jim Donovan	20,000	20,000
Anthony Hall	20,000	11,667
Robin Hapi	20,000	20,000
Pauline Winter	20,000	11,667
Retired Commission Member		
David Shand (Chair)	-	32,667
Kaye Turner (Deputy Chair)	-	28,917
John Blakey	-	5,000
Prof Graeme Fraser	-	5,000
Edna Tait	-	5,000
Bill Rosenberg	18,334	20,000
	180,334	195,085
David Do	4,347	430
Total Fees	184,681	195,515

Chair Sir Harawira Gardiner was appointed from 1 June 2010.

Chair David Shand preceded him in this role until February 2010.

Deputy Chair Kaye Turner retired from this role in May 2010.

Commissioner Edna Tait retired from this role in September 2009.

Commissioner Graeme Fraser retired from this role in September 2009.

Commissioner John Blakey retired from this role in September 2009.

Commissioner Anthony Hall was appointed from 1 December 2009.

Commissioner Ian Boyd was appointed from 1 December 2009.

Commissioner Pauline Winter was appointed from 1 December 2009.

Learner Participant David Do was appointed from 1 January 2010.

Commissioner Bill Rosenberg retired from this role in May 2011.

There have been no payments made to committee members appointed by the Board who are not Board members during the financial year.

Note 18: Employee Remuneration

During the year the number of employees of the TEC who received remuneration and other benefits in excess of \$100,000 were:

	REMUNERATIONS	2011	NUMBER OF EMPLOYEES 2010
Chief Executive	400,001 to 499,999	1	1
Other Personnel	340,001 to 350,000	1	-
	260,001 to 270,000	2	1
	250,001 to 260,000	3	-
	240,001 to 250,000	1	-
	230,001 to 240,000	-	1
	220,001 to 230,000	-	2
	210,001 to 220,000	1	3
	200,001 to 210,000	1	3
	190,001 to 200,000	1	1
	180,001 to 190,000	-	-
	170,001 to 180,000	3	-
	160,001 to 170,000	7	1
	150,001 to 160,000	5	8
	140,001 to 150,000	8	11
	130,001 to 140,000	4	4
	120,001 to 130,000	10	9
	110,001 to 120,000	11	9
	100,000 to 110,000	9	12
	Total employees	68	66

A total of \$1,331,093 (2010: \$210,753) was incurred for compensation or other benefits paid or payable to 43 individuals (2010:9) who ceased to be employees during the financial year in relation to that cessation.

For the year end 30 June 2011, a total of \$1,306,093 was paid in severance payments.

Note 19: Financial Instruments

The TEC is party to financial instrument arrangements as part of its normal operations. These financial instruments include bank accounts, bank deposits, accounts receivable and accounts payable.

Categories of Financial Assets and Liabilities

The carrying amounts of financial assets and liabilities in each of the NZIAS 39 categories are as follows:

	2011 ACTUAL \$000	2010 ACTUAL \$000
Financial Assets		
Cash and Cash Equivalents	55,229	104,751
Debtors and Other Receivables	4,221	2,526
Total Financial Assets	59,450	107,277
Financial Liabilities Measured at Amortised Cost		
Creditors and Other Payables	31,539	74,743
Total Financial Liabilities Measured at Amortised Cost	31,539	74,743

Market Risk

Fair Value Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. There were no interest rate options or interest rate swap options in place as at 30 June 2011. TEC bank deposits are all on call. The interest rates on bank deposits are shown in Note 7.

Currency Risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. TEC had no exposure to currency risk.

Liquidity Risk

Liquidity risk is the risk that TEC will encounter difficulty raising liquid funds to meet commitments as they fall due. TEC had no exposure to liquidity risk.

Contractual Maturity Analysis of Financial Liabilities

An analysis of financial liabilities into relevant maturity groupings based on the remaining period at balance date to the contractual maturity date.

	CARRYING AMOUNT \$000	CONTRACTUAL CASH FLOWS \$000	LESS THAN 6 MONTHS \$000
As at 30 June 2011			
Creditors and Other Payables	31,539	31,539	31,539
Total	31,539	31,539	31,539
As at 30 June 2010			
Creditors and Other Payables	74,743	74,743	74,743
Total	74,743	74,743	74,743

Credit Risk

Credit risk is the risk that a third party will default on its obligation to the TEC causing it to incur a loss. TEC had minimal credit risk in its holdings of various financial instruments. These instruments included cash, bank deposits and accounts receivable. There was no significant concentration of credit risk.

Note 20: Operating Leases

The future aggregate minimum lease payments to be paid under non-cancellable operating leases are as follows:

	2011 ACTUAL \$000	2010 ACTUAL \$000
Non Cancellable Operating Leases (Rental Agreements)		
Not Later Than One Year	1,603	1,806
Later Than One Year and Not Later Than Two Years	1,576	1,142
Later Than Two Years and Not Later Than Five Years	2,744	945
Later Than Five Years	-	80
Total Operating Leases	5,923	3,973

The TEC leases a number of office facilities under operating leases. Leases are subject to regular rent review to reflect market rates.

A significant portion of the non-cancellable operating lease expense relates to the lease of accommodation for the Wellington office and the Auckland office.

The leases for the Wellington office have expiry dates between 30 September 2010 and 31 March 2018 with 3 yearly rights of renewal in the interim.

The lease for the Auckland office has an expiry date of 1 October 2027 with 6 yearly rights of renewal in the interim.

Land or building title does not pass to the TEC for any of these sites. Neither does the TEC participate in the residual value of the buildings. For these reasons the TEC has judged that all of the risks and rewards of the buildings are with the respective landlords. Based on these qualitative factors it was concluded that these leases are operating leases.

For the year ended 30 June 2011 \$1,523,989.31 (2010: \$1,475,831.28) was recognised as an expense in the income statement in respect of operating leases.

Note 21: Capital Commitments

	2011 ACTUAL \$000	2010 ACTUAL \$000
Capital expenditure contracted for at balance date but not yet incurred:		
Intangible assets	100	100
Total Capital Commitments	100	100

Note 22: Non-Cancellable Agreements and Investment Plans

	2011 ACTUAL \$000	2010 ACTUAL \$000
At 30 June 2011 the TEC had entered into funding agreements for the provision of training services. Investment plans for 2012 contain indicative funding levels.		
Commitments under these agreements and plans are:		
Not Later Than One Year	2,891,276	1,620,650
Later Than One Year and Not Later Than Two Years	1,345,656	42,663
Later Than Two Years and Not Later Than Five Years	40,723	78,142
Total Non-Cancellable Contracts	4,277,655	1,741,455

Note 23: Other Operating Commitments

	2011 ACTUAL \$000	2010 ACTUAL \$000
Contract for Services	1,219	998
Total Other Operating Commitments	1,219	998

Note 24: Operating Financial Ratios

	2011 ACTUAL \$000	2010 ACTUAL \$000
Net Surplus/(Deficit) for TEC Operations (excludes grants)	(3,593)	2,534
Working Capital Ratio	1.75:1	2.12:1
Personnel/Total Operating Expenses	49%	48%
Proprietary Ratio (Operating Assets only)	73%	72%

Note 25: Capital Contribution

	2011 ACTUAL \$000	2010 ACTUAL \$000
Contributions were made by the Crown for:		
Capital Requirements for the TEC	-	600
Total Capital Contribution	-	600

Note 26: Contingent Liabilities

The TEC had a potential legal claim with an estimated maximum liability of \$10,000 at 30 June 2011 (2010: \$25,000).

Note 27: Events after the balance date

There were no significant events after the balance date.

Note 28: Professional Indemnity Insurance

The TEC has effected a policy of Directors and Officers Liability Insurance which indemnifies directors and officers for their legal liability to pay claims made against them that arise by reason of wrongful act committed by them in the course of their duties. The premium for this policy is \$7,203.

Note 29: Capital Management

The TEC's capital is its equity, which comprises accumulated funds. Equity is represented by net assets.

The TEC is subject to the financial management and accountability provisions of the Crown Entities Act 2004, which impose restrictions in relation to borrowings, acquisition of securities, issuing guarantees and indemnities and the use of derivatives.

The TEC manages its equity as a by-product of prudently managing revenues, expenses, assets, liabilities, investments, and general financial dealings to ensure the TEC effectively achieves its objectives and purpose, whilst remaining a going concern.

