



Tertiary Education Commission  
Te Amorangi Mātauranga Matua

# ANNUAL REPORT

FOR THE YEAR ENDED 30 JUNE 2012

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# CHAIR'S FOREWORD: THE YEAR IN REVIEW

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During the Tertiary Education Commission's (TEC's) 2011/12 financial year, the TEC continued to move towards its goal of realising the Government's vision for a world-leading tertiary education system.

This report details how the TEC has succeeded in its three key priority areas for 2011/12:

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

This report also provides important data on how the tertiary sector as a whole is performing.

A new structure was introduced at the TEC this year as a result of the Board-led review in the previous financial year. The new structure enables the TEC to focus on the management of the sector through Investment Plans, with greater emphasis on the performance of tertiary education organisations, while maintaining core operations.

A year on, I am pleased to see how the changes we have implemented have come to fruition. I look forward to seeing how TEC's work succeeds in achieving its high level outcomes of economic growth and skills development for the betterment of all of New Zealanders.



Sir Wira Gardiner  
*Chair*

*Tertiary Education Commission*

30 June 2012



# MESSAGE FROM THE CHIEF EXECUTIVE

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The 2011/12 year has been one of change, development and progress for the TEC.

The year began in the wake of the Canterbury earthquakes, which had a significant impact on Canterbury-based providers and New Zealand as a whole. Over the year, the TEC has worked to support these providers to help them recover and renew the education system in Canterbury. We have also developed programmes, such as the Pacific Trades Training initiative, to increase the number of skilled trades people and better connect the training and employment systems.

The TEC's new structure has been embedded. We are now in a better position to focus on our priorities and meet the needs of our stakeholders. We have greater operational flexibility and stronger strategic planning capability, and can support whole-of-business projects more ably.

Our focus has now shifted from a mostly enrolments-based funding system to one which also takes into account the performance of individual providers. The implementation of Educational Performance Indicators (EPIs) means that Tertiary Education Organisations (TEOs) now focus on course and qualification completion, retention and progression.

In our work to lift the success of priority learner groups, we have encouraged TEOs to commit to higher participation and achievements in their Investment Plans, as well as expanding the Youth Guarantee initiative to include Youth Training and adding more places in 2012.

Having accurate and timely data is crucial for the TEC to make informed investment decisions, as well as supporting TEOs with their own planning. To this end, the TEC, as part of the wider Tertiary Information Future State programme, is leading a project to develop a new information collection system. When complete, this system will provide up-to-date and robust data which can be shared across government, reducing the duplication of data, and enabling the Government to receive clearer advice about where to focus investment to improve student outcomes.

Preparation for the 2012 Performance-Based Research Fund (PBRF) Quality Evaluation continued this financial year with a number of key activities also being completed. The assessment exercise will be undertaken in December 2012. It has been six years since the last Quality Evaluation, which determines 60% of the \$250 million per year in the PBRF appropriation. The importance of excellent research in the tertiary education sector was recently recognised by the Government in the 2012 Budget, adding \$100 million to this fund over the next four years, lifting it to \$300 million per year by 2016.

Changes to the way we monitor and fund Industry Training Organisations (ITOs) took effect in early 2011, and over the year we have seen a reduction in the provision of low-value training and an increased focus on improving credit achievement and course completion rates for trainees. Several ITOs have merged, and we expect the number of ITOs to continue to reduce over the coming year as further mergers take place.

As this report is being prepared, the next round of investment planning is in full swing. With all TEOs required to submit Investment Plans this year, we will be ensuring that the Government's investment in tertiary education focuses on the goals and priorities of the Tertiary Education Strategy.

The TEC will also be working towards the long-term attainment of the Government's Better Public Service targets, in particular increasing New Zealanders' skills and employment through increased educational achievement.



Belinda Clark  
Chief Executive  
Tertiary Education Commission

30 June 2012



# WHO ARE WE?

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## INTRODUCTION

The Tertiary Education Commission, Te Amorangi Mātauranga Matua (TEC) is a Crown Entity. Our legislated function, under the Education Act 1989, is to give effect to the Tertiary Education Strategy (TES).<sup>1</sup> We do this by:

- allocating Government funding to Tertiary Education Organisations (TEOs) through the Investment Plan process;
- monitoring performance of TEOs; and
- 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.

TEOs, government agencies, business, communities and learners all play a part in contributing to successful tertiary education outcomes. The TEC plays a particularly important role as the agency responsible for funding, monitoring and sector management. We allocate approximately \$2.7 billion a year on behalf of the Government to fund tertiary education provision.<sup>2</sup>

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

Overall, there are over 700,000 students (including international students) in the tertiary education system accessing learning and training opportunities provided by nearly 800 organisations delivering tertiary education.

In 2011/12 the TEC funded educational provision through:

- 8 universities
- 3 wānanga
- 18 institutes of technology and polytechnics (ITPs)
- 321 private training establishments (PTEs)
- 30 industry training organisations (ITOs)
- 379 schools
- 30 rural education activities programme providers and community education providers.

## CANTERBURY EARTHQUAKES

The TEC focussed on two priorities in 2011/12 in response to the Canterbury earthquakes:

- supporting the providers affected by the earthquakes to recover and supporting the renewal of the education system in Canterbury; and
- ensuring that the tertiary education system is supporting the rebuild by training skilled trades people around the country and better connecting the training and employment systems.

The first priority included increased engagement with and monitoring of TEOs affected by the Canterbury earthquakes to ensure that they were adequately supported. Actions included continuing to fund TEOs at the same levels they were funded before the earthquakes despite reduced performance and making changes to the Performance-Based Research Fund Quality Evaluation to ensure that researchers' Evidence Portfolios could be fairly assessed.

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

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



The TEC and the Ministry of Education also developed and released a draft Education Renewal Recovery Plan for greater Christchurch in May 2012, following consultation with the education sector in Christchurch. This forms the basis of ongoing planning and investment. In addition, the TEC supported providers to undertake a more integrated collaborative planning approach including supporting the efforts of the Canterbury Tertiary Alliance, a joint planning initiative of the three main Tertiary Education Institutions (TEIs) in the region. This work will support the development of TEI business cases.

The second priority involved supporting tertiary providers to reprioritise construction related trades training. In 2011, this was focused on prioritising funding within existing resources. In 2012, additional funding of \$22.7 million (including relevant student support costs) was provided through the Budget for additional construction related trades and pre-trades training. This included \$7 million from the Government's Skills for Canterbury package. The remainder (\$15.722 million) was reprioritised from other TEC administered funds. In total, the TEC has allocated funding for more than 1,000 additional trades places in ITPs and PTEs in 2012. This includes funding for a new initiative that provides additional support for Pasifika learners.

The TEC has also continued to work with other government agencies to coordinate the recovery effort and is a member of the Canterbury Employment and Skills Board (CESB). This includes actively supporting the development of a Labour Market Skills Strategy to support the wider economic development of the region.

## 2013 INVESTMENT PLAN GUIDANCE

The TEC released the 2013 Initial Investment Plan Guidance at the end of March 2012. This was a significantly earlier release than in previous years, and allowed investment teams to engage with TEOs on their strategic direction prior to Budget announcements in May 2012.

The 2013 Initial Investment Plan Guidance identified eight priorities for TEC investment from 2013, reflecting the TES and other Government policies. The TEC is working with TEOs to ensure that 2013 Investment Plans reflect these priorities.

The TEC released two further Supplementary Plan Guidance documents in June 2012:

- General Supplementary Plan Guidance – this document updated TEOs on Budget 2012 and various new policies announced since the release of the 2013 Initial Plan Guidance.
- Levels One and Two Supplementary Plan Guidance – this document outlined the Government's policy objectives for foundation education, and presents the TEC's investment approach to Student Achievement Component (SAC) funding at levels one and two of the New Zealand Qualifications Framework (NZQF) in 2013 and 2014.

## LINKING FUNDING TO PERFORMANCE

From January 2012, 5% of SAC and Industry Training funding will be linked to TEOs' educational performance in the previous year.

For SAC-funded organisations, performance-linked funding will be calculated on the basis of performance against four educational performance indicators:

- Progression.
- Retention.
- Course completions.
- Qualification completions.

For organisations receiving Industry Training funding, performance-linked funding will be calculated on the basis of performance against two educational performance indicators:

- Credit completions.
- Qualification completions.

In addition, poor rates of learner achievement may result in the TEC ceasing to purchase some provision and moving funding to other higher performing areas. Poor performance may also lead to the application of the Performance Consequences Framework which includes a range of interventions designed to improve educational performance. In developing proposed Investment Plans, TEOs are expected to focus on improving their overall educational performance.



# STRATEGIC CONTEXT AND OUTCOMES

## THE TERTIARY EDUCATION STRATEGY

The Minister for Tertiary Education has issued the Tertiary Education Strategy (TES), 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 years and beyond.

The TES 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 that all New Zealanders are equipped 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 New Zealanders of all backgrounds with opportunities 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, respond to the needs of the economy and address environmental and social challenges; and
- enable Māori to enjoy education success as Māori.

Through the TES, 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 TEOs and learners about what the Government requires for the Government investment provided. TEOs are expected to focus on the priorities set out in the TES 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 a diverse range of learners to complete their qualifications and progress to study at higher levels.

## 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, particularly degrees;
  - increasing Māori and Pasifika student achievement;
  - increasing the number of young people moving successfully from school into tertiary education; and
  - 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.

TEOs and ITOs 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 TEOs concentrate on their job while being supported and encouraged to do it well. There is an increased emphasis on performance incentives and accountability.

The tertiary education system has been designed so that learners can expect to be well served by their TEOs. 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

Our outcomes framework describes the links between the Government's investment in tertiary education, our activities and those of the tertiary education sector, and the consequential outcomes for learners and New Zealand as a whole. The diagram on page 9 represents our outcome framework.

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

## OUTCOMES AND IMPACTS

We 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.

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

Qualifications at level 4 and above provide greater opportunities for higher incomes for people who earn over the median wage. Level 4 certificates are associated with higher employment and income than school qualifications. Men with level 4 certificates have very good rates of employment and relatively high incomes due to the high demand for trades qualifications at this level.<sup>3</sup>

Diplomas are associated with similar employment rates as bachelor's degrees, but slightly lower income. Women with diplomas are likely to have better health, have higher overall life satisfaction, are more likely to participate in voluntary work, and more likely to read to their preschool children than women with no qualifications. These effects are less evident for men.<sup>3</sup>

The following information has been collected to measure the tertiary system's progress towards the overall outcomes sought for New Zealand:

- Percentage of the 25-34 year old population with a tertiary qualification.
- Percentage of the 25-34 year old 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.

<sup>3</sup> Ministry of Education data.

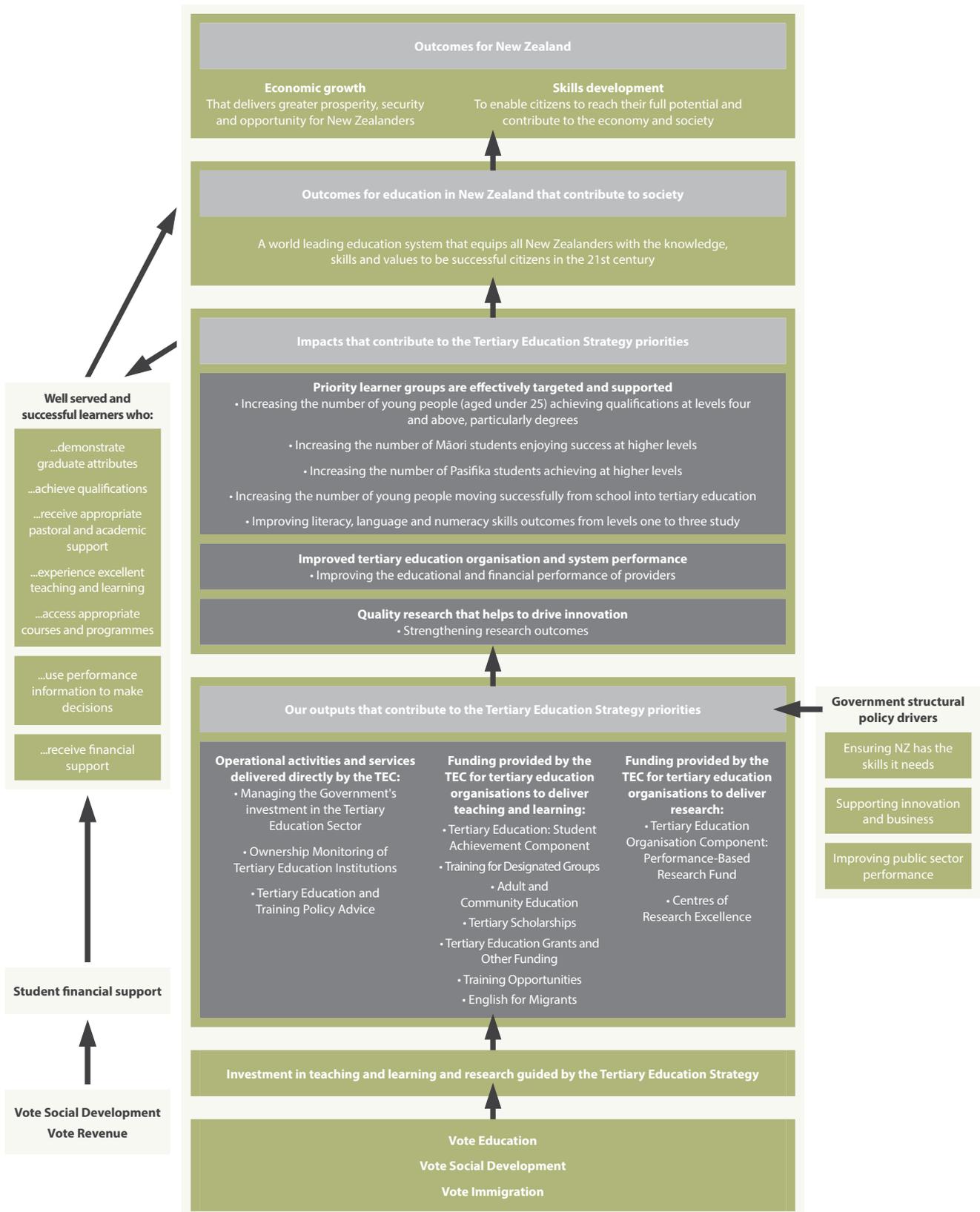


## OUTCOME MEASURES

Outcome	Measure	Trend	OECD average <sup>4</sup>	Progress	Target
		2010		2011	2014
New Zealanders with the knowledge, skills and values to be successful citizens in the 21st century	Percentage of the 25-34 year old population with a tertiary qualification (level 4 and above)	48%	30% (2009)	51.8%	52%
	Percentage of the 25-34 year old population with a bachelor's degree or higher qualification	25%	20% (2010)	29.8%	28%
	Earnings premium of bachelor's degree or higher beyond a school qualification	1.37 times higher (2008)	1.63 times higher (2010)	1.41 times higher	1.50 times higher

<sup>4</sup> OECD averages are provided as a proxy for the global trends in these areas, not as a benchmark for the performance of the New Zealand tertiary education system.

# OUR 2011/12 OUTCOMES FRAMEWORK



# TEC KEY ACTIVITY AREAS



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

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

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

Our three key activity areas for 2011/12 were:

- priority learner groups are effectively targeted and supported;
- improved TEO and system performance; and
- quality research that helps to drive innovation.

## KEY ACTIVITY AREA ONE: PRIORITY LEARNER GROUPS ARE EFFECTIVELY TARGETED AND SUPPORTED

### WHY THIS IS IMPORTANT

The large disparities in tertiary education achievement in New Zealand need to be urgently addressed if New Zealand is to reach its economic potential. Māori and Pasifika people have lower rates of achievement in tertiary education compared to other groups of students and in some cases this gap is widening.

Despite these issues being the priority of successive Governments, the qualification completion gap between Māori and Pasifika people and other groups of students remains. Māori and Pasifika people will be an increasingly large proportion of the population and even larger proportion of our workforce. The Better Public Services targets have highlighted that a step change is required from the TEC and TEOs to address this issue.

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

Youth Guarantee is a significant Government initiative which offers vocationally focused educational opportunities and improved transitions between school, tertiary education and work for targeted 16-17 year olds.

The 2006 Adult Literacy and Lifeskills (ALL) survey showed that 43% of adult New Zealanders aged 16 to 65 have literacy and numeracy skills below those needed to participate fully in a modern, high-skilled economy. Studies show that increasing workforce literacy and numeracy skills results in significant increases in workplace productivity. Foundation level study (Levels 1-3) needs to prepare learners for study at higher levels or for the employment skills they need in the workplace including literacy and numeracy skills.



## WHAT DID WE DO?

What we said we would do	What we have done
<p>Use our funding and monitoring levers for tertiary education organisations to target improved participation and achievement of priority learner groups.</p>	<p><b>Achieved – ongoing</b></p> <p>The 2013 Investment Plan Guidance focuses on encouraging shifts towards higher participation and achievement of priority groups. This includes setting Plan commitments for TEOs for Māori and Pasifika learners.</p>
<p>Proposed new mechanisms and levers will be developed during 2011/12.</p>	<p><b>Achieved – ongoing</b></p> <p>Operational policy was developed and implemented for new funding streams including the Refugee English Fund, Intensive Literacy and Numeracy, Targeted English for Speakers of Other Languages, Pacific Trades Training and Skills for Canterbury Trades Training.</p>
<p>Work closely with the Ministry of Education (and other agencies as appropriate) to support policy development and implementation of initiatives to improve secondary to tertiary transitions, including an expansion of the Government’s Youth Guarantee programme. Ongoing work will include expanding and supporting improved outcomes from Youth Guarantee and expansion of Trades Academies.</p>	<p><b>Achieved – ongoing</b></p> <p>The TEC has worked closely with the Ministry of Education and other agencies on policy advice and implementation of:</p> <ul style="list-style-type: none"> <li>• expanding the Youth Guarantee fund through the inclusion of Youth Training;</li> <li>• the provision of additional places in Youth Guarantee; and</li> <li>• five new tertiary led Trades Academies in 2011/12.</li> </ul>
<p>Continue to work actively with tertiary education organisations to require shifts in provision in alignment with Tertiary Education Strategy priorities, particularly student performance and success of priority groups. Annual measurement of performance will incentivise ongoing commitment to improvement.</p>	<p><b>Achieved – ongoing</b></p> <p>The 2013 Investment Plan Guidance has set out our expectations for changes in provision to align with the TES. Since the 2013 Investment Plan Guidance was published, we have worked with TEOs to communicate our expectations through engagement on their 2013 Investment Plans.</p>
<p>Actively manage the performance of tertiary education organisations on an annual basis, using a range of levers (including funding), where insufficient progress is being made in accordance with their Plan commitments.</p>	<p><b>Achieved – ongoing</b></p> <p>The TEC has actively managed the performance of TEOs through focusing monitoring on:</p> <ul style="list-style-type: none"> <li>• courses with low completion rates;</li> <li>• Equivalent Full Time Student (EFTS) delivery which is significantly over or under forecast delivery;</li> <li>• raising the participation of Māori and Pasifika learners; and</li> <li>• aligning provision to local and national needs.</li> </ul> <p>In 2011/12, the TEC worked with the TEIs to build capability in asset management systems and processes. We continued to monitor and report on the capital intentions of TEIs.</p>



What we said we would do	What we have done
Expand the range of tertiary education performance information available to the public, including graduate destination data (for example, graduate employment and income information), to help students make decisions about the most appropriate programmes to enrol in.	<p><b>Achieved – ongoing</b></p> <p>The TEC published the educational performance information of all TEOs in 2011/12. The 2013 Investment Plan Guidance sets out the TEC expectations of TEOs to provide information to students. From 2013, the TEC expects TEOs to progressively collect and publish information to inform students to make decisions about the most appropriate course to enrol in.</p> <p>The TEC published the Tertiary Education Report for the first time in 2011/12. This report will continue to be produced annually to complement the information that TEC publishes on the educational and financial performance of TEOs.</p>
Continue current work with the Ministry of Education to consider new performance measures for measuring Māori success consistent with the goals of <i>Ka Hikitia</i> .	<p><b>Achieved – ongoing</b></p> <p>In 2011/12, the TEC contributed to the development of the <i>Ka Hikitia</i> refresh including the development of new performance measures. As a consequence of this work, the TEC has set performance commitment targets for 2013 Investment Plans to accelerate performance for Māori students.</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 Pasifika peoples.

### QUALIFICATION COMPLETIONS

Impact	Measure	Trend		Progress	Target
		2005	2009	2010	2014
Increasing the number of Māori students enjoying success at higher levels	Māori students	42%	42%	41%	45%
	Pasifika students	40%	42%	42%	45%
Increasing the number of Pasifika students achieving at higher levels	All students (excluding Māori and Pasifika)	46%	48%	45%	51%
	All students	45%	46%	44%	49%

Qualification completions have decreased from 2009 to 2010 for Māori, all students excluding Māori and Pasifika and all students. This decrease is due to a number of factors including a decrease in

enrolments at ITPs, an increase in the number of enrolments in qualifications which have not yet been completed and changes in enrolments due to the Canterbury earthquakes.



## YOUNG PEOPLE IN TERTIARY EDUCATION

Impact	Measure	Trend		Progress	Target
		2005	2009	2011	2014
Increasing the number of young people (aged under 25) achieving qualifications at levels four and above, particularly in degrees	Number of domestic students by the age of 19 who had made the transition to tertiary education	53%	58%	Not available until Industry Training Register data available in 2013.	63%
Increasing the number of young people moving successfully from school into tertiary education	Proportion of people aged 15 to 24 with a tertiary qualification	24%	25%		28%

## LITERACY AND NUMERACY

Impact	Measure	Trend	Progress	Target
		2009	2011	2014
Improving literacy, language, and numeracy, and skills outcomes from levels one to three study	Percentage of students who demonstrate statistically significant increases in literacy and numeracy skills as measured by the Literacy and Numeracy for Adults Assessment Tool <sup>5</sup>	New measure	As at 7 June 2012, 305 providers were using the Assessment Tool. Providers will report data from 2014.	75%

<sup>5</sup> This new measure includes students who are assessed as requiring further literacy and numeracy development, who have participated in level 1-3 programmes which include embedded literacy and numeracy. From 2010, the Literacy and Numeracy for Adults Assessment Tool has been available for use by providers and will provide consistent and robust data about students' literacy and numeracy progress. However, providers are not required to report progress until 2014 once the tool has been fully implemented. As at 7 June 2012, 305 providers were using the tool.

# KEY ACTIVITY AREA TWO: IMPROVED TERTIARY EDUCATION ORGANISATION AND SYSTEM PERFORMANCE

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## WHY THIS IS IMPORTANT

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

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

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

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

Increased student demand with the same level of funding will put pressure on TEOs 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 TEOs to improve the responsiveness of programmes for students, business, industry and communities.



## WHAT DID WE DO?

What we said we would do	What we have done
<p>Use Plan Guidance, engagement and approval processes to support a deepening of tertiary education organisations' engagement with and responsiveness to students, employers, business, industry and communities.</p> <p>Plan Guidance will be updated and refined annually to provide better insights to TEOs about the requirements of government, students, and key stakeholders.</p>	<p><b>Achieved – ongoing</b></p> <p>2013 Investment Plan Guidance includes specific expectations to ensure that TEOs will work with students, employers, business, industry and communities.</p> <p>The TEC released three updated Investment Plan Guidance documents in 2011/12 to inform TEOs as they develop their 2013 Investment Plans. Each of these has reflected the requirements of Government, students and key stakeholders.</p>
<p>Use plan engagement to provide confidence to Government that TEIs are meeting the tertiary education needs of industry, business, employers and communities.</p>	<p><b>Achieved – ongoing</b></p> <p>Engagement on 2013 Investment Plans has commenced with an increased focus on tertiary education meeting the needs of industry, business, employers and communities.</p>
<p>Share information between the Tertiary Education Commission and the New Zealand Qualifications Authority and implement a performance consequences framework to promote excellence in quality management and governance across the tertiary education system.</p>	<p><b>Achieved – ongoing</b></p> <p>We meet regularly with the New Zealand Qualifications Authority (NZQA) to share information about TEOs performance. We also participate in the NZQA's monthly post education evaluation review meetings to agree any follow up actions arising from reviews.</p>
<p>Agencies will commence roll out of the new event driven data collection system from 2011.</p>	<p><b>Achieved – ongoing</b></p> <p>The Industry Training Register (ITR) system captures information about trainee progress towards qualifications which have been arranged by ITOs. This system was progressively rolled out to ITOs in 2011 and replaced the Industry Liaison Unit (ILU) system. The ITR enables: consistent collection of trainee information for both TEC and NZQA; assessment of ITO performance in relation to learning outcomes; and insights into training participation and success.</p>
<p>Collect performance data in preparation for the introduction of performance-linked funding in 2012. This will take place throughout 2011.</p>	<p><b>Achieved – completed</b></p> <p>Performance data was collected in preparation for the introduction of performance-linked funding in 2012.</p>
<p>Monitor risk (including ownership risk issues) and performance and undertake interventions according to our monitoring and reporting framework. We will report to the Minister on TEI risk each quarter.</p>	<p><b>Achieved – ongoing</b></p> <p>The TEC closely monitors the financial viability and ownership risk of each TEI. In 2011/12, risk monitoring focused on the effect of the Canterbury earthquakes on providers in the Canterbury region. There were no formal interventions in 2011/12.</p>



What we said we would do	What we have done
<p>Assist tertiary education institutions to use benchmarking analysis and efficiency measures to identify opportunities for performance and efficiency improvement. All tertiary education institutions will be encouraged to take up use of the New Zealand Benchmarking Tool by the end of 2012.</p>	<p><b>Achieved – ongoing</b></p> <p>In 2011/12, an overview of the ITP sector performance was shared with ITP Chairs and Chief Executives.</p> <p>The Government has announced its intention to make participation in the New Zealand Benchmarking Tool a condition of funding for all TEIs from 1 January 2013.</p>
<p>Explore ways to ensure tertiary education organisations work with students to ensure they enrol in programmes most appropriate for their circumstances.</p>	<p><b>Achieved – ongoing</b></p> <p>The TEC is working with TEOs to ensure that information to potential students is sufficient to ensure students' expectations of achievement in courses and employment outcomes following completion of courses are realistic.</p>
<p>We will work with tertiary education organisations through 2012 to develop a template for Key Information Statements.</p>	<p><b>Not achieved – contained within other work</b></p> <p>Key Information Statements templates were not developed in 2011/12. TEC is working with TEOs to ensure the accuracy and relevance of information provided to potential students and other key stakeholders.</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 TEO governance, financial and educational performance. We also intend to monitor how TEOs are increasingly responsive to the needs of their stakeholders including students, business, industries, and local communities.

Impact	Measure	Trend	Forecast 2011/12	Progress 2011/12
Improving the educational and financial performance of providers	Standard performance measures reported, monitored and published annually	Performance measures were first published October 2010	Performance measures published	<b>Achieved</b> Performance measures published.
	Tertiary education organisations publish Key Information Statements to support student decision making	New measure	Under development	<b>Not achieved</b> TEC is working with TEOs to ensure the accuracy and relevance of information provided to potential students and other key stakeholders.
	Number of high-risk tertiary education institutions measured in the six-monthly report to the Minister	In the August 2010 report three TEIs were assessed as high risk	<5	<b>Achieved – ongoing</b> As at 30 June 2012, there were three TEIs considered to be high risk and being actively monitored.



The TEC, Ministry of Education, the NZQA and StudyLink are collaborating on a work programme to improve the collection and management of tertiary education information to support decision making on tertiary policy and investment.

The objective of the programme is to provide more accurate, timely and accessible tertiary education information that:

- enables the tracking of individual student progress through the post-compulsory education system;
- strengthens the performance monitoring of TEOs and tertiary programmes; and
- supports and enables the implementation of new operational policy and funding arrangements for tertiary education.

The Tertiary Learner Event Collection project (TLEC) and INTELL (Business Intelligence) projects are TEC's contribution to this programme.

In 2011, the TEC conducted an initial consultation process with tertiary education providers to raise awareness and explore concerns about the proposed programme of work.

The results of the initial sector consultation have been translated into high level requirements for the TLEC information service, and resulting business intelligence.

The ITR system, a pilot for the TLEC information service, has been upgraded to address transition issues identified by industry training organisations. An improved model for collaboration on the ongoing development of this system has been established with the Industry Training sector.

The TEC Data Warehouse has been enhanced to provide performance monitoring reporting of TEOs against Investment Plan commitments for both SAC funding and in the Industry Training sector.



# KEY ACTIVITY AREA THREE: QUALITY RESEARCH THAT HELPS TO DRIVE INNOVATION

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## 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 TEOs in the area of research and innovation. Supporting innovation and business - which in turn supports the evolution and growth of industry - is one of the Government's main structural policy drivers.

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

- Performance-Based Research Fund
- Centres of Research Excellence

The Performance-Based Research Fund has shifted the basis of research funding from a system based on student enrolments to one where funding is allocated on the basis of research performance as evidenced through research quality, external

research income and research degree completions by postgraduate students. Research quality is measured through periodic Quality Evaluations<sup>6</sup> in which evidence portfolios from staff eligible for the Performance-Based Research Fund are independently assessed by peer review panels. The aggregated results are publicly reported. The results of the Quality Evaluation, together with the results of the Research Degree Completions and External Research Income measures, provide the basis for annual formulaic funding allocations to participating organisations.

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

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<sup>6</sup> Quality Evaluation of researchers through the peer review panels is conducted every six years.



## WHAT DID WE DO?

What we said we would do	What we have done
<p>Implement the 2012 Performance-Based Research Fund Quality Evaluation as part of work to reward and encourage excellent research and research-based teaching and learning.</p>	<p><b>Achieved – ongoing</b></p> <p>The majority of planning for the 2012 Quality Evaluation has been completed in the 2011/12 financial year.</p>
<p>Provide input into policy development on research-related issues and operational implications for tertiary education and the sector as a whole, on an ongoing basis.</p>	<p><b>Achieved – ongoing</b></p> <p>Provided initial advice on the Ministry of Education reviews of the Performance-Based Research Fund and Centres of Research Excellence.</p>
<p>Continually work closely with other agencies in the science and innovation area (including the Ministry of Science and Innovation) to ensure coherence of funding and operational policy.</p>	<p><b>Achieved – ongoing</b></p> <p>In 2011/12, TEC contributed to the Ministry of Science and Innovation’s development of the Statement of Science Priorities and the Business Growth Agenda Building Innovation work stream.</p>
<p>Future Plan guidance documentation will include a focus on the importance of research and innovation, particularly linked to the needs of the economy, society and environment.</p>	<p><b>Achieved – completed</b></p> <p>2013 Investment Plan Guidance included the priority "A bigger economic contribution to society" which incorporates the contribution of TEOs to research and innovation.</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.

### QUALITY EVALUATION

Impact	Measure	Trend		Progress	Target
		2003	2006 <sup>7</sup>	2011	2012
Strengthening research outcomes	Average quality of research measured by the average FTE (Full Time Equivalent) weighted quality score (out of a potential maximum score of 10)	2.59	3.26	Data will be available once the 2012 Performance-Based Research Fund Quality Evaluation round has been held in December 2012	3.75
	Number of staff in tertiary education organisations undertaking research of a world-class standard. <sup>8</sup> This is measured by the % of the Performance-Based Research Fund eligible staff Evidence Portfolios assigned an "A" Quality Category by a peer review panel. (FTE weighted)	5.7%	10.9%		12.0%

### EXTERNAL RESEARCH INCOME

Impact	Measure	Trend	Progress			Target	
		2010	2011	2012	2013	2014	
Strengthening research outcomes	External research income measured by the income generated by the tertiary education organisations participating in the Performance-Based Research Fund	\$403m	\$410.5m	\$444m	\$480m	\$500m	

<sup>7</sup> For this measure, 2006 figures only include TEOs that participated in the 2003 evaluation.

<sup>8</sup> 2006 was a partial round and the same rate of increase between 2006 and 2012 is unlikely.



## RELEVANCE

Impact	Measure	Trend	Progress	Target		
		2010	2011	2012	2013	2014
Strengthening research outcomes	Plans of tertiary education organisations receiving research funding, demonstrate alignment with Government's science and research agenda	New measure	2013 Investment Plan Guidance included the priority "A bigger economic contribution to society" which incorporates the contribution of TEOs to research and innovation. Current Plan engagement for universities has a strong focus on understanding universities' long-term research strategies.	95%	95%	95%

### 2012 Performance-Based Research Fund Quality Evaluation

In 2011/12, the TEC contracted over 300 academics and industry experts from within New Zealand and around the world to participate in 12 panels and two expert advisory groups to assess research submitted as part of the 2012 Performance-Based Research Fund Quality Evaluation. These panels and expert advisory groups have developed panel specific guidelines and criteria which were published on the TEC website.

Training for the panels and expert advisory groups was completed. This training provided panellists with the information on the Performance-Based Research Fund Quality Evaluation process and the use of information technology to administer the process.

The end-to-end information technology system for the Performance-Based Research Fund Quality Evaluation was also developed and delivered on time and within budget.

Following the public release of the first phase of the Performance-Based Research Fund Quality Evaluation audit, the TEC consulted with the tertiary education sector and other stakeholders on changes to the calculation of the Average Quality Score (AQS). After consultation, a change to the calculation was made for the 2012 Performance-Based Research Fund Quality Evaluation. Any changes to future Performance-Based Research Fund Quality Evaluations (including the calculation of the AQS) will be considered as part of the review of the Performance-Based Research Fund being undertaken by the Ministry of Education.



# HOW WE WORK WITH OTHERS

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## WHOLE OF GOVERNMENT ALIGNMENT

How we work with other agencies is vital to achieving the Government's education priorities. In 2011/12, the key government agencies TEC worked closely with included the Ministry of Education, the New Zealand Qualifications Authority, Careers New Zealand, the Ministry of Science and Innovation, the Ministry of Economic Development, the Department of Labour and the Ministry of Social Development.

In 2012/13, TEC will continue to work with other government organisations, including the new Ministry of Business, Innovation and Employment, to ensure the effective operation of the labour market and improve the way that businesses make the most out of people while they are in employment. This work will result in the development of a unified cross-government skills strategy and action plan that outlines the actions needed to provide a more skilled workforce for New Zealand businesses.

As well as people with the rights skills and knowledge to contribute to economic growth, New Zealand needs science and innovation to enable people and resources to be productive. TEC will continue working with the Ministry of Business, Innovation and Employment to ensure that government-funded research is relevant to the future needs of New Zealand.

## EDUCATION SECTOR ALIGNMENT

There are eight 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 Teachers Council, the Education Review Office, Te Kura – The Correspondence School, Education New Zealand and Careers New Zealand.

Collaboration across the education sector fosters the synergy needed to achieve a greater impact on learner achievement. The TEC works closely with the other seven education agencies directly involved in the leadership and management of the education sector.

Collaboration takes many forms, ranging from formal oversight by chief executives to informal exchanges of information between our teams. Where initiatives will have an impact on multiple agencies (for example, online moderation, Youth Guarantee or changes to tertiary information), contributions are sought from all relevant agencies. These contributions take a variety of forms, including input to project direction and governance, resources to undertake work, or changes in the agency's own processes in support of the initiative.

In its drive to improve the efficiency and effectiveness of the public sector, the Government is identifying and integrating similar or related services. Education sector agencies have been working together for some time using a range of shared services and will continue to identify opportunities to continue this on a sector and all-of-government basis.

During 2011/12, the education sector agencies have participated in the development of a shared framework to support joined-up planning, clearer accountability and actions that reflect the Government's goals for the education system. This framework was included in TEC's 2012/13 Statement of Intent. In 2012/13, TEC will continue to work with other agencies in the education sector on aligning outcomes across the education sector.



# LOOKING FORWARD TO 2012/13 – 2014/15

The TEC's 2012/13 - 2014/15 Statement of Intent was approved and issued by the TEC Board in May 2012. This section reflects changes in the broader education sector environment to enhance TEC's strategic framework and impact measures previously set out in the 2011/12 - 2013/14 Statement of Intent.

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

TEOs are expected to demonstrate in their Investment Plans how they will make use of existing resources to deliver on their core roles, meet Government expectations for improved performance and contribute to achieving the TES priorities.

## BETTER PUBLIC SERVICES

New Zealand's prosperity relies on a skilled, flexible and innovative workforce. New Zealand needs an education system that ensures businesses have access to the skills they need to lift productivity, support economic recovery and drive future economic growth.

The Government has set the following Better Public Services results:

- Reducing long term welfare dependency.
- Supporting vulnerable children.
- Boosting skills and employment.
- Reducing crime.
- Improving interaction with government.

The TEC has a lead role in the result to boost New Zealand's level of skills and employment by increasing educational achievement for all New Zealanders and will contribute to the following targets:

- By 2017, 85% of 18-year-olds will have NCEA level 2 or equivalent qualification.
- By 2017, 55% of 25-34 year olds will have a qualification at level 4 or above.

Better Public Service Outcome	Measure	2011	2017 Target
Boosting skills and employment	Percentage of 18-year-olds with NCEA level 2 or equivalent qualification	74%	85%
	Percentage of 25-34 year olds with advanced trade qualifications, diplomas and degrees (at level 4 or above)	52%	55%

Over the next year, the TEC will work with the Ministry of Education and other agencies to develop and implement policies that will work to achieve these targets. The TEC will report on progress towards achieving these targets at the end of the 2012/13 financial year.



## EDUCATION SECTOR OUTCOMES FRAMEWORK

In 2011/12, education sector agencies worked collaboratively on a whole of sector outcomes framework – each agency contributing differently according to their varying responsibilities. The vision for the education sector is:

- A world-leading education system that equips all learners with the knowledge, skills and values to be successful citizens in the 21st century.

The high-level outcomes for the education sector are:

- Education provision of increasing quality and value to all.
- Maximising the contribution of education to the New Zealand economy.
- Education success for every learner.
- Higher returns on education investment.
- Improving outcomes for priority groups.

## 2012/13 – 2014/15 STATEMENT OF INTENT OUTCOMES AND MEASURES OF PROGRESS

The TEC's 2012/13-2014/15 Statement of Intent contains the TEC's strategic framework that outlines the TEC's four outcomes for the next three years and the measures that we will use to determine our progress towards achieving these outcomes.

## OUTCOME ONE: DOING BETTER FOR MĀORI AND PASIFIKA

- Increasing the number of Māori students enjoying success at higher qualification levels
- Increasing the number of Pasifika students achieving at higher qualification levels

### WHAT IS THE TEC GOING TO DO?

- The TEC will “hard-wire” performance commitments for Māori and Pasifika achievement outcomes as part of TEOs’ 2013-15 Plans.
- The TEC will work closely with the Ministry of Education and other agencies on the revisions of *Ka Hikitia*, and the *Pasifika Education Plan* and agree appropriate stretch targets for Māori and Pasifika achievement in tertiary education.

### MEASURES OF PROGRESS

The following measures will be used to indicate progress against this outcome:

	Measure	2010/11 Actual	2014/15 Target
More Māori and Pasifika students enrolling in higher level qualifications	Percentage of Māori students achieving a qualification at level 4 and above	50%	64%
	Percentage of Pasifika students achieving a qualification at level 4 and above	55%	64%
	<i>Percentage of all students achieving a qualification at level 4 and above (comparative measure)</i>	64%	
More Māori and Pasifika students completing qualifications	Percentage of Māori students starting a bachelor’s qualification who complete a qualification at the same level, or higher, eight years later	42% (2010)	60%
	Percentage of Pasifika students starting a bachelor’s qualification who complete a qualification at the same level, or higher, eight years later	43% (2010)	60%
	<i>Percentage of all students starting a bachelor’s qualification who complete a qualification at the same level, or higher, eight years later (comparative measure)</i>	60% (2010)	

## OUTCOME TWO: ENHANCING TRANSITIONS FROM POST COMPULSORY TO TERTIARY EDUCATION

- Increasing the number of young people moving successfully from school into tertiary education
- Improving the literacy, language, and numeracy, and skills outcomes from level 1 to 3 study



## WHAT IS THE TEC GOING TO DO?

*Increasing the number of young people making successful transitions from school to tertiary education:*

- The Government's most significant initiative is the Youth Guarantee programme which offers vocationally focused educational opportunities as well as improving transitions between school, tertiary education and work for targeted 16-17 year olds. The Youth Guarantee programme is a priority for the Government and expects to fund an additional 1,250 places per year (that is, a total of 3,750 additional places over the next three years).
- The TEC will be working with other agencies (particularly the Ministry of Education) to progress work on the development of new vocational pathways (including expansion of Trades Academies) to give students who are interested in vocational learning clear linkages between what they are studying and their post-school options. This work will support student decision-making, and provide employers with simplified information about the knowledge and skills of school leavers.
- The TEC needs to better understand which active labour market programmes are effective in channelling young people into future education or employment. To support this, the TEC will be working with the Ministry of Business, Innovation and Employment to undertake research to evaluate the effectiveness of various programmes and implement improvements where necessary.
- A review of the provision of career advice and guidance will strengthen students' decision making, particularly in relation to vocational education, and the TEC will be working with agencies (particularly Careers New Zealand) to support this review.

*Improving the literacy, language, and numeracy, and skills outcomes from level 1 to 3 study:*

- In line with the Government's goal of having more New Zealanders achieving NCEA level 2 or equivalent qualifications, the TEC will support the implementation of a more effective framework for foundation-level tertiary education at levels 1 and 2. The employment returns for level 1 and 2 study are very low, and the proposed changes to levels 1 and 2 provision are required to address this. More effective foundation learning also provides a way to improve achievement for Māori and Pasifika learners.
- The TEC will require full uptake and use of the Literacy and Numeracy for Adults Assessment Tool and expect to see significant levels of improvement in literacy and numeracy outcomes for learners, at levels 1-3.
- In 2013 and 2014, the TEC will be working with agencies to increase the value of foundation education for both students and the Government by targeting provision to students with low or no qualifications.<sup>9</sup>
- The TEC will also be working with the Ministry of Education to support work on fees and subsidy policies for study at levels 1 and 2.

## MEASURES OF PROGRESS

The following measures will be used to indicate progress against this outcome:

	Measure	2010/11 Actual	2014/15 Target
Increasing the proportion of young people making successful transitions from school to tertiary education	Percentage of 15-24 year olds not in employment education or training	12.5% [OECD average: 12.2%]	Less than OECD average [as at June 2015]
	Percentage of young people moving from post compulsory to tertiary education by age 19	58%	63%
Improving the literacy, language, and numeracy, and skills outcomes from level 1 to 3 study	Percentage of learners with improved LLN skills as measured by Assessment Tool	Not available	75%

<sup>9</sup> Foundation level ESOL and te reo courses will be exempt from this requirement, and will be available to students who already hold higher level qualifications

## OUTCOME THREE: INCREASING TERTIARY EDUCATION'S CONTRIBUTION TO ECONOMIC RECOVERY AND GROWTH

- Increasing the number of young people (those aged under 25 years) achieving qualifications at level 4 and above, particularly degrees
- Strengthening research outcomes

### WHAT IS THE TEC GOING TO DO?

The TEC has three key areas of work to do:

*Ensure that more young people undertake qualifications that are appropriate to their skill level and career aspirations*

- Collect and publish annual data on graduate employment outcomes to enable students to make the best decisions about tertiary education.
- Ensure that TEOs work closely with their stakeholders, and particularly industry and employers to better match provision with labour market demand through the Plan process.
- Make direct investment decisions in specific areas of provision which better align with economic development goals (for example, STEM subject areas).

#### *Regional development*

- Work with the Ministry of Business, Innovation and Employment providing whole of labour market policy advice on local and national issues with a bearing on the rebuild and wider Canterbury recovery. This will include consideration of how increased productivity in the construction industry might be addressed in response to increases in the demand for labour.
- Support the development and implementation of the Auckland Economic Development Strategy and addressing labour market issues that arise through that work.

*Ensure research is aligned across research-agencies and with the needs of industry*

- Work with other agencies to agree research priorities.
- Ensure that TEOs work closely with businesses and employers to better match research and innovation needs of industry.
- Implement funding stream changes resulting from reviews of Performance-Based Research Fund (PBRF) and the Centres of Research Excellence (CoREs).

### MEASURES OF PROGRESS

The following measures will be used to indicate progress against this outcome.<sup>10</sup>

	Measure	2010/11 Actual	2014/15 Target
Increasing the number of young people (those aged under 25 years) achieving qualifications at level 4 and above, particularly degrees	Earnings premium of bachelor's degree or higher beyond a school qualification	1.33 times higher (2009) [cf OECD average 1.63 times higher]	1.50 times higher
	Percentage of young people (under 25) gaining bachelor's degrees	25%	28%
Strengthening research outcomes	Percentage increase in External Research Income earned [PBRF measure]	-1.9%	4%

<sup>10</sup> We will add employment outcome measures when these are developed, later in 2013.

## OUTCOME FOUR: IMPROVING SYSTEM PERFORMANCE

- Improving the educational and financial performance of providers

### WHAT IS THE TEC GOING TO DO?

- The TEC will continue to work to improve the governance and operations of TEIs. Working with the Ministry of Education, the TEC will examine options for work on governance arrangements and statutory interventions for wānanga and universities. This work builds on the 2009 reforms of governance arrangements and statutory interventions for polytechnics' councils. Any adjustments to current governance arrangements and statutory interventions will require amendments to the Education Act 1989.
- The TEC will proactively work with TEIs to use benchmarking analysis and efficiency measures to identify opportunities for performance and efficiency improvement. All tertiary education institutions will be encouraged to take up use of the New Zealand Benchmarking Tool by the end of 2012.

### MEASURES OF PROGRESS

The following measures will be used to indicate progress against this outcome:

	Measure	2010/11 Actual	2014/15 Target
Improving the educational performance of providers	Aggregate sector qualification completion rate (TEC Educational Performance Indicator measure)	64% (2011)	68%
Improving financial performance of providers	Percentage of TEIs meeting or exceeding TEC financial benchmark indicators : <ul style="list-style-type: none"> <li>Net surplus (before abnormals) to revenue</li> <li>Net cashflow from operations</li> <li>Liquid funds</li> <li>3 year average return of property, plant and equipment</li> </ul>	88%	95%
	Percentage of TEIs participating in the New Zealand Benchmarking Tool which show improvements in the Tool's "Value for Money" measure.	New measure	95%

The above measures align with and build on our outcomes framework diagram on page 9 of this document.



# DEVELOPING OUR CAPABILITY IN 2011 AND BEYOND

2011/12 was the first year of a new organisational structure for the TEC.

The key feature of the new structure is a reduction in the number of directorates with functions distributed in a way that will maximise interdependencies between directorates and increase support for whole of business projects.

## TEC SYSTEMS AND PROCESSES

In 2011/12 we have worked to extend, improve and consolidate our core business processes and streamline the systems.

The TEC's role is to improve both the quality and availability of tertiary information, and facilitate the sharing of best-practice knowledge.

## MEASURES

Measure	Annual Target	Actual 2011/12
Capital spend	+ /- 5% variance	<b>Not achieved</b> The capital spend at 30 June 2012 was \$6.0 million below budget. This was because the TEC reviewed its capital programme in response to the Government's Better Public Services initiative.
<b>Core business processes delivered to plan</b>		
Effective governance	4/5	Achieved
Good design	4/5	Achieved
Effective change management	4/5	Achieved
<b>Sector performance information</b>		
Development of graduate outcomes/destination and income measures	√	<b>Achieved – ongoing</b> TEC contributed to the Ministry of Education's Publishing Information for Students about Graduates' Employment Outcomes (PISTAGEO) work programme aimed at publishing employment outcomes information to better support student decisions in tertiary education
Working effectively with other education sector agencies to develop improved tertiary information	√	
<b>Policies</b>		
% Policies reviewed	100% of policies reviewed by due date	<b>Achieved</b> 100% of policies were reviewed by the due date



## ORGANISATIONAL HEALTH AND CAPABILITY

The TEC has worked towards stabilising our workforce after a period of intensive change.

We established a process to manage our staff numbers and to re-prioritise resources. An online induction tool was developed for new staff and the TEC orientation programme led by the Executive Team was reviewed.

The TEC settled its collective employment agreement with the Public Service Association (PSA) in December 2011.

## THE TEC AS A GOOD EMPLOYER

The TEC is committed to being a good employer and providing equal employment opportunities for all employees and potential employees. We have a number of initiatives in place to ensure that we meet these obligations.

Element	Initiatives
Leadership, Accountability & Culture	<p>TEC</p> <ul style="list-style-type: none"> <li>• Holds all-of-TEC meetings to provide staff with in-depth information on what is happening within the TEC, the sector and government priorities in addition to Directorate meetings.</li> <li>• Third tier managers meet on a weekly basis to plan and coordinate work.</li> <li>• Managers are encouraged and held accountable for providing staff with meaningful and challenging development opportunities.</li> </ul>
Recruitment, Selection & Induction	<p>TEC</p> <ul style="list-style-type: none"> <li>• Developed and launched an on-line 'Working at the TEC' tool. This was created as an induction tool for new employees. However, it is a resource that all employees have access to and can refer to.</li> <li>• Maintains and updates our recruitment and selection policy and processes and tools. <ul style="list-style-type: none"> <li>• Interviewees are given the opportunity to bring support people with them to interviews.</li> <li>• Managers have access to a series of recruitment and selection tools. These include psychometric testing and an interview question bank.</li> </ul> </li> <li>• Utilises on-line recruitment management systems and processes to streamline the process for our staff and applicants.</li> <li>• An Executive Team led orientation session is held for all new employees on a two monthly basis.</li> <li>• Uses position management to aid recruitment and workforce planning.</li> </ul>
Employee Development, Promotion & Exit	<p>TEC</p> <ul style="list-style-type: none"> <li>• Requires that all staff have meaningful development plans in place.</li> <li>• Has established TEC competencies to assist with recruitment, retention and development of our staff.</li> <li>• Asks exiting employees to complete an exit questionnaire. This enables us to review the reasons why people are leaving the TEC and if any further improvements can be made.</li> <li>• Offers secondment opportunities, both within the TEC and to other agencies. We also welcome secondees to the TEC.</li> <li>• Holds twice-monthly 'Speaker's Corner' where staff update their colleagues as to what they are working on.</li> </ul>



Element	Initiatives
Flexibility & Work Design	<p>TEC</p> <ul style="list-style-type: none"> <li>Continues to offer our employees flexible working options</li> <li>Offers a private parent's room for employees to use.</li> </ul>
Remuneration, Recognition & Employee Conditions	<p>TEC</p> <ul style="list-style-type: none"> <li>Successfully completed bargaining with the PSA in December 2011.</li> <li>Continues to run a transparent and accessible remuneration policy and system.</li> <li>Conducts an annual remuneration forum with the PSA.</li> <li>Applies a transparent, equitable and gender-neutral job evaluation policy / practices.</li> </ul>
Harassment & Bullying Prevention	<p>TEC</p> <ul style="list-style-type: none"> <li>Raises awareness of our Code of Conduct by providing a copy to employees before they join the TEC and ensuring that it is accessible, understood and reinforced once employed.</li> <li>Has a Harassment Prevention Policy in place, which also covers bullying.</li> <li>Has an e-mail and internet misuse policy.</li> </ul>
Safe & Healthy Environment	<p>TEC</p> <ul style="list-style-type: none"> <li>Re-established the Health &amp; Safety Committee and Employee Participation system post the reorganisation.</li> <li>Offers annual influenza vaccinations, counselling services to employees, reimbursement of eye tests, ergonomic assessments for employees and health, safety seminars, etc.</li> </ul>

## TEC PEOPLE PROFILE

As at 30 June 2012, our capped staffing number was 225 Full Time Equivalent Employees (FTEs). We had a total of 207 staff with total FTEs of 201.8.

Key facts about the composition of TEC staff in 2011/12 include:

- 61% of the workforce is female, and 39% male.
- 48% NZ European, 8% Maori, 10% Pasifika, 12% non-New Zealand European, 6% Asian, 3% Indian, 3% other ethnic minority, and 10% not advised.
- The average age of an employee is 40.4 years. For female employees the average age is 40.2 years, while for male employees the average is 40.8.
- We have 13 part time employees.
- Our average length of service is 4.1 years. For females it is 3.8 years and 4.6 years for males.
- Of our 19 management positions – 36.8% are filled by females.

Data regarding the number of employees who have a disability should be available the following year as TEC has automated the application form.

It is optional for staff to provide the TEC with information regarding their ethnicity or whether they live with the effects of an injury, illness, condition or disability.



## PERFORMANCE MEASURES

We are implementing measures that will highlight our progress towards building a new organisation that is fit for purpose. The focus on these indicators will support the culture and organisational changes intended in the 2010/11 TEC Review.

Staff Turnover	Target	Actual	Comment
Voluntary staff turnover	Less than state sector average (14.0%)	16.7%	Refer to comment below
<b>Staff development</b>			
% of training budget which is spent	100%	73%	Refer to comment below
% of staff with training plans	100%	50%	Refer to comment below
<b>Staff engagement</b>			
Survey results: actual percentile NZ state sector	Increase over 2010 survey	n/a	Refer to comment below
<b>Sick leave</b>			
% hours absent due to illness	Less than state sector average	n/a	Refer to comment below

### STAFF TURNOVER

The Human Resource Capability (HRC) Survey of Public Service Departments (as at 30 June 2011) data was released during quarter two. The state sector average for staff turnover was 10.9%, however unplanned turnover rates in 23 departments ranged from 6% - 30%.

During quarter four, the TEC's voluntary staff turnover was 4.1%. Staff turnover decreased by 0.1% from last quarter and is 1.1% above the TEC target of 3% for quarter four.

The TEC's actual voluntary staff turnover for 2011/12 was 16.7% and is 2.7% above the TEC's target of 14%. This figure is a significant reduction in voluntary staff turnover when compared to 2010/11 turnover which was 25.4%.

### STAFF DEVELOPMENT

The TEC spent 73% of its training budget for 2011/12. For the first six months of the financial year, there were a large number of vacancies following the organisational review and therefore a smaller pool of staff accessing the training budget over this time.

As at 30 June 2012, 50% of staff have approved training plans in place.

### STAFF ENGAGEMENT

Information gathered from the 2010 employee engagement survey will be used to facilitate discussion in staff focus groups planned for later in the year.

### SICK LEAVE

State sector uses average sick leave days rather than % hours absent. The average state sector days per annum was 7.4 (as at 30/06/11). The TEC's average sick leave days for the 12 months to 30 June 2012 was 3.5 days.



# MANAGING OUR RISK

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

We have adopted a systematic approach to support executive management to identify, analyse, evaluate, mitigate and monitor our key organisational risks. Our approach is consistent with the principles of an effective risk management system<sup>11</sup> and is designed to be integrated into management's core functions.

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

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

Our core organisational risks	Our response strategy: how we will mitigate this risk	What has happened during 2011/12
<p><b>Delivery of the Government's priorities</b></p> <p>Failure to deliver on the Government priorities as set out in the Tertiary Education Strategy.</p> <p>The effects of the Christchurch earthquakes may well impact on the sector's ability to deliver to these priorities.</p>	<p>Working closely with other government agencies to deliver on the Tertiary Education Strategy priorities.</p> <p>Effective engagement with our key stakeholders</p> <p>Work closely with sub-sectors to deliver on related priorities.</p> <p>Ensure Plans are aligned with the priorities.</p> <p>Work closely with Christchurch TEOs to ensure that student demand is met across the system as a whole without undermining the viability and sustainability of Christchurch institutions.</p>	<p>TEC has worked with the following agencies including: the Ministry of Education, New Zealand Qualifications Authority, Ministry of Economic Development, Ministry for the Environment, Education New Zealand, Ministry of Social Development, Ministry of Health, Treasury, Careers New Zealand, the Ministry of Science and Innovation.</p> <p>Held regular forums with sub-sectors.</p> <p>Publication of the 2013 Investment Plan Guidance that is aligned with priorities.</p> <p>Through funding arrangements able to support Christchurch providers to recover and renew education provision for the region.</p>

<sup>11</sup> As set out in the Joint Australian New Zealand International Standard for Risk Management (AS/NZS ISO 31000:2009).

Our core organisational risks	Our response strategy: how we will mitigate this risk	What has happened during 2011/12
<p><b>Organisational performance</b></p> <p>Not having the internal capability and capacity to deliver on the work programme. This includes transitional risks following the organisational review undertaken during 2010/11.</p>	<p>The Board and Executive Management working together during the transitional period 2011/12.</p> <p>Executive oversight of the work programme and major cross organisation projects.</p> <p>Review and strengthen the major cross organisation systems and processes to ensure that they are efficient and that they effectively deliver on the business requirements.</p> <p>Develop and implement comprehensive human resource strategies to attract, develop and retain staff.</p>	<p>Consolidated the new organisational structure. Reviewed and implemented new structure to strengthen the finance function.</p> <p>Successfully recruited for key new and vacant positions.</p> <p>Reviewed the recruitment and retention strategies including induction process and staff development opportunities.</p> <p>Strengthened the management of core organisational business processes.</p> <p>Testing of information technology systems recovery undertaken.</p> <p>Reviewed and updated corporate policies and procedures.</p>
<p><b>Fund management</b></p> <p>Failure to properly manage the Crown funds for which we are responsible.</p>	<p>Simplify the funding mechanism and supporting systems that we are responsible for.</p> <p>Maintain clearly defined and transparent funding rules and conditions that are appropriate for the different Crown funds.</p> <p>Operate an effective and efficient tertiary education organisation monitoring system.</p> <p>Take appropriate action to recover Crown funding where necessary.</p>	<p>Implemented new funding arrangements for Youth Guarantee, Trades Training, the two new English for Speakers of Other Languages funding streams and the additional SAC funding allocation process for PTEs.</p> <p>Developed the Performance-Linked Funding tool.</p> <p>Monitored TEOs performance using information received from TEOs. The process includes the monitoring of the Crown's ownership interest for TEIs and conducting audits for PTEs and ITOs.</p> <p>Recovered funding where necessary.</p>

Our core organisational risks	Our response strategy: how we will mitigate this risk	What has happened during 2011/12
<p><b>Evidence-based decisions</b></p> <p>Inadequate evidence base to substantiate cross organisational and agency decisions.</p>	<p>Integrated work programme with Ministry of Education and NZQA to strengthen quality procedures for collection and validation of information collection processes.</p> <p>Enhanced business processes underpin decision making.</p> <p>Simplification and transparency of decision making processes.</p>	<p>Worked across agencies to deliver Tertiary Information Programme.</p> <p>Followed sound business process to support the 2012 Investment Plan decisions.</p> <p>Ensured that TEOs have opportunity to review 2011 performance information before finalised and published.</p> <p>Published TEO performance information.</p>
<p><b>Legal</b></p> <p>Our actions create legal risks.</p>	<p>Development of consistent and agreed investment framework.</p> <p>Operate effective legal compliance framework and process.</p> <p>Legal advice sought and acted on.</p>	<p>In-house and external legal advice has been received including advice on setting assessment criteria, notification of funding, wash-up adjustments and where necessary taking action against individual TEOs.</p> <p>Annual legal compliance survey undertaken showed that the TEC was meeting its statutory obligations.</p> <p>Administrative law workshops have been provided for staff.</p>

# STATEMENT OF RESPONSIBILITY

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In terms of the Crown Entities Act 2004 and the Education Act 1989, the Board of the Tertiary Education Commission 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 and reporting of the Statement of Service Performance.

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 2012.

Signed on behalf of the Board of Commissioners:



John Spencer  
*Chair*

*Tertiary Education Commission*

1 October 2012



Robin Hapi  
*Chair, Audit and Risk Committee*  
*Tertiary Education Commission*

1 October 2012



# 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 2012.

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 64 to 97, that comprise the statement of financial position as at 30 June 2012, 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 62 and the report about outcomes on page 7.

### OPINION

In our opinion:

- the financial statements of the Commission on pages 64 to 97:
  - comply with generally accepted accounting practice in New Zealand; and
  - fairly reflect the Commission's:
    - financial position as at 30 June 2012; and
    - financial performance and cash flows for the year ended on that date.
- the non financial performance information of the Commission on pages 39 to 62 and 7:
  - 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 2012, 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 1 October 2012. 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 preparation of the Commission's 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 its 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 and Education Act 1989.

### 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 carried out assurance engagements on the review of tendering processes. Other than the audit and these assurance engagements, which are compatible with those independence requirements, 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 for the year ended 30 June 2012 included on the Tertiary Education Commission's (the Commission) 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 1 October 2012 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 SERVICE PERFORMANCE

## OPERATIONAL ACTIVITIES AND SERVICES DELIVERED DIRECTLY BY THE TEC

### MANAGING THE GOVERNMENT'S INVESTMENT IN THE TERTIARY EDUCATION SECTOR

We develop, implement and 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

	<b>Forecast for the year ended 30 June 2012 \$000</b>	<b>Actual for the year ended 30 June 2012 \$000</b>
Appropriation revenue as per SOI	35,803	35,803
Interest revenue	416	476
<b>Total revenue</b>	<b>36,219</b>	<b>36,279</b>
Total expenses	38,132	40,180
<b>Surplus/(deficit)</b>	<b>(1,913)</b>	<b>(3,901)</b>

<b>Output measure</b>	<b>2011/12 Target</b>	<b>2011/12 Actual</b>	<b>Variance/comments</b>
Plans for tertiary education organisations demonstrate evidence of alignment with employer, community and learner needs	100%	100%	<b>Achieved</b> All plans for tertiary education organisations demonstrate evidence of alignment with employer, community and learner needs.
Plans for tertiary education organisations include targets for improving achievement rates for priority groups in the Tertiary Education Strategy	100%	100%	<b>Achieved</b> All plans for tertiary education organisations include targets for improving achievement rates for priority groups in the Tertiary Education Strategy.
For Plans submitted for funding approval that meet the TEC's Plan content and funding criteria, percentage that have funding approved by 1 December 2011	98%	TEIs and ITOs – 100% PTEs – 99% (71 Investment Plans by 1 December 2011, 5 Plans after 1 December 2011, 2 Investment Plans for which funding was declined)	<b>Achieved</b> All TEIs and ITOs that were required to submit Investment Plans in 2011 had funding approved by 1 December 2011. 99% of PTEs that were required to submit Investment Plans in 2011 had funding approved by 1 December 2011.



Output measure	2011/12 Target	2011/12 Actual	Variance/comments
Payments are made to tertiary education organisations as per the agreed contractual terms and conditions	100%	100% - payments made to the correct TEOs 100% correct amounts paid to TEOs 99.65% of payments to TEOs were paid on time	<b>Not Achieved</b> Between 1 July 2011 and 30 June 2012, 19,051 payments were paid on time. Sixty six payments were delayed due to TEC actions. During the year, all 19,117 payments were paid to the correct TEO and in the right amount.  The majority of the delayed payments were due to the need to adjust scheduled payments downwards to reflect TEO under-delivery. These adjustments did not take place in time for the payment to go out on the scheduled date.
TEC Customer Satisfaction Survey results show continuous improvement	Under development	44%	<b>Not Achieved</b> See comment below.
Number of tertiary education organisations audited by the TEC	25-30 audits	31	<b>Achieved</b> The TEC completed 31 audits in 2011/12.
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	<b>Achieved</b> No interventions were undertaken in 2011/12.
Programme evaluations and cost-benefit studies are completed in accordance with the 2011/12 Programme Evaluation Plan	3-5 evaluations and studies completed	5 evaluations and studies completed	<b>Achieved</b> See comments below.

### ***TEC CUSTOMER SATISFACTION***

In 2011/12, the TEC invited Service Centre survey respondents to indicate how the TEC's service delivery could be improved. The primary suggestions were around improving the interaction that the TEC has with its clients.

Many of the responses called for the TEC to take individual circumstances into account at both a sub-sector level and an individual level so that providers do not have to explain their situation each time they contact the TEC. Many felt that having a single point of contact within the TEC and/or the Service Centre would support this. While a number of respondents found the TEC Now newsletters excellent, many responders called for better communication from the TEC which is proactive and more timely when changes are made.

The TEC does not use an account management approach for all sub-sectors, however, in response to the feedback received it is developing an enhanced query management tool. This tool better links together the interactions which a provider has with different parts of the TEC on a particular topic. The tool is expected to alleviate provider concerns about explaining their query multiple times to different staff and help improve the accuracy and consistency of the information and support provided.

### ***PROGRAMME EVALUATIONS AND COST BENEFIT STUDIES***

In 2011/12, three evaluations were completed: ACE in schools, Pasifika Trades Training Initiative (Phase One); and Youth Guarantee (Phase Two). Two research projects regarding response and recovery factors relevant to Canterbury tertiary organisations following the Canterbury earthquakes were also completed.



## OWNERSHIP MONITORING OF TERTIARY EDUCATION INSTITUTIONS

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

### OUTPUT COST

	<b>Forecast for the year ended 30 June 2012 \$000</b>	<b>Actual for the year ended 30 June 2012 \$000</b>
Appropriation revenue as per SOI	2,567	2,567
Interest revenue	30	51
<b>Total revenue</b>	<b>2,597</b>	<b>2,618</b>
Total expenses	2,597	2,377
<b>Surplus/(deficit)</b>	<b>0</b>	<b>241</b>

<b>Output measure</b>	<b>2011/12 Target</b>	<b>2011/12 Actual</b>
Minister is satisfied with advice on Council appointments (scale 1 to 6) <sup>12</sup>	5 or better	4
Minister is satisfied with advice on intervention options <sup>12</sup>	5 or better	<b>Not applicable</b> No advice was provided on intervention options in 2011/12.
Minister is satisfied with advice on monitoring of tertiary education institutions' performance <sup>12</sup>	5 or better	4
Minister is satisfied with advice on TEI merger support options <sup>12</sup>	5 or better	<b>Not applicable</b> No advice was provided on TEI merger support options in 2011/12.

<sup>12</sup> Scale: 1=poor quality, 2=less than adequate, 3=just adequate, 4=adequate, 5=good, 6=very high quality.



## TERTIARY EDUCATION AND TRAINING ADVICE

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

### OUTPUT COST

	<b>Forecast for the year ended 30 June 2012 \$000</b>	<b>Actual for the year ended 30 June 2012 \$000</b>
Appropriation revenue as per SOI	3,837	3,837
Interest revenue	45	34
<b>Total revenue</b>	<b>3,882</b>	<b>3,871</b>
Total expenses	3,882	3,359
<b>Surplus/(deficit)</b>	<b>0</b>	<b>512</b>

<b>Output measure</b>	<b>2011/12 Target</b>	<b>2011/12 Actual</b>	<b>Variance/comments</b>
Number of Ministerial-related items provided to the Office of the Minister for Tertiary Education	1,150	743	See comment below.
Minister is satisfied with advice on the tertiary sector and tertiary education and training issues (scale 1 to 6. See footnote 12)	5 or better	3	

### MINISTERIAL-RELATED ITEMS

The 2011/12 actual number of Ministerial-related items provided to the Office of the Minister for Tertiary Education, Skills and Employment was short of the target due to:

- the Ministry of Education taking a greater lead in the area of preparing ministerial items for the Minister in their role as tertiary policy lead; and
- the lower number of ministerial replies drafted by the TEC on behalf of the Minister.



## FUNDING PROVIDED BY THE TEC FOR TERTIARY EDUCATION ORGANISATIONS TO DELIVER TEACHING AND LEARNING

### TERTIARY EDUCATION: STUDENT ACHIEVEMENT COMPONENT (SAC)

The 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 TEOs 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 Investment Plan, is based on the SAC funding categories.
- The volume element, which relates to the number of valid enrolments in those programmes or courses.

Youth Guarantee (part of SAC in 2011) 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 NZQF in tertiary education.
- Improve transitions between school, tertiary education and work.

#### *OUTPUT COST*

	<b>Forecast for the year ended 30 June 2012 \$000</b>	<b>Actual for the year ended 30 June 2012 \$000</b>
Appropriation revenue as per SOI	2,006,443	-
Agreed variations approved as part of Baseline updates	5,418	-
<b>Total revenue</b>	<b>2,011,861</b>	<b>2,008,991</b>
Total expenses	2,011,861	2,004,622
<b>Surplus/(deficit)</b>	<b>0</b>	<b>4,369</b>



Output Measure	2011 Actual				Comment
	Delivered	Funded Target 2011 (+/-3%)	Funded (Estimate) <sup>13</sup>	2011 Variance to Target	
<b>Number of Domestic Equivalent Full-Time Students (EFTS) by subsector</b>					
Universities	117,932	119,613	119,404	-0.2%	Achieved within tolerance
Institutes of Technology and Polytechnics	65,256	66,842	66,704	-0.2%	Achieved within tolerance
Wānanga	24,528	24,647	24,874	0.9%	Achieved within tolerance
Private Training Establishments	28,530	24,448	24,069	-1.6%	Achieved within tolerance
<b>Total Student Achievement Component</b>	<b>236,246</b>	<b>235,550</b>	<b>235,051</b>	<b>-0.2%</b>	Achieved within tolerance
Youth Guarantee	2,290	2,682	2,343	-12.6%	Not achieved
Youth Training	3,998	5,222	3,998	-23.4%	Refer to section; Training for Designated Groups
<b>Total Youth Guarantee and Youth Training</b>	<b>6,288</b>	<b>7,904</b>	<b>6,341</b>	<b>-19.8%</b>	
<b>Grand Total</b>	<b>242,534</b>	<b>243,454</b>	<b>241,392</b>	<b>-0.8%</b>	
Number of EFTS at level 1 - 3 on the New Zealand Qualifications Framework with embedded literacy and numeracy (ITPs & wānanga)	18,999	20,200	18,999	-5.9%	Achieved. The target represents 60% of all L1-3 EFTS; actual achievement was 89%.

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

The following indicators are standard measures of educational performance and the TEC uses 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.

The 2011, actual funded EFTS are based on the data submitted by the TEOs in their December 2011 single data return (SDR).

The table above reports on the 2011 actual funded EFTS (refer to footnote 13). The number of EFTS that were delivered can be lower or higher than those funded due to the 3% delivery tolerance for which funding is not recovered and agreed levels of over-delivery (which is not funded). For 2011, further funding recovery exemptions were granted due to the impact of the Canterbury earthquakes.

Youth Guarantee was a new initiative in 2010. In 2011, funded EFTS were 369 (19%) above the 2010 actuals. The actual growth compares with a 34% increase in the target between the years. Over half of the targeted growth was achieved.

<sup>13</sup> Funded EFTS are always an "estimate" as they are a proportion of the total EFTS delivered; some of which are not funded due to funding caps.

Output Measure	2012 Forecast				Progress
	Target (Funded) (+/- 3%)	Total Forecast Delivery (April 2012 data)	Variance to Target	Funded (Estimate) - From TEO Plans	
<b>Number of Domestic Equivalent Full-Time Students EFTS by sub-sector</b>					
Universities	118,638	119,066	0.4%	118,543	On target
Institutes of Technology and Polytechnics	66,284	69,493	4.8%	67,197	On target – see below
Wānanga	24,676	24,827	0.6%	24,555	On target
Private Training Establishments	25,241	28,138	11.5%	24,779	On target – see below
<b>Total Student Achievement Component</b>	<b>234,839</b>	<b>241,525</b>	<b>2.8%</b>	<b>235,074</b>	
Youth Guarantee	7,500	7,349	-2.0%	7,349	Mid-year re-allocation process is underway
<b>Total Youth Guarantee</b>	<b>7,500</b>	<b>7,349</b>	<b>-2.0%</b>	<b>7,349</b>	
<b>Grand Total</b>	<b>242,339</b>	<b>248,874</b>	<b>2.7%</b>	<b>242,423</b>	
Number of EFTS at level 1 - 3 on the New Zealand Qualifications Framework with embedded literacy and numeracy (ITPs & wānanga)	26,500	16,734	-36.9%	32,529	April 2012 data represents the year to date, not the forecast for the full year

The 2012 forecast delivery is based on the data submitted by the TEOs in their April 2012 single data return (SDR).

The targets for the ITPs and the PTEs were set before the provision of additional funding under the Skills for Canterbury initiatives. The reported variance to target therefore overstates the variance compared to approved allocations.

### **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	2011 Target	2011 Actual
<b>Qualification Level</b>	<b>%</b>	<b>%</b>
Levels 1-3 (certificates)	20	17 <sup>14</sup>
Levels 4 (certificates)	10	12
Levels 5-7 (diploma)	13	12
Level 7 (degree/graduate diploma)	45	47
Levels 8-9 (postgraduate)	9	9
Level 10 (doctorate)	2	2
<b>Total percentage</b>	<b>100%</b>	<b>100%</b>

<sup>14</sup> This target is achieved as the measures are to achieve 20% or less level 1-3 (certificates) and 8% or less EFTS who are aged 16-25 achieving at levels 1-3.



### ***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.

<b>Output measure</b>	<b>2011 Target</b>	<b>2011 Actual</b>	<b>Variance/comments</b>
<b>Proportion of all EFTS who are Māori aged 16 to 25 years</b>	%	%	
Levels 1-3	6	6	<b>Achieved</b> The actual proportion of levels 1-3 EFTS who are Māori aged 16 to 25 years was equal to the target.
Levels 4 and over	14	14	<b>Achieved</b> The actual proportion of levels 4 and over EFTS who are Māori aged 16 to 25 years was equal to the target.

### ***PARTICIPATION: PASIFIKA LEARNERS AND LEVEL OF STUDY***

Pasifika people's 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, Pasifika people remain under-represented at levels 4 and above, relative to their proportion of the population.

<b>Output measure</b>	<b>2011 Target</b>	<b>2011 Actual</b>	<b>Variance/comments</b>
<b>Proportion of all EFTS who are Pasifika aged 16 to 25 years</b>	%	%	
Levels 1-3	2	2	<b>Achieved</b> The actual proportion of levels 1-3 EFTS who are Pasifika aged 16 to 25 years was equal to the target.
Levels 4 and over	6	6	<b>Achieved</b> The actual proportion of levels 4 and above EFTS who are Pasifika aged 16 to 25 years was equal to the target.



## ***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.

<b>Output measure</b>	<b>2011 Target</b>	<b>2011 Actual</b>	<b>Variance/comments</b>
<b>Proportion of EFTS who are aged 16 to 25 years by level</b>	<b>%</b>	<b>%</b>	
Levels 1-3	8	7 <sup>14</sup>	<b>Achieved</b> The actual proportion of levels 1-3 EFTS who are aged 16 to 25 years exceeded the target of 8% by 1% as this target is a maximum.
Levels 4 and over	49	51	<b>Achieved</b> The actual proportion of levels 4 and over EFTS who are aged 16 to 25 years was 2% above the target.

## ***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 TEOs' success in ensuring learners are well matched to the courses in which they enrol and in teaching and supporting learners to succeed.

<b>Output measure</b>	<b>2011 Target</b>	<b>2011 Actual</b>	<b>Variance/comments</b>
Māori learners enrolled at level 4 and above	71%	77%	<b>Achieved</b> The actual course completion rate for Māori learners enrolled at level 4 and above was 6% above the target.
Pasifika learners enrolled at level 4 and above	66%	73%	<b>Achieved</b> The actual course completion rate for Pasifika learners enrolled at level 4 and above was 7% above the target.
Young people aged under 25 enrolled at level 4 and above	82%	84%	<b>Achieved</b> The actual course completion rate for young people under 25 enrolled at level 4 and above was 2% above the target.
All learners enrolled at level 4 and above	81%	84%	<b>Achieved</b> The actual course completion rate for all learners enrolled at level 4 and above was 3% above the target.



## 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	2011 Target	2011 Actual	Variance/comments
Māori learners enrolled at level 4 and above	56%	59%	<b>Achieved</b> The actual qualification completion rate for Māori learners enrolled at level 4 and above was 3% above the target.
Pasifika learners enrolled at level 4 and above	54%	58%	<b>Achieved</b> The actual qualification completion rate for Pasifika learners enrolled at level 4 and above was 4% above the target.
Young people aged under 25 enrolled at level 4 and above	64%	66%	<b>Achieved</b> The actual qualification completion rate for young people aged under 25 enrolled at level 4 and above was 2% above the target.
All learners enrolled at level 4 and above	67%	72%	<b>Achieved</b> The actual qualification completion rate for all learners enrolled at level 4 and above was 5% above the target.

## 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	2011 Target	2011 Actual	Variance/comments
Progression to higher level study in the following year for all learners studying at levels 1–3 in the stated year	35%	32%	<b>Not Achieved</b> Learners who are successful at this level tend to move into employment rather than progressing to further study.



## TRAINING FOR DESIGNATED GROUPS

We fund TEOs 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 (which was merged into Youth Guarantee from 2012) enabled learners under the age of 18 with low qualifications and who were 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*

	<b>Forecast for the year ended 30 June 2012 \$000</b>	<b>Actual for the year ended 30 June 2012 \$000</b>
Appropriation revenue as per SOI	297,358	-
Agreed variations approved as part of Baseline updates	(23,194)	-
<b>Total revenue</b>	<b>274,164</b>	<b>260,872</b>
Total expenses	274,164	237,792
<b>Surplus/(deficit)</b>	<b>0</b>	<b>23,080</b>

Output measure	2011 Target	2011 Actual	Variance/comments
Number of standard training measures (STMs) funded (Industry training and Modern Apprenticeships)	54,191	45,616	<b>Not Achieved</b> The falling number of STMs reflects decisions to remove funding from low value provision in the industry training sector.
<b>Industry Training</b>			
Proportion of trainees enrolled at ITOs who are Māori L4+	7%	Not available	See comment below.
Proportion of trainees enrolled at ITOs who are Pasifika L4+	2%		
Proportion of trainees enrolled at ITOs who are <25 L4+	17%		
Total trainees (placements)	181,772		
Credit achievement rate (all trainees)	57%		
Average number of NZQF credits achieved per industry trainee	20		
Programme completion rate (all trainees)	60%		
Number of STMs at level 1-3 with embedded literacy and numeracy.	9,000		
<b>Modern Apprenticeships</b>			
Total trainees	12,421	Not available	See comment below.
Credit weighted programme completions	55%	available	
<b>Youth Training (merged with Youth Guarantee from 2012)</b>			
Total trainees	5,222	3,998	<b>Not Achieved</b> See comment below.
Average number of NZQF credits achieved per youth trainee	20	21	<b>Achieved</b> The actual number of NZQF credits achieved per youth trainee was 1 above forecast.
Percentage of trainees moving on to further education or employment within two months of leaving Youth Training	60%	66%	<b>Achieved</b> The actual percentage of trainees moving on to further education or employment within two months of leaving Youth Training was 6% above forecast.
<b>Gateway</b>			
Total participants	12,200	12,632	<b>Achieved</b> The actual number of Gateway participants was 432 above forecast.
Average number of NZQF credits achieved per Gateway participant	10	17	<b>Achieved</b> The actual number of NZQF credits achieved per Gateway participant was 7 above forecast.



## **INDUSTRY TRAINING AND MODERN APPRENTICESHIP PERFORMANCE DATA**

The ITO and Modern Apprenticeship performance data for 2011 was not finalised in time to be included in this Annual Report.

2011 was a transition year from the Industry Liaison Unit data collection to the new Industry Training Register. As a result, additional time and manual effort was required to assist ITOs to submit and finalise their data.

ITO Educational Performance Information will be published by the end of 2012 on the TEC website.

## **YOUTH TRAINING AND YOUTH GUARANTEE**

Recruitment of young people into Youth Training programmes during 2011 was difficult, resulting in lower than anticipated enrolment numbers. Youth Training was incorporated into the wider Youth Guarantee programme from 2012.

Due to under delivery in Youth Training in 2011, the TEC has under-allocated Youth Training by an anticipated \$4 million in 2012. This underspend in Youth Training was used to offset any over allocation in the Youth Guarantee within the 2011/12 financial year, which from 2012 is administered from the same appropriation.

The 2012 calendar year data for this new Youth Guarantee programme will be reported on in the TEC's 2012/13 financial year quarterly and annual reports.

## **ADULT AND COMMUNITY EDUCATION**

We provide funding to schools, community organisations and TEIs 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**

	<b>Forecast for the year ended 30 June 2012 \$000</b>	<b>Actual for the year ended 30 June 2012 \$000</b>
Appropriation revenue as per SOI	64,442	-
Agreed variations approved as part of Baseline updates	700	-
<b>Total revenue</b>	<b>65,142</b>	<b>63,220</b>
Total expenses	65,142	62,392
<b>Surplus/(deficit)</b>	<b>0</b>	<b>828</b>



Output measure	2011 Target	2011 Actual	Variance/comments
<b>School based adult and community education</b>			
Participation by learners in school-based programmes	24,000	25,418	<b>Achieved</b> The actual number of learners in school based programmes was 1,418 above target.
Percentage of learners from the priority groups identified in the Tertiary Education Strategy (Māori, Pasifika, second chance learners, learners with English language needs, learners with no formal qualification)	50%	22% of learners were identified as Māori/Pasifika 40% of learners enrolled were identified as learners with English language needs 46% of enrolled learners identified as having no formal qualifications	Information collected from school based adult and community education learners indicates that Tertiary Education Strategy priority groups are represented.
Percentage of funding allocated in line with ACE priorities	100%	100%	<b>Achieved</b> All funding was allocated in line with ACE priorities.
<b>Literacy and Numeracy</b>			
Intensive Literacy and Numeracy - total number of learners	5,240	5,742	<b>Achieved</b> The actual number of intensive literacy and numeracy learners was 502 above target.
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	Information not available until 2014.
Workplace Literacy Fund - total number of learners	6,165	6,256	<b>Achieved</b> The actual number of workplace literacy fund learners was 91 above target.
Workplace Literacy Fund - learners who complete programme	80%	49%	<b>Not Achieved</b> See comment below.

### **WORKPLACE LITERACY FUND**

The low percentage reflects the difficulty of getting learners to complete the programme. The TEC is working with providers to improve this result. Future funding will be directed to the best performing providers.



## TERTIARY SCHOLARSHIPS AND AWARDS

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

	<b>Forecast for the year ended 30 June 2012 \$000</b>	<b>Actual for the year ended 30 June 2012 \$000</b>
Appropriation revenue as per SOI	12,915	-
Agreed variations approved as part of Baseline updates	(836)	-
<b>Total revenue</b>	<b>12,079</b>	<b>12,052</b>
Total expenses	12,079	11,310
<b>Surplus/(deficit)</b>	<b>0</b>	<b>742</b>

Output measure	2011 Forecast	2011 Actual	Variance/comments
Average number of medical intern places funded	351	344	<b>Not Achieved</b> The forecast number comparative to the actual is minor (2% difference) and is dictated by student decision making.
Average number of other scholarship places funded	314	224	No new Top Achiever Doctoral Scholarships or Enterprise Scholarships were awarded in 2011/12. These schemes were disestablished in 2009. Existing scholarships are being honoured with most completing in 2012.

## TERTIARY EDUCATION GRANTS AND OTHER FUNDING

We provide contestable funding to TEOs. 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 TEOs (including equity funding, literacy and numeracy capability building projects).

### OUTPUT COST

	<b>Forecast for the year ended 30 June 2012 \$000</b>	<b>Actual for the year ended 30 June 2012 \$000</b>
Appropriation revenue as per SOI	32,823	-
Agreed variations approved as part of Baseline updates	2,755	-
<b>Total revenue</b>	<b>35,578</b>	<b>35,472</b>
Total expenses	35,578	34,332
<b>Surplus/(deficit)</b>	<b>0</b>	<b>1,140</b>

<b>Output measure</b>	<b>2011 Forecast</b>	<b>2011 Actual</b>	<b>Variance/comments</b>
Agreements are consistent with need and purpose of fund	100%	100%	<b>Achieved</b> All agreements are consistent with the need and purpose of the fund.
Clear objectives and measures for the use of funding agreed in Plans (or other mechanisms such as funding agreements) for tertiary education organisations	100%	100%	<b>Achieved</b> All plans contain clear objectives and measures for the use of funding.



## TERTIARY EDUCATION INSTITUTION MERGER SUPPORT

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

### OUTPUT COST

	Forecast for the year ended 30 June 2012 \$000	Actual for the year ended 30 June 2012 \$000
Appropriation revenue as per SOI	2,500	-
Agreed variations approved as part of Baseline updates	(1,500)	-
<b>Total revenue</b>	<b>1,000</b>	<b>0</b>
Total expenses	1,000	0
<b>Surplus/(deficit)</b>	<b>0</b>	<b>0</b>

Output measure	2011 Forecast	2011 Actual	Variance/comments
Merger milestones are met according to funding agreements	100%	100%	<p><b>Achieved</b></p> <p>All milestones in the merger agreement between the Eastern Institute of Technology and Tairāwhiti Polytechnic were met.</p>



## 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

	<b>Forecast for the year ended 30 June 2012 \$000</b>	<b>Actual for the year ended 30 June 2012 \$000</b>
Appropriation revenue as per SOI	1,000	-
Agreed variations approved as part of Baseline updates	(1,000)	-
<b>Total revenue</b>	<b>0</b>	<b>0</b>
Total expenses	0	0
<b>Surplus/(deficit)</b>	<b>0</b>	<b>0</b>

<b>Output measure</b>	<b>2011 Forecast</b>	<b>2011 Actual</b>	<b>Variance/comments</b>
Project milestones are met according to funding agreement	100%	100%	<b>Achieved</b> Stage 2 contractual key performance indicators were met in 2011.
Funding agreement monitored and action taken as required	100%	100%	<b>Achieved</b> The drawdown of the second tranche of funding was requested and approved.



## FOUNDATION-FOCUSSED TRAINING OPPORTUNITIES (VOTE SOCIAL DEVELOPMENT)

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

### OUTPUT COST

	<b>Forecast for the year ended 30 June 2012 \$000</b>	<b>Actual for the year ended 30 June 2012 \$000</b>
<b>Revenue</b>		
Operations	6,661	6,661
Distributions	46,784	46,784
Agreed variations to Service Level Agreement	1,070	1,070
<b>Total Revenue</b>	<b>54,515</b>	<b>54,515</b>
<b>Expenses</b>		
Operations	6,661	2,100
Distributions	47,854	46,515
<b>Total Expenses</b>	<b>54,515</b>	<b>48,615</b>
<b>Surplus/(deficit)</b>	<b>0</b>	<b>5,900</b>





Output measure	2011/12 Target	2011/12 Actual	Variance/comments
Percentage of learners who complete their course of study (minimum 14 weeks training)	80%	58%	<b>Not Achieved</b> This figure does not include learners who were still completing their course, or completed their course of study within the 14 weeks.
Percentage of learners who achieve employment outcomes commensurate with their benefit type and aligned job seeking obligations, within 91 days of completion of training	38%	41% <sup>15</sup>	See comment below.
Percentage of learners who move off benefit and progress into further training or education and NZQF level 2 and above, within 91 days of completion of training	26%	24% <sup>15</sup>	

As 2011/12 was the first year where data regarding learner outcomes was collected and reported, the Ministry of Social Development referral system and the system which TEC has used to collect enrolment information was still not fully integrated. Therefore, it has not been possible to collect and verify individuals' benefit details at enrolment.

The employment outcomes figures above include data for all learners, but the data does not reflect whether it is commensurate with participants benefit type or whether it is aligned to their job seeking obligations.

Also, it has not been possible for the TEC to identify whether FFTO participants have moved off the benefit when they moved on to further training or education.

The TEC is working with Ministry of Social Development to allow for this information to be produced for 2012/13.

<sup>15</sup> For the period 01 April 2011 to 30 March 2012 that is building in a 3 month lag.

## ENGLISH FOR MIGRANTS

Immigration New Zealand commissions the TEC to administer the English for Migrants (EfM) 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 2012 \$000	Actual for the year ended 30 June 2012 \$000
<b>Revenue</b>		
Operations	150	308
Interest	0	212
Distributions	800	933
<b>Total Revenue</b>	<b>950</b>	<b>1,453</b>
<b>Expenses</b>		
Operations	150	520
Distributions	800	933
<b>Total Expenses</b>	<b>950</b>	<b>1,453</b>
<b>Surplus/(deficit)</b>	<b>0</b>	<b>0</b>

Output measure	2011 Forecast	2011 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	See comment below.

The TEC conducts assessments on EfM providers twice a year. The mid-year performance assessments were completed in July 2011 and the end of year assessments and evaluations were completed in December 2011. Sixty three out of 66 providers were assessed. Three providers withdrew from offering EfM provision. Sixty three providers were re-contracted for 2012.



## FUNDING PROVIDED BY THE TEC FOR TERTIARY EDUCATION ORGANISATIONS TO DELIVER RESEARCH

### PERFORMANCE-BASED RESEARCH FUND

The TEC funds TEOs for excellent research and research-based teaching, based on measured research quality.

The primary purpose of the Performance-Based Research Fund 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 Performance-Based Research Fund model has three elements:

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

### OUTPUT COST

	<b>Forecast for the year ended 30 June 2012 \$000</b>	<b>Actual for the year ended 30 June 2012 \$000</b>
Appropriation revenue as per SOI	250,000	-
Agreed variations approved as part of Baseline updates	-	-
<b>Total revenue</b>	<b>250,000</b>	<b>250,000</b>
Total expenses	250,000	250,000
<b>Surplus/(deficit)</b>	<b>0</b>	<b>0</b>

<b>Output measure</b>	<b>2011 Forecast</b>	<b>2011 Actual</b>	<b>Variance/comments</b>
Research degree completions (measured by PBRF eligible research degree completions)	3,200	3,560	<b>Achieved</b> Data as reported by providers at the April 2012 Standard Data Return. <sup>16</sup>
Percentage increase in amount of external income for PBRF eligible providers	4%	1.7%	<b>Not Achieved</b> This may be due to the downturn in the economy.

<sup>16</sup> This data will not be fully reviewed and confirmed by TEOs or the TEC until the August 2012 SDR and previous experience suggests the number of research degree completions declared is likely to reduce.



## 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

	<b>Forecast for the year ended 30 June 2012 \$000</b>	<b>Actual for the year ended 30 June 2012 \$000</b>
Appropriation revenue as per SOI	33,716	-
Agreed variations approved as part of Baseline updates	-	-
<b>Total revenue</b>	<b>33,716</b>	<b>33,716</b>
Total expenses	33,716	33,716
<b>Surplus/(deficit)</b>	<b>0</b>	<b>0</b>

<b>Output measure</b>	<b>2011 Forecast</b>	<b>2011 Actual</b>	<b>Variance/comments</b>
The Annual Reports of each Centre of Research Excellence covering agreed reporting areas are approved by the TEC by March of each year	100%	100%	<b>Achieved</b> All Centre of Research Excellence reports covered the agreed areas.
Centres of Research Excellence demonstrate collaborative research creating significant levels of knowledge transfer (as measures by qualitative review of Centres of Excellence Annual Reports)	100%	100%	<b>Achieved</b> All Centre of Research Excellence reports demonstrate collaborative research.

There are currently seven Centres of Research Excellence funded through this appropriation:

- *The Allan Wilson Centre* focusing on molecular ecology and evolution.
- *Bio-Protection Research Centre* focusing on finding new, non-pesticide and sustainable solutions to protect New Zealand's plant-based, productive ecosystems from plant pests, pathogens and weeds.
- *The MacDiarmid Institute* focusing on advanced material and nanotechnology.
- *Maurice Wilkins Centre* focusing on molecular bio-discovery.
- *National Research Centre for Growth and Development* focusing on the biology of mammalian development and seeks to reveal how events during pregnancy and childhood influence the health of the individual throughout life.
- *Ngā Pae o te Māramatanga* focusing on the transformation of New Zealand society so that Māori participate fully in all aspects of society and the economy.
- *Riddet Institute Food/Innovation/Health* - focusing on fundamental research that will underpin the next generation of innovative foods targeting health and wellness.



# FINANCIAL INFORMATION

The background of the page features a complex, abstract geometric pattern. It consists of numerous overlapping, semi-transparent lines in various shades of green and yellow, creating a sense of depth and movement. The lines intersect to form a variety of shapes, including triangles, quadrilaterals, and larger, irregular polygons. The overall effect is a modern, architectural aesthetic that complements the clean, sans-serif typography of the title.

## STATEMENT OF COMPREHENSIVE INCOME

### FOR THE YEAR ENDED 30 JUNE 2012

	Notes	2012 Actual \$000	2012 Budget \$000	2011 Actual \$000
<b>REVENUE</b>				
<b>Operating Revenue:</b>				
TEC Funding - Ministry of Education (MoE)		42,207	42,207	43,084
TEC Funding - Ministry of Social Development (MSD)		6,661	6,660	6,661
TEC Funding - Immigration New Zealand (INZ)		308	150	223
Gain on Sale of Property, Plant and Equipment		-	-	8
<b>Total Operating Revenue</b>		<b>49,176</b>	<b>49,017</b>	<b>49,976</b>
<b>Grants Revenue:</b>				
Grants Revenue - MoE		3,062,163	3,104,440	3,068,506
Grants Revenue - MSD		47,854	46,784	68,818
Grants Revenue - INZ		933	800	880
<b>Total Grants Revenue</b>		<b>3,110,950</b>	<b>3,152,024</b>	<b>3,138,204</b>
<b>Finance Revenue:</b>				
Interest Income on Bank Deposits - Operating		774	490	875
<b>Total Finance Revenue</b>		<b>774</b>	<b>490</b>	<b>875</b>
<b>TOTAL REVENUE</b>		<b>3,160,900</b>	<b>3,201,531</b>	<b>3,189,055</b>
<b>EXPENSES</b>				
<b>Operating Expenses:</b>				
Personnel	2	25,101	25,801	26,486
Operating	3	18,240	20,178	22,730
Depreciation	4	1,374	1,594	1,791
Amortisation	5	3,866	3,847	3,437
<b>Total Operating Expenses</b>		<b>48,581</b>	<b>51,420</b>	<b>54,444</b>
<b>Grants Expenses:</b>				
Grants Disbursed and Accrued - MoE		3,027,592	3,104,440	3,058,368
Grants Disbursed and Accrued - MSD		46,515	46,784	68,818
Grants Disbursed and Accrued - INZ		933	800	880
<b>Total Grants Expenses</b>		<b>3,075,040</b>	<b>3,152,024</b>	<b>3,128,066</b>
<b>TOTAL EXPENSES</b>		<b>3,123,621</b>	<b>3,203,444</b>	<b>3,182,510</b>

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	Notes	2012 Actual \$000	2012 Budget \$000	2011 Actual \$000
<b>Operating Surplus/(Deficit)</b>				
Operating Surplus/(Deficit)		595	(2,403)	(4,468)
Grants Surplus		35,910	-	10,138
Finance Income Surplus		774	490	875
<b>Total Operating Surplus</b>		<b>37,279</b>	<b>(1,913)</b>	<b>6,545</b>
<b>Other Comprehensive Income:</b>				
Other Comprehensive Income		-	-	-
<b>Total Comprehensive Income for the Year</b>		<b>37,279</b>	<b>(1,913)</b>	<b>6,545</b>

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 2012

	Notes	2012 Actual \$000	2012 Budget \$000	2011 Actual \$000
<b>Equity at the Start of the Year</b>		20,316	20,250	23,909
Accrual for Repayment of Grants Surplus	6	(35,910)	-	(10,138)
Total Comprehensive Income		37,279	(1,913)	6,545
<b>Equity at the End of the Year</b>		<b>21,685</b>	<b>18,337</b>	<b>20,316</b>

The accompanying notes form part of these financial statements.



## STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2012

	Notes	2012 Actual \$000	2012 Budget \$000	2011 Actual \$000
<b>CURRENT ASSETS</b>				
Cash and Cash Equivalents	7	43,961	88,385	55,229
GST Receivable		569	-	-
Prepayments		444	-	428
Debtors and Other Receivables	8	26,540	10,400	4,221
<b>Total Current Assets</b>		<b>71,514</b>	<b>98,785</b>	<b>59,878</b>
<b>NON-CURRENT ASSETS</b>				
Property, Plant and Equipment	9	2,836	4,693	3,210
Intangible Assets (Software)	10	12,260	13,953	12,377
<b>Total Non-Current Assets</b>		<b>15,096</b>	<b>18,646</b>	<b>15,587</b>
<b>Total Assets</b>		<b>86,610</b>	<b>117,431</b>	<b>75,465</b>
<b>CURRENT LIABILITIES</b>				
Creditors and Other Payables	11	17,492	85,654	31,539
GST Payable		-	320	1,526
Employee Entitlements	12	1,897	1,400	1,735
English for Migrants - Revenue in Advance		1,020	2,420	1,181
Provision for Rent on Surplus Property	13	265	-	135
Repayment Accruals	6	37,189	3,500	12,468
<b>Total Current Liabilities</b>		<b>57,863</b>	<b>93,294</b>	<b>48,584</b>
<b>NON-CURRENT LIABILITIES</b>				
English for Migrants - Revenue in Advance		6,501	5,000	6,091
Employee Entitlements	12	561	800	474
<b>Total Non-Current Liabilities</b>		<b>7,062</b>	<b>5,800</b>	<b>6,565</b>
<b>Total Liabilities</b>		<b>64,925</b>	<b>99,094</b>	<b>55,149</b>
<b>Net Assets</b>		<b>21,685</b>	<b>18,337</b>	<b>20,316</b>
<b>EQUITY</b>				
General Funds		21,685	18,337	20,316
<b>Total Equity</b>		<b>21,685</b>	<b>18,337</b>	<b>20,316</b>

The accompanying notes form part of these financial statements.



## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2012

	Notes	2012 Actual \$000	2012 Budget \$000	2011 Actual \$000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash was provided from:				
- Operating MoE		42,207	42,207	43,084
- Operating MSD		6,661	6,660	6,661
- Operating INZ		308	150	223
- Grants MoE		3,062,163	3,104,440	3,068,506
- Grants MSD		47,854	46,784	71,124
- Grants INZ		933	800	880
Interest Earned for Grants		1,026	3,500	2,057
		3,161,152	3,204,541	3,192,535
Cash was applied to:				
- Grants Payments		3,108,924	3,152,024	3,171,212
- Payments to Employees		24,478	20,803	26,761
- Other Operating Payments		13,461	22,139	21,748
- Capital Charge		1,679	1,538	1,793
- GST - Net		4,955	-	1,554
		3,153,497	3,196,504	3,223,068
<b>Net Cash flows from Operating Activities</b>	<b>14</b>	<b>7,655</b>	<b>8,037</b>	<b>(30,533)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Cash was provided from:				
Sale of Property, Plant and Equipment		-	-	8
Interest Income on Bank Deposits - Operating		774	490	875
		774	490	883
Cash was applied to:				
Purchase of Property, Plant and Equipment		1,195	2,470	552
Purchase of Intangible Assets (Software)		3,875	8,338	5,382
		5,070	10,808	5,934
<b>Net Cash flows from Investing Activities</b>		<b>(4,296)</b>	<b>(10,318)</b>	<b>(5,051)</b>

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	Notes	2012 Actual \$000	2012 Budget \$000	2011 Actual \$000
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Cash was applied to:				
Repayment to Crown		2,453	-	181
Repayment of Grants Cash Surplus		12,174	3,500	13,757
		14,627	3,500	13,938
<b>Net Cash flows from Financing Activities</b>		<b>(14,627)</b>	<b>(3,500)</b>	<b>(13,938)</b>
Net Decrease in Cash and Cash Equivalents		(11,268)	(5,781)	(49,522)
Cash and Cash Equivalents at the Start of the Year		55,229	94,166	104,751
<b>Cash and Cash Equivalents at the End of the Year</b>		<b>43,961</b>	<b>88,385</b>	<b>55,229</b>

The accompanying notes form part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 1: STATEMENT OF ACCOUNTING POLICIES

### REPORTING ENTITY

The Tertiary Education Commission (TEC) is a Crown entity as defined by the Crown Entities Act 2004 and was established on 1 January 2003 pursuant to section 159C of the Education Act 1989. It is domiciled in New Zealand. The TEC's ultimate parent is the New Zealand Crown.

The TEC's primary objective is to provide services to the New Zealand public, as opposed to that of making a financial return. Accordingly, the TEC has designated itself as a public benefit entity for the purposes of New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).

The financial statements for the TEC are for the year ended 30 June 2012, and were approved by the Board on 7 September 2012.

### BASIS OF PREPARATION

#### STATEMENT OF COMPLIANCE

The financial statements of the TEC have been prepared in accordance with the requirements of the Education Act 1989 and Crown Entities Act 2004, which include the requirement to comply with generally accepted accounting practice in New Zealand (NZ GAAP).

These financial statements have been prepared in accordance with NZ GAAP as appropriate for public benefit entities and they comply with NZ IFRS.

#### BASIS OF MEASUREMENT

The financial statements have been prepared on a historical cost basis.

#### 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.

#### CHANGES IN ACCOUNTING POLICIES

There have been no changes in accounting policies for the financial year.

#### 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 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 2016. However, as a new Accounting Standards Framework will apply before this date, there is no certainty when an equivalent standard to NZ IFRS 9 will be applied by public benefit entities.

The Minister of Commerce has approved a new Accounting Standards Framework (incorporating a Tier Strategy) developed by the External Reporting Board (XRB). Under this Accounting Standards Framework, the TEC is classified as a Tier 1 reporting entity and it will be required to apply full Public Benefit Entity Accounting Standards (PAS). These standards are being developed by the XRB based on current International Public Sector Accounting Standards. The effective date for the new standards for public sector entities is expected to be for reporting periods beginning on or after 1 July 2014. This means the TEC expects to transition to the new standards in preparing its 30 June 2015 financial statements. As the PAS are still under development, the TEC is unable to assess the implications of the new Accounting Standards Framework at this time.



Due to the change in the Accounting Standards Framework for public benefit entities, it is expected that all new NZ IFRS and amendments to existing NZ IFRS will not be applicable to public benefit entities. Therefore, the XRB has effectively frozen the financial reporting requirements for public benefit entities up until the new Accounting Standard Framework is effective. Accordingly, no disclosure has been made about new or amended NZ IFRS that exclude public benefit entities from their scope.

## **SIGNIFICANT ACCOUNTING POLICIES**

### **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.

### **CAPITAL CHARGE**

The capital charge is recognised as an expense in the financial year to which the charge relates.

## **LEASES**

### *OPERATING LEASES*

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset. Lease payments under an operating lease are recognised as an expense on a straight line basis over the lease term.

Lease incentives received are recognised in the surplus or deficit over the lease term as an integral part of the total lease expense.

### **CASH AND CASH EQUIVALENTS**

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

### **DEBTORS AND OTHER RECEIVABLES**

Short-term debtors and other receivables are recorded at their face value, less any provision for impairment.

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, receivership or liquidation, and default in payments are considered indicators that the debt is impaired. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the surplus or deficit. When the receivable is uncollectible, it is written off against the allowance account for receivables. Overdue receivables that have been renegotiated are reclassified as current (that is, not past due).

### **PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment consists of the following asset classes: leasehold improvements, furniture and office equipment, and motor vehicles.



### 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.

Work in progress is recognised at cost less impairment and is not depreciated. In most instances, an item of property, plant and equipment is initially recognised at its cost. Where an asset is acquired at no cost, or for a nominal cost, it is recognised at its fair value as at the date of acquisition.

### 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 reported net in the surplus or deficit.

### 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 surplus or deficit as they are incurred.

### DEPRECIATION

Depreciation is provided on a straight-line basis on all 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. Leasehold improvements are depreciated over the unexpired period of the lease or the estimated remaining useful lives of the improvements, whichever is the shorter.

The useful lives and associated depreciation rates of major classes of property, plant and equipment have been estimated as follows:

<i>Computer equipment</i>	<i>4 years</i>	<i>25% straight line</i>
<i>Office equipment</i>	<i>5 years</i>	<i>20% straight line</i>
<i>Furniture &amp; fittings</i>	<i>10 years</i>	<i>10% straight line</i>
<i>Leasehold improvements</i>	<i>4-10 years</i>	<i>10-25% straight line</i>
<i>Motor vehicles</i>	<i>5 years</i>	<i>20% straight line</i>

The residual value and useful 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 for use and ceases at the date that the asset is derecognised. The amortisation charge for each financial year is recognised in the surplus or deficit.

The useful lives and associated amortisation rates of major classes of intangible assets have been estimated as follows:

<i>Computer software</i>	<i>4 years</i>	<i>25% straight line</i>
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## IMPAIRMENT OF PROPERTY, PLANT AND 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 the 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.

## CREDITORS AND OTHER PAYABLES

Short-term creditors and other payables are recorded at their face value.

## EMPLOYEE ENTITLEMENTS

### SHORT-TERM EMPLOYEE ENTITLEMENTS

Employee benefits that are due to be settled within 12 months after the end of the period in which the employee renders the related service are measured 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, and sick leave.

A liability for sick leave is recognised to the extent that absences in the coming year are expected to be greater than the sick leave entitlements 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 that it will be used by staff to cover those future absences.

A liability and an expense are recognised for at-risk payments where there is a contractual obligation or where there is a past practice that has created a constructive obligation.

### LONG-TERM EMPLOYEE ENTITLEMENTS

Employee benefits that are due to be settled beyond 12 months after the end of period in which the employee renders the related service, such as long service leave and retirement gratuities, 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 entitlement information; and
- the present value of the estimated future cash flows.

### PRESENTATION OF EMPLOYEE ENTITLEMENTS

Sick leave, annual leave, and vested long service leave are classified as a current liability. Non-vested long service leave and retirement gratuities expected to be settled within 12 months of balance date are classified as a current liability. All other employee entitlements are classified as a non-current liability.

## SUPERANNUATION SCHEMES

### DEFINED CONTRIBUTION SCHEMES

Obligations for contributions to KiwiSaver, the Government Superannuation Fund, and the State Sector Retirement Savings Scheme are accounted for as defined contribution superannuation schemes and are recognised as an expense in the surplus or deficit as incurred.

## PROVISIONS

A provision is recognised 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 an outflow of future economic benefits 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 an interest expense and is included in "finance costs".

### GOODS AND SERVICE TAX (GST)

The financial statements are stated exclusive of GST with the exception of Vote Tertiary Education grants revenue and expense, debtors, other receivables, creditors and other payables which are stated with GST included. Where GST is irrecoverable as an input tax, then it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the statement of financial position.

The net GST paid to, or received from the IRD, including the GST relating to investing and financing activities, is classified as a net operating cash flow in the statement of cash flows.

Commitments and contingencies are disclosed exclusive of GST.

### INCOME TAX

The TEC is a public authority and consequently is exempt from the payment of income tax.

### BUDGET FIGURES

The budget figures are derived from the Statement of Intent as approved by the Board at the beginning of the financial year. The budget figures have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted by the Board in preparing these financial statements.

### COST ALLOCATION

The TEC has determined the cost of outputs using the cost allocation system outlined below.

Direct costs are those costs directly attributed to an output. Indirect costs are those costs that cannot be identified in an economically feasible manner with a specific output.

Direct costs are charged directly to significant activities. Indirect costs are allocated to significant activities based on full time equivalents (FTEs) and direct labour hours.

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 2012, indirect costs accounted for 47% (2011: 49%) of the TEC's total costs.

### 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 results. 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.



### *ESTIMATING USEFUL LIVES AND RESIDUAL VALUES OF PROPERTY, PLANT AND EQUIPMENT*

At each balance date, the useful lives and residual values of property, plant and equipment are reviewed. Assessing the appropriateness of useful life and residual value estimates of property, plant and equipment requires a number of factors to be considered 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 affect the depreciation expense recognised in the surplus or deficit, 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;
- review of second hand market prices for similar assets; and
- analysis of prior asset sales.

The TEC has not made significant changes to past assumptions concerning useful lives and residual values.

### *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.

## **CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

Management has exercised the following critical judgements in applying accounting policies:

### *LEASES CLASSIFICATION*

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

Judgement is required on various aspects that include, but are not limited to, the fair value of the leased asset, the economic life of the leased asset, whether or not to include renewal options in the lease term, and determining an appropriate discount rate to calculate the present value of the minimum lease payments.

Classification as a finance lease means the asset is recognised in the statement of financial position as property, plant and equipment, whereas for an operating lease no such asset is recognised. The TEC has exercised its judgement on the appropriate classification of equipment leases, and has determined that none of its lease arrangements are finance leases.

## NOTE 2: PERSONNEL EXPENSES

	Note	2012 Actual \$000	2011 Actual \$000
Salaries	15	18,792	22,428
Contributions to Defined Benefit and Contribution Plans*		101	167
Increase/(Decrease) in Employee Entitlements		70	(216)
Training and Development		231	442
Other Personnel Expenses	15	5,907	3,665
<b>Total Personnel Expenses</b>		<b>25,101</b>	<b>26,486</b>

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

## NOTE 3: OPERATING EXPENSES

	Note	2012 Actual \$000	2011 Actual \$000
Property Rental		1,558	1,524
Motor Vehicles		25	24
Computer Operations		3,979	3,155
Consultants		2,443	3,084
Audit Fees for Financial Statements Audit		179	154
Other Fees Paid to External Auditors - Assurance Services*		16	18
Restructuring		66	2,432
Travel		789	736
Insurance		140	117
Legal Fees		130	155
Capital Charge		1,679	1,793
Managing Third Party Contracts		4,737	7,099
Bank Fees		14	35
Telephone, Tolls and Postage		280	305
Other Supplies and Services		1,509	1,496
Commissioners Fees	17	162	185
PBRF Panel Members Fees		532	158
Loss on Disposal of Fixed Assets		2	260
<b>Total Operating Expenses</b>		<b>18,240</b>	<b>22,730</b>

\* The fees paid to the principal auditor were for review of tender process on the Integrated Provider Management Project and Windows 7/ Office 2010 Migration.



## NOTE 4: DEPRECIATION

	2012 Actual \$000	2011 Actual \$000
Computer Equipment	796	1,104
Office Equipment	60	61
Furniture and Fittings	124	124
Leasehold Improvements	390	502
Motor Vehicles	4	-
<b>Total Depreciation</b>	<b>1,374</b>	<b>1,791</b>

## NOTE 5: AMORTISATION

	2012 Actual \$000	2011 Actual \$000
Intangible Amortisation (Software)	3,866	3,437
<b>Total Amortisation</b>	<b>3,866</b>	<b>3,437</b>

## NOTE 6: REPAYMENT ACCRUALS

	Grants MoE Surplus \$000	Grants MSD Surplus \$000	Operating INZ Surplus \$000	Total \$000
<b>Balance at 30 June 2011</b>	<b>12,174</b>	-	<b>294</b>	<b>12,468</b>
Surplus Repaid During the Period	(12,174)	-	-	(12,174)
Accrual for Repayment of Grants Surplus	34,571	1,339	-	35,910
Interest Earned for Grants	946	79	1	1,026
Prior Period Adjustment	(41)	-	-	(41)
<b>Balance at 30 June 2012</b>	<b>35,476</b>	<b>1,418</b>	<b>295</b>	<b>37,189</b>

## NOTE 7: CASH AND CASH EQUIVALENTS

	2012 Actual \$000	2011 Actual \$000
Cash on Hand	1	1
Cash at Bank	29,960	41,228
Term deposits with maturities less than 3 months	14,000	14,000
<b>Total Cash and Cash Equivalents</b>	<b>43,961</b>	<b>55,229</b>
Weighted Average Effective Interest Rates:		
Short-Term Deposits	3.84%	3.95%

The carrying value of cash at bank and short-term deposits with maturities less than three months approximates their fair value.

## NOTE 8: DEBTORS AND OTHER RECEIVABLES

	Note	2012 Actual \$000	2011 Actual \$000
Tertiary Grants Receivables		30,428	5,172
Other Accounts Receivable		71	132
Provision for Impairment (Doubtful Debts)		(3,959)	(1,083)
<b>Total Debtors and Other Receivables</b>	<b>15</b>	<b>26,540</b>	<b>4,221</b>



Increase in impairment from prior year reflects redoubled efforts at debt collection and increased impairment provisions for Canterbury.

The carrying value of receivables approximates their fair value.

As at 30 June 2012 and 2011, all overdue receivables have been assessed for impairment and appropriate provisions applied as detailed below:

<b>As at 30 June 2012</b>	<b>Gross</b>	<b>Impairment</b>	<b>Net</b>
Not Past Due	25,808	-	25,808
Past Due 1-30 days	25	-	25
Past Due 31-60 days	145	-	145
Past Due 61-90 days	284	-	284
Past Due > 91 days	4,237	(3,959)	278
<b>Total</b>	<b>30,499</b>	<b>(3,959)</b>	<b>26,540</b>

<b>As at 30 June 2011</b>			
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
<b>Total</b>	<b>5,304</b>	<b>(1,083)</b>	<b>4,221</b>

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:

	<b>2012 Actual \$000</b>	<b>2011 Actual \$000</b>
Balance at 1 July	1,083	-
Additional Provision Made During the Year	2,876	1,083
Receivables Written Off During the Year	-	-
<b>Balance at 30 June</b>	<b>3,959</b>	<b>1,083</b>



## NOTE 9: PROPERTY, PLANT, AND EQUIPMENT

Movements for each class of property, plant, and equipment are as follows:

As at 30 June 2012	Balance at 1 July 11 \$000	Additions for the year \$000	Disposals/ Transfers \$000	Balance at 30 June 12 \$000
<b>Cost</b>				
Furniture and Fittings	1,610	-	-	1,610
Office Equipment	718	4	19	703
Computer Equipment	6,833	746	213	7,366
Leasehold Improvements	3,298	144	-	3,442
Motor Vehicles	62	28	-	90
Work in Progress	318	859	779	398
<b>Total Cost</b>	<b>12,839</b>	<b>1,781</b>	<b>1,011</b>	<b>13,609</b>

	Balance at 1 July 11 \$000	Depreciation for the year \$000	Disposals \$000	Balance at 30 June 12 \$000
<b>Accumulated Depreciation</b>				
Furniture and Fittings	1,120	124	-	1,244
Office Equipment	546	60	19	587
Computer Equipment	5,487	796	211	6,072
Leasehold Improvements	2,414	390	-	2,804
Motor Vehicles	62	4	-	66
Work in Progress	-	-	-	-
<b>Total Depreciation</b>	<b>9,629</b>	<b>1,374</b>	<b>230</b>	<b>10,773</b>

	Balance at 1 July 11 \$000	Balance at 30 June 12 \$000
<b>Carrying Amounts</b>		
Furniture and Fittings	490	366
Office Equipment	172	116
Computer Equipment	1,346	1,294
Leasehold Improvements	884	638
Motor Vehicles	-	24
Work in Progress	318	398
<b>Total Carrying Amounts</b>	<b>3,210</b>	<b>2,836</b>



As at 30 June 2011	Balance at 1 July 10 \$000	Additions for the year \$000	Disposals/ Transfers \$000	Balance at 30 June 11 \$000
<b>Cost</b>				
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
<b>Total Cost</b>	<b>12,712</b>	<b>1,599</b>	<b>1,472</b>	<b>12,839</b>

	Balance at 1 July 10 \$000	Depreciation for the year \$000	Disposals \$000	Balance at 30 June 11 \$000
<b>Accumulated Depreciation</b>				
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	-	-	-	-
<b>Total Depreciation</b>	<b>8,396</b>	<b>1,791</b>	<b>558</b>	<b>9,629</b>

	Balance at 1 July 10 \$000	Balance at 30 June 11 \$000
<b>Carrying Amounts</b>		
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
<b>Total Carrying Amounts</b>	<b>4,316</b>	<b>3,210</b>



## NOTE 10: INTANGIBLE ASSETS (SOFTWARE)

Movements for each class of intangible asset are as follows:

As at 30 June 2012	Balance at 1 Jul 11 \$000	Additions \$000	Disposals/ Transfers \$000	Impairment \$000	Balance at 30 Jun 12 \$000
<b>Cost</b>					
Computer Software	18,112	5,901	-	-	24,013
Work in Progress	5,659	3,749	5,901	-	3,507
	<b>23,771</b>	<b>9,650</b>	<b>5,901</b>	<b>-</b>	<b>27,520</b>
	<b>Balance at 1 Jul 11 \$000</b>	<b>Additions \$000</b>	<b>Disposals \$000</b>	<b>Impairment \$000</b>	<b>Balance at 30 Jun 12 \$000</b>
<b>Accumulated Amortisation</b>					
Computer Software	11,394	3,866	-	-	15,260
	<b>11,394</b>	<b>3,866</b>	<b>-</b>	<b>-</b>	<b>15,260</b>
	<b>Balance at 1 Jul 11 \$000</b>				<b>Balance at 30 Jun 12 \$000</b>
<b>Carrying Value</b>					
Computer Software	6,718				8,753
Work in Progress	5,659				3,507
	<b>12,377</b>				<b>12,260</b>



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 2011	Balance at 1 Jul 10 \$000	Additions \$000	Disposals/ Tranfers \$000	Impairment \$000	Balance at 30 Jun 11 \$000
<b>Cost</b>					
Computer Software	19,883	2,352	4,123	-	18,112
Work in Progress	2,458	5,422	2,221	-	5,659
	<b>22,341</b>	<b>7,774</b>	<b>6,344</b>	<b>-</b>	<b>23,771</b>
	<b>Balance at 1 Jul 10 \$000</b>	<b>Additions \$000</b>	<b>Disposals \$000</b>	<b>Impairment \$000</b>	<b>Balance at 30 Jun 11 \$000</b>
<b>Accumulated Amortisation</b>					
Computer Software	11,776	3,437	3,819	-	11,394
	<b>11,776</b>	<b>3,437</b>	<b>3,819</b>	<b>-</b>	<b>11,394</b>
	<b>Balance at 1 Jul 10 \$000</b>				<b>Balance at 30 Jun 11 \$000</b>
<b>Carrying Value</b>					
Computer Software	8,107				6,718
Work in Progress	2,458				5,659
	<b>10,565</b>				<b>12,377</b>



## NOTE 11: CREDITORS AND OTHER PAYABLES

	Year ended 30 June 12 \$000	Year ended 30 June 11 \$000
<b>Grants</b>		
Creditors and Other Payables	1,644	1,645
Accrued Expenses	13,432	25,472
	<b>15,076</b>	<b>27,117</b>
<b>Operations</b>		
Creditors and Other Payables	245	490
Accrued Expenses	2,169	3,932
Withholding Tax Payable	2	-
	<b>2,416</b>	<b>4,422</b>
<b>Total Creditors and Other Payables</b>	<b>17,492</b>	<b>31,539</b>

### 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 12 \$000	Year ended 30 June 11 \$000
<b>Current portion</b>		
Accrued salaries and wages	555	376
Annual leave	1,143	1,151
Sick leave	50	39
Retirement and long service leave	149	169
<b>Total current portion</b>	<b>1,897</b>	<b>1,735</b>
<b>Non-current portion</b>		
Retirement and long service leave	561	474
<b>Total non-current portion</b>	<b>561</b>	<b>474</b>
<b>Total Employee Entitlements</b>	<b>2,458</b>	<b>2,209</b>

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	347	363	710
Salary Growth: 2.0% per year	329	340	669
Salary Growth: 4.0% per year	367	390	757
Resignation Rates: 150% of Assumed	329	359	688
Resignation Rates: 50% of Assumed	368	368	736

## NOTE 13: PROVISION FOR LEASE MAKE GOOD

The balance represents the Provision for Lease Make Good on Auckland and Wellington offices. Movements for the provision are as follows:

	2012 Actual \$000	2011 Actual \$000
Balance at 1 July	135	291
Additional provisions made	130	-
Amount used	-	(156)
<b>Balance at 30 June</b>	<b>265</b>	<b>135</b>



## NOTE 14: RECONCILIATION OF TOTAL COMPREHENSIVE INCOME WITH THE NET CASH FLOWS FROM OPERATING ACTIVITIES

	2012 Actual \$000	2011 Actual \$000
Total Comprehensive Income	37,279	6,545
<b>Add Non-Cash Items:</b>		
Depreciation of Property, Plant and Equipment	1,374	1,791
Amortisation of Intangibles	3,866	3,437
Loss on Disposal of Property, Plant and Equipment	2	260
	42,521	12,033
<b>Add/(Less) Movements in Working Capital Items:</b>		
Debtors and Other Receivables	22,319	(1,695)
GST Payable/(Receivable)	(2,095)	1,554
Creditors and Other Payables	(55,509)	(43,493)
Redirects Payable	2	4
Accrued Salaries and Wages	180	(41)
English for Migrants	(161)	(19)
Prepayment	16	98
Provisions	130	(156)
	(35,118)	(43,748)
<b>Add/(Less) Interest Income:</b>		
Interest Income - Grants	1,026	2,057
Interest Income - Operating	(774)	(875)
<b>Net Cash Flows from Operating Activities</b>	<b>7,655</b>	<b>(30,533)</b>



## NOTE 15: EXPLANATION OF MAJOR VARIANCES AGAINST BUDGET

Explanations for major variances from the TEC's budgeted figures in the Statement of Intent are as follows:

### STATEMENT OF COMPREHENSIVE INCOME

#### GRANTS REVENUE

Grants revenue was less than budgeted by \$41 million to reflect the reduced need for cash drawdown.

#### GRANTS EXPENSES

Grants expenses were less than budgeted by \$77 million in the Training for Designated Groups appropriation. This was due to higher than expected recoveries and under allocations attributable to lowered demand for industry training.

#### OPERATING EXPENSES

Salaries expenses were less than budgeted by \$2.0 million. This was due to recruitment delays to new roles during the year. Contractor expenses were above budget by \$1.6 million. This was because contract resources were used to cover vacancies arising from delayed recruitment.

### STATEMENT OF FINANCIAL POSITION

#### DEBTORS AND OTHER RECEIVABLES

The level of Grants debtors was more than budgeted by \$16 million as more funds became subject to performance based recoveries during the financial year. Prompt calculation of these performance based recoveries enabled earlier recognition of debtors. Since the majority of recoveries were recognised in June the current debtors at 30 June 2012 are greater than prior year.

#### CREDITORS AND OTHER PAYABLES

The level of creditors and other payables were less than budgeted by \$66 million. This reduction has been possible due to improved payment cycle frequencies.

## NOTE 16: RELATED PARTY DISCLOSURE

All related party transactions have been entered into on an arm's length basis.

The TEC is a wholly owned entity of the Crown.

#### SIGNIFICANT TRANSACTIONS WITH GOVERNMENT-RELATED ENTITIES

- The TEC has been provided with funding from the Crown of \$3.2 billion (2011 \$3.2 billion) for specific purposes as set out in its founding legislation and the scope of the relevant government appropriations.
- The Ministry of Education sets policy for the tertiary education sector and is the monitoring ministry for the TEC. Commission Chair Sir Harawira Gardiner is married to the Minister of Education Honourable Hekia Parata. There are no related party transactions for the year ended 30 June 2012. However, his role as Commission Chair requires Sir Harawira Gardiner to participate in decision-making and policy discussions regarding the tertiary education sector.

#### COLLECTIVELY, BUT NOT INDIVIDUALLY, SIGNIFICANT TRANSACTIONS WITH GOVERNMENT-RELATED ENTITIES

In conducting its activities, the TEC is required to pay various taxes and levies (such as GST, FBT, PAYE, and ACC levies) to the Crown. The payment of these taxes and levies, other than income tax, is based on the standard terms and conditions that apply to all tax and levy payers. The TEC is exempt from paying income tax.

The TEC purchases goods and services from entities controlled, significantly influenced, or jointly controlled by the Crown. Purchases from these government related entities for the year ended 30 June 2012 totalled \$0.8 million (2011; \$0.8 million). These purchases include the purchase of electricity from Genesis, air travel from Air New Zealand, and postal services from New Zealand Post.



The following transactions were entered into during the year:

*CURRENT:*

- The TEC contracted with Ngati Awa Tertiary Training Organisation, an organisation in which Commission Chair Sir Harawira Gardiner has a connection as the Chairman of Ngati Awa Group Holdings Limited, for the provision of education, training and other services of \$579,294 (2011: \$643,536). There were no amounts outstanding at year end (2011: \$nil).
- The TEC contracted with Healthcare of New Zealand Limited, an organisation in which Commission Chair Sir Harawira Gardiner is a Director, for the provision of education, training and other services of \$45,354 (2011: \$150,852). The amount outstanding at 30 June 2012 was \$15,118 (2011: \$nil).
- The TEC contracted with Te Aute College Trust Board, an organisation in which the Commission Chair Sir Harawira Gardiner is a member, for the provision of education, training and other services of \$9,584 (2011: \$nil). There were no amounts outstanding at year end (2011: \$nil).
- The TEC contracted with FITEC, an organisation in which Commissioner Ian Boyd is the Chief Executive, for the provision of education, training and other services of \$12,304,101 (2011: \$13,872,312). The amount outstanding at 30 June 2012 was \$42,421 (2011: \$nil).
- The TEC purchased membership subscriptions and training of \$4,725 (2011: \$410) from the Institute of Directors, an organisation in which Commissioner Jim Donovan is a National Council Member. There were no amounts outstanding at year end (2011: \$nil).
- The TEC contracted with Christchurch Polytechnic Institute of Technology, an organisation in which Commissioner Jim Donovan has private partnership opportunities, for the provision of education, training and other services of \$11,818,909 (2011: \$nil). There were no amounts outstanding at year end (2011: \$nil).
- The TEC contracted with Community Colleges New Zealand Limited, an organisation in which Commissioner Anthony Hall is the Council Chair, for the provision of education, training and other services of \$3,839,703 (2011: \$4,131,507). There were no amounts outstanding at year end (2011: \$nil).
- The TEC contracted with Lincoln University, an organisation in which Commissioner Anthony Hall is a Pro Chancellor, for the provision of education, training and other services of \$49,150,576 (2011: \$42,467,207). There were no amounts outstanding at year end (2011: \$43,125).
- The TEC contracted with the Seafood Industry Training Organisation, an organisation in which Commissioner Robin Hapi is a member of the Governance Committee, for the provision of education, training and other services of \$2,243,119 (2011: \$3,111,569). There were no amounts outstanding at year end (2011: \$nil).
- The TEC contracted with Te Wānanga o Raukawa, an organisation in which Commissioner Robin Hapi is Council Chair and Chair of the Paihere Tangata subcommittee, for the provision of education, training and other services of \$3,088,717 (2011: \$16,403,842). There were no amounts outstanding at year end (2011: \$nil).
- The TEC contracted with Te Aute College Trust Board, an organisation in which Commissioner Robin Hapi is Co-Chair, for the provision of education, training and other services of \$9,584 (2011 : \$nil). There were no amounts outstanding at year end (2011: \$nil).
- The TEC contracted AUT University, an organisation in which Commissioner Pauline Winter is the Director of the Office of Pasifika Advancement, for the provision of education, training and other services of \$159,562,151 (2011: \$158,793,059). There were no amounts outstanding at year end (2011: \$714,662).
- The TEC contracted Pasifika Education Centre, an organisation in which Commissioner Pauline Winter has a connection as trustee of the Pacific Peoples Advancement Trust, for the provision of education, training and other services of \$856,397 (2011: \$923,467). There were no amounts outstanding at year end (2011: \$nil).



- The TEC has purchased memberships subscriptions of \$1,725 (2011 : \$nil) from the Institute of Public Administration New Zealand (IPANZ), an organisation in which Commissioner Judith Johnston is the Chair of Public Sector Excellence Awards judging panel. There were no amounts outstanding at year end (2011: \$nil).
- The TEC contracted with Victoria University of Wellington, an organisation in which the Chief Executive Belinda Clark's sister is a Council Member, for the provision of education, training and other services of \$159,648,837 (2011: \$178,563,522). There were no amounts outstanding at year end (2011: \$nil).
- The TEC has purchased advisory services of \$66,075 (2011: \$nil) from GNS Science, an organisation in which the Deputy Chief Executive Colin Webb's brother is an executive manager. There were no amounts outstanding at year end (2011: \$nil).

*PAST:*

- The TEC contracted with Te Wānanga o Aotearoa, an organisation in which past Commissioner Deirdre Dale is a member of Te Mana Whakahaere Council, for the provision of education, training and other services of \$25,634,635 (2011: \$154,382,854). There were no amounts outstanding at year end (2011: \$nil).
- The TEC contracted with Whitireia Performing Arts Trust, an organisation in which past Commissioner Deirdre Dale is Chair, for the provision of education, training and other services of \$30,032 (2011: \$180,235). There were no amounts outstanding at year end (2011: \$nil).



## TOTAL GRANTS EXPENSES RELATING TO 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 12 \$000	Year ended 30 June 11 \$000
<b>Universities</b>		
Auckland University of Technology	158,572	156,550
Lincoln University	47,744	41,917
Massey University	221,161	219,669
The University of Auckland	435,001	431,032
University of Canterbury	167,835	165,380
University of Otago	310,144	302,787
University of Waikato	99,390	98,759
Victoria University of Wellington	182,852	178,564
	1,622,699	1,594,658
<b>Institutes of Technology and Polytechnics</b>		
Aoraki Polytechnic	19,858	21,555
Bay of Plenty Polytechnic	27,378	28,960
Christchurch Polytechnic Institute of Technology	59,709	56,903
Eastern Institute of Technology	40,616	40,495
Manukau Institute of Technology	71,135	67,028
Nelson Marlborough Institute of Technology	24,601	26,887
Northland Polytechnic	30,461	33,414
Open Polytechnic of New Zealand	46,734	48,062
Otago Polytechnic	35,810	35,450
Southern Institute of Technology	33,235	36,156
Tai Poutini Polytechnic	20,537	21,834
Tairāwhiti Polytechnic	258	7,339
Telford Rural Polytechnic	-	6,257
Unitec New Zealand	91,903	92,075
Universal College of Learning	34,785	36,637
Waiariki Institute of Technology	29,818	31,242
Waikato Institute of Technology	53,318	53,009
Wellington Institute of Technology	35,096	34,353
Western Institute of Technology Taranaki	17,494	18,756
Whitireia Community Polytechnic	29,816	29,863
	702,562	726,275

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	Year ended 30 June 12 \$000	Year ended 30 June 11 \$000
<b>Wānanga</b>		
Te Wānanga O Aotearoa	154,284	153,958
Te Wānanga O Raukawa	12,615	13,418
Te Whare Wānanga O Awanuiarāngi	27,858	26,226
	194,757	193,602
<b>Total Grants Expenses relating to Tertiary Education Institutions</b>	<b>2,520,018</b>	<b>2,514,535</b>
Grants Expenses for other tertiary education organisations	555,022	613,531
<b>Total Grants Expenses</b>	<b>3,075,040</b>	<b>3,128,066</b>

## MINISTERIAL DISCLOSURES

The Treasury advises that responsible ministers Honourable Steven Joyce and Honourable Hekia Parata have certified that they have no related party transactions for the year ended 30 June 2012.

## KEY MANAGEMENT PERSONNEL COMPENSATION

	2012 Actual \$000	2011 Actual \$000
Salaries and Other Short Term Benefits	1,687	2,413
Post Employment Benefits	-	-
Other Long Term Benefits	-	-
Termination Benefits	(40)	282
<b>Total Key Management Personnel Compensation</b>	<b>1,647</b>	<b>2,695</b>

Key management personnel include all Commissioners, the Chief Executive, Deputy Chief Executive, and three General Managers.



## NOTE 17: BOARD OF COMMISSIONERS' REMUNERATION

The total value of remuneration paid or payable to each commission member during the year was:

	Fees Year ended 30 June 12 \$000	Fees Year ended 30 June 11 \$000
<b>Current Commission Members</b>		
Sir Harawira Gardiner (Chairman)	42,000	42,000
Ian Boyd	20,000	20,000
Jim Donovan	20,000	20,000
Anthony Hall	20,000	20,000
Robin Hapi	20,000	20,000
Pauline Winter	20,000	20,000
Judith Johnston	15,000	-
<b>Past Commission Member</b>		
Deirdre Dale	5,000	20,000
Bill Rosenberg	-	18,334
<b>Total Commission Member Fees</b>	<b>162,000</b>	<b>180,334</b>
David Do	-	4,347
<b>Total Fees</b>	<b>162,000</b>	<b>184,681</b>

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

No commission member received compensation or other benefits in relation to cessation (2011: Nil).

## 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	Number of Employees	
	2012	2011
500,000 to 599,999	1	-
400,001 to 499,999	-	1
340,001 to 350,000	-	1
290,001 to 300,000	1	-
280,001 to 290,000	1	-
270,001 to 280,000	1	-
260,001 to 270,000	-	2
250,001 to 260,000	-	3
240,001 to 250,000	-	1
230,001 to 240,000	-	-
220,001 to 230,000	-	-
210,001 to 220,000	1	1
200,001 to 210,000	-	1
190,001 to 200,000	-	1
180,001 to 190,000	-	-
170,001 to 180,000	6	3
160,001 to 170,000	4	7
150,001 to 160,000	4	5
140,001 to 150,000	5	8
130,001 to 140,000	2	4
120,001 to 130,000	8	10
110,001 to 120,000	9	11
100,000 to 110,000	5	9
<b>Total employees</b>	<b>48</b>	<b>68</b>

During the year ended 30 June 2012, 8 (2011:43) employees received compensation and other benefits in relation to cessation totalling \$246,598 (2011: \$1,331,093).



## 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

	2012 Actual \$000	2011 Actual \$000
The carrying amounts of financial assets and liabilities in each of the NZIAS 39 categories are as follows:		
<b>Financial Assets</b>		
Cash and Cash Equivalents	43,961	55,229
Debtors and Other Receivables	26,540	4,221
<b>Total Financial Assets</b>	<b>70,501</b>	<b>59,450</b>
<b>Financial Liabilities Measured at Amortised Cost</b>		
Creditors and Other Payables	17,492	31,539
<b>Total Financial Liabilities Measured at Amortised Cost</b>	<b>17,492</b>	<b>31,539</b>

### 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 2012. 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.

As at 30 June 2012	Carrying amount \$000	Contractual cash flows \$000	Less than 6 months \$000
Creditors and Other Payables	17,492	17,492	17,492
<b>Total</b>	<b>17,492</b>	<b>17,492</b>	<b>17,492</b>

As at 30 June 2011	Carrying amount \$000	Contractual cash flows \$000	Less than 6 months \$000
Creditors and Other Payables	31,539	31,539	31,539
<b>Total</b>	<b>31,539</b>	<b>31,539</b>	<b>31,539</b>

### **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:

	2012 Actual \$000	2011 Actual \$000
<b>Non Cancellable Operating Leases (Rental Agreements)</b>		
Not Later Than One Year	1,576	1,603
Later Than One Year and Not Later Than Two Years	1,576	1,576
Later Than Two Years and Not Later Than Five Years	1,323	2,744
Later Than Five Years	-	0
<b>Total Operating Leases</b>	<b>4,475</b>	<b>5,923</b>

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 of 15 March 2015 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 2012 \$1,558,014 (2011: \$1,523,989.31) was recognised as an expense in the income statement in respect of operating leases.

## NOTE 21: CAPITAL COMMITMENTS

	2012 Actual \$000	2011 Actual \$000
<b>Capital expenditure contracted for at balance date but not yet incurred:</b>		
Intangible assets	1,337	100
<b>Total Capital Commitments</b>	<b>1,337</b>	<b>100</b>



## NOTE 22: NON-CANCELLABLE AGREEMENTS AND INVESTMENT PLANS

	2012 Actual \$000	2011 Actual \$000
<p>At 30 June 2012, the TEC had entered into funding agreements for the provision of training services. 2012 Investment Plans contain indicative funding levels. 2013 Investment Plans have not been finalised as at balance date.</p>		
<p>Commitments under these agreements and plans are:</p>		
Not Later Than One Year	1,364,387	2,891,276
Later Than One Year and Not Later Than Two Years	31,791	1,345,656
Later Than Two Years and Not Later Than Five Years	1,731	40,723
<b>Total Non-Cancellable Contracts</b>	<b>1,397,909</b>	<b>4,277,655</b>

## NOTE 23: CONTINGENCIES CONTINGENT LIABILITIES

The TEC has no contingent liabilities (2011: \$10,000)

### CONTINGENT ASSETS

The TEC has a contingent asset of \$20,984,301 which arises from the likelihood of realising recoveries on the Industry Training Fund and Modern Apprenticeships. It is contingent on sector-wide agreement on finalising learner numbers, course completions and qualifications in the Industry Training Register, and are expected to be completed by 30 September 2012. The amount relates to Grants expenses and will be returned to the Crown once realised.

## NOTE 24: EVENTS AFTER THE BALANCE DATE

There were no significant events after the balance date.

## NOTE 25: PROFESSIONAL INDEMNITY INSURANCE

The TEC has 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 \$7,328.

## NOTE 26: 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, while remaining a going concern.



# GLOSSARY

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<b>ACE</b>	Adult and Community Education
<b>ALL</b>	Adult Literacy and Lifeskills
<b>AQS</b>	Average Quality Score
<b>CESB</b>	Canterbury Employment and Skills Board
<b>CoREs</b>	Centres of Research Excellence
<b>EfM</b>	English for Migrants
<b>EFTS</b>	Equivalent Full Time Students
<b>EPIs</b>	Educational Performance Indicators
<b>FTE</b>	Full Time Equivalent
<b>FFTO</b>	Foundation-Focused Training Opportunities
<b>HRC</b>	Human Resource Capability
<b>ILU</b>	Industry Liaison Unit
<b>INTELL</b>	Business Intelligence
<b>ITOs</b>	Industry Training Organisations
<b>ITPs</b>	Institutes of Technology and Polytechnics
<b>ITR</b>	Industry Training Register
<b>NCEA</b>	National Certificate of Educational Achievement
<b>NZQA</b>	New Zealand Qualifications Authority
<b>NZQF</b>	New Zealand Qualifications Framework
<b>PBRF</b>	Performance-Based Research Fund
<b>PISTAGEO</b>	Publishing Information for Students about Graduates' Employment Outcomes
<b>PSA</b>	Public Service Association
<b>PTEs</b>	Private Training Establishments
<b>SAC</b>	Student Achievement Component
<b>SDR</b>	Single Data Return
<b>SOI</b>	Statement of Intent
<b>STM</b>	Standard Training Measure
<b>TEIs</b>	Tertiary Education Institutions
<b>TEOs</b>	Tertiary Education Organisations
<b>TEC</b>	Tertiary Education Commission
<b>TES</b>	Tertiary Education Strategy
<b>TLEC</b>	Tertiary Learner Event Collection project



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