



Tertiary Education Commission
Te Amorangi Mātauranga Matua

STATEMENT OF INTENT

2013/14–2015/16

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FOREWORD

This Statement of Intent sets out the intentions and objectives of the Tertiary Education Commission Te Amorangi Mātauranga Matua (TEC) for the coming three years.

Guided by the Government's priorities as set out in our Minister's letter of expectations, the Tertiary Education Strategy, the Better Public Services targets and the Business Growth Agenda, TEC is working to achieve three key impacts that contribute to the Government's vision of a world-leading education system for New Zealand:

- an increased proportion of the population with a tertiary qualification
- higher quality and more relevant research
- a tertiary system that is more responsive to the needs of employers and learners.

One way we will achieve these is by using the Investment Plan process to shift delivery and performance towards the Government's goals and priorities for tertiary education. Funding will be focused towards high-priority areas of provision, higher levels of learner achievement, and higher-quality research.

We will monitor tertiary education organisations (TEOs) on their plans and targets in the context of the overall performance of the network. To provide transparency and accountability, we will produce and publish information on the performance of TEOs and the network as a whole, as well as on the needs of stakeholders and employers.

TEC is uniquely placed to influence the tertiary sector, particularly the tertiary education institutions (TEIs), which are Crown entities. Through recommending TEI council appointments, with our monitoring and analysis of TEI financial performance, and by supporting best-practice accountability and financial frameworks, we can help ensure the sector plays its part in the education system.

An immediate focus is to continue to work closely with Canterbury TEIs as they rebuild, to ensure quality tertiary education in the region is maintained and strengthened.

The coming three years will be challenging, but through sound foundations and proven capability, we will achieve our goals.



John Spencer
Chair
Tertiary Education Commission

15 May 2013



DECLARATION

This Statement of Intent for 2013/14 to 2015/16 is produced in accordance with sections 141 and 142 of the Crown Entities Act 2004 and section 159KE of the Education Act 1989.

This Statement of Intent describes what the Tertiary Education Commission Te Amorangi Mātauranga Matua intends to achieve over the next three years as the government agency responsible for planning, funding and monitoring the Government's investment in New Zealand's tertiary education and training system.

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

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

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

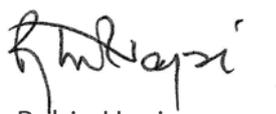
As set out in the section 142 of the Crown Entities Act, the Statement of Intent sets out the impacts TEC seeks to achieve and the performance measures for these activities.

We certify that the information contained in the Statement of Intent 2013/14 to 2015/16 is a fair and reasonable reflection of TEC's operating intentions.

Signed on behalf of the Board of the Tertiary Education Commission.


John Spencer
Chair
Tertiary Education Commission

15 May 2013


Robin Hapi
Chair
Audit and Risk Committee
Tertiary Education Commission

15 May 2013





PART 1
WHAT WE DO
AND WHY

FUNCTION AND SCOPE

The Tertiary Education Commission is a Crown entity. Under the Education Act 1989, we are charged with allocating funding and giving effect to the Tertiary Education Strategy (TES). Our three key functions are to:

- allocate government funding (through Investment Plans and contracts) to tertiary education organisations in a way that enables them to align their activities toward and achieve the outcomes that the Government seeks
- provide information and advice to the Government (including ownership monitoring advice) about TEOs and on the tertiary education sector
- monitor and manage the performance of TEOs.

Our performance as a Crown entity is jointly monitored by the Ministry of Education (MoE) and the Ministry of Business, Innovation and Employment (MBIE). The joint monitoring arrangement reflects the role of tertiary education and its importance to the labour market and the science and innovation system. Our activities are aimed at influencing TEOs to deliver education and research that contributes to economic growth and other social, cultural and environmental benefits.

TERTIARY EDUCATION

Tertiary education includes all forms of post-secondary school education and training including foundation education, adult and community education, vocational training and higher education and research. We also fund some programmes at the school-tertiary interface, including Gateway, and Trades Academies.

Tertiary education organisations include:

- eight universities
- 18 institutes of technology and polytechnics (ITPs)
- three wānanga
- 352 TEC-funded private training establishments (PTEs)
- 20 industry training organisations (ITOs)¹
- other organisations, including other tertiary education providers (OTEPs), Adult and Community Education providers, government training establishment (GTEs) and secondary schools.

The tertiary education institutions - universities, ITPs and wānanga - are Crown entities subject to the Public Finance Act 1989. TEC is the Crown's monitoring agency for these 29 institutions.

Overall, there are over 700,000 students, learners and trainees (including international students) in the tertiary education system.

¹ This is the number of ITOs as of April 2013.

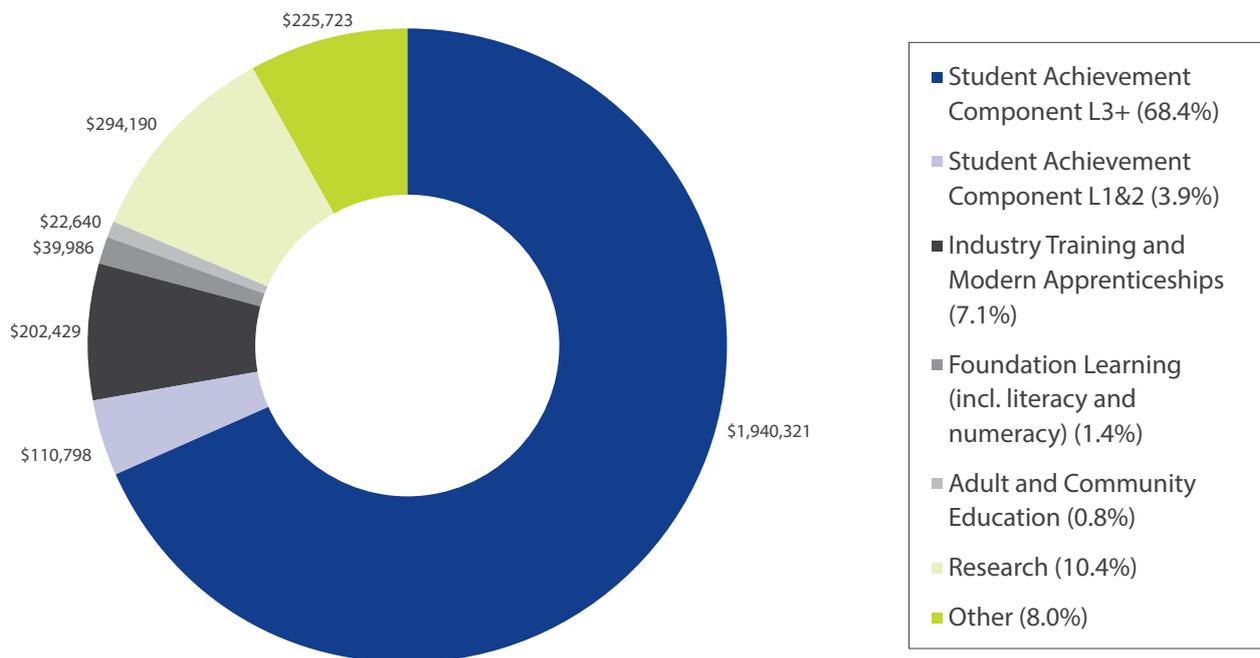


FUNDS

We are responsible for allocating tertiary education funding. The value of this funding for the 2013² calendar year is \$2.836 billion³. We also administer funding on behalf of other government agencies, such as the Ministry of Social Development and Immigration New Zealand.

The funds we administer support different activities and types of education and training in the tertiary sector. As illustrated in Figure 1, our largest fund is the Student Achievement Component fund, which provides the Government's contribution to the costs of teaching and learning and other costs related directly to student participation.

Figure 1: 2013 TEC grant funding baselines (\$'000)



TEC'S CONTRIBUTION

TEC is one of seven state-sector education agencies⁴ who work collectively towards the Government's vision of a world-leading education system that equips all New Zealanders with the knowledge, skills and values to be successful citizens in the 21st century.

TEC's focus is on funding and monitoring tertiary education and training, and the roles of four other education agencies – the Ministry of Education, the New Zealand Qualifications Authority, Careers New Zealand and Education New Zealand – also influence

the tertiary education sector. These roles and functions are defined in the Education Act 1989 and the Crown Entities Act 2004.

TEC also works closely with MBIE to ensure that the tertiary education system responds to the needs of employers and produces research and graduates with skills that can contribute to economic growth and productivity.

The respective roles and contributions of these agencies are set out in the following supply-chain diagram.

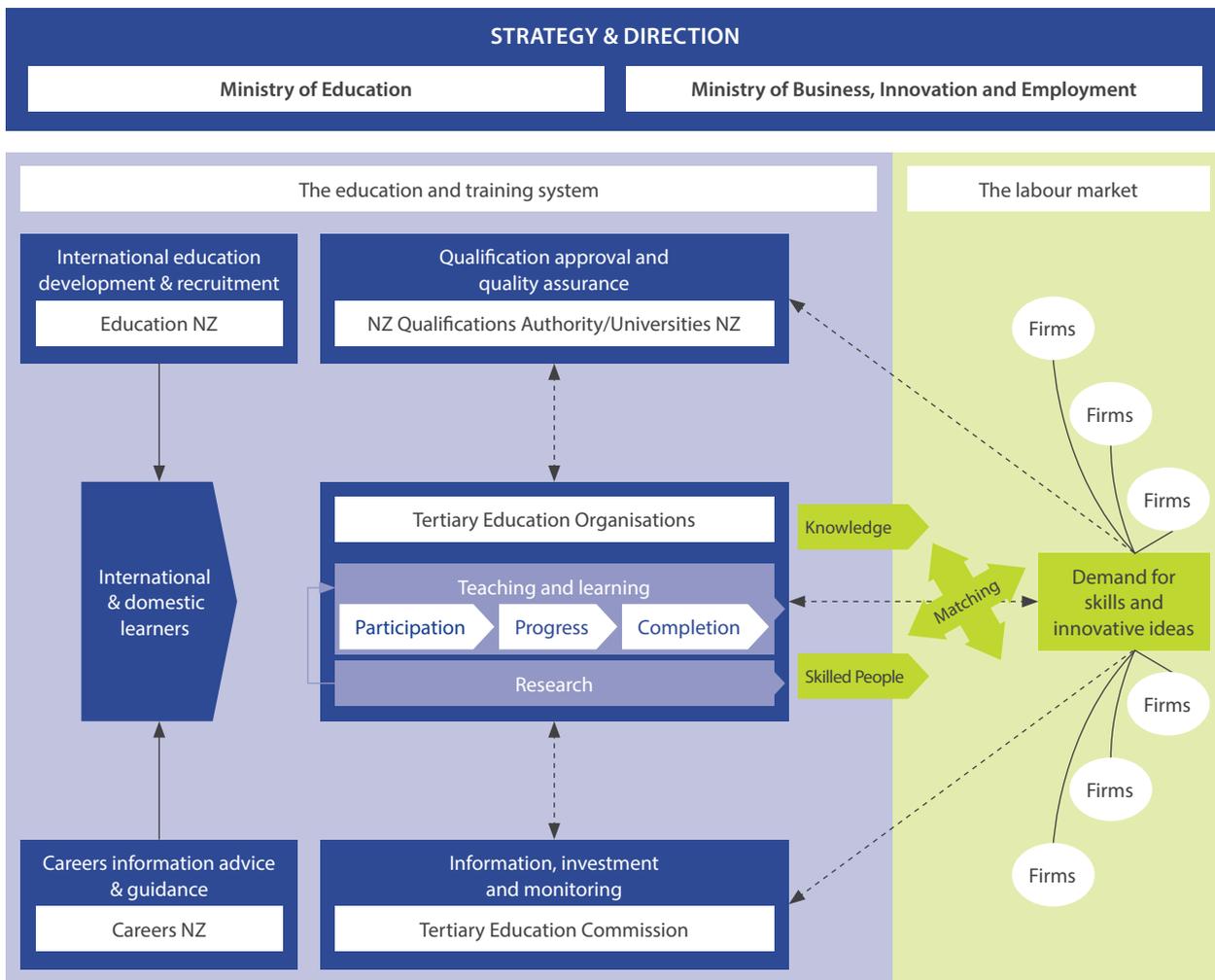
² Throughout the document, all references to 2013 year refer to the calendar year ending 31 December and all references to 2013/2014 refer to the budget year ending 30 June.

³ This is the pre-Budget 2013 baseline which has been adapted to a calendar year: the 2014 baseline is \$2.804 billion.

⁴ The seven agencies are: TEC, Ministry of Education, New Zealand Qualifications Authority, the Education Review Office, the New Zealand Teachers Council, Careers New Zealand and Education New Zealand.



Figure 2: Agency responsibilities across tertiary education



TRANSITION POINTS IN THE EDUCATION PIPELINE

There is a growing shift away from the longstanding view that tertiary education is an optional activity for a minority of the population. Tertiary education is increasingly a key stage along the educational pipeline that takes learners from early childhood education through to employment.

Ensuring all learners are prepared for success at the next stage requires all education agencies to focus on the transition points along the education pipeline. For the tertiary system, this means focusing on the interface between compulsory and tertiary education, and on the transition from tertiary education to employment.

Achieving the Better Public Services (BPS) targets for National Certificate of Educational Achievement (NCEA) Level 2 and for New Zealand Qualifications Framework (NZQF) Levels 4 and above will make important contributions towards improving these two interfaces.

For the school-tertiary interface and the BPS target for NCEA⁵ Level 2, we are providing funding through Youth Guarantee. This will help learners move from school to tertiary education through a focus on improving literacy and foundation-level education.

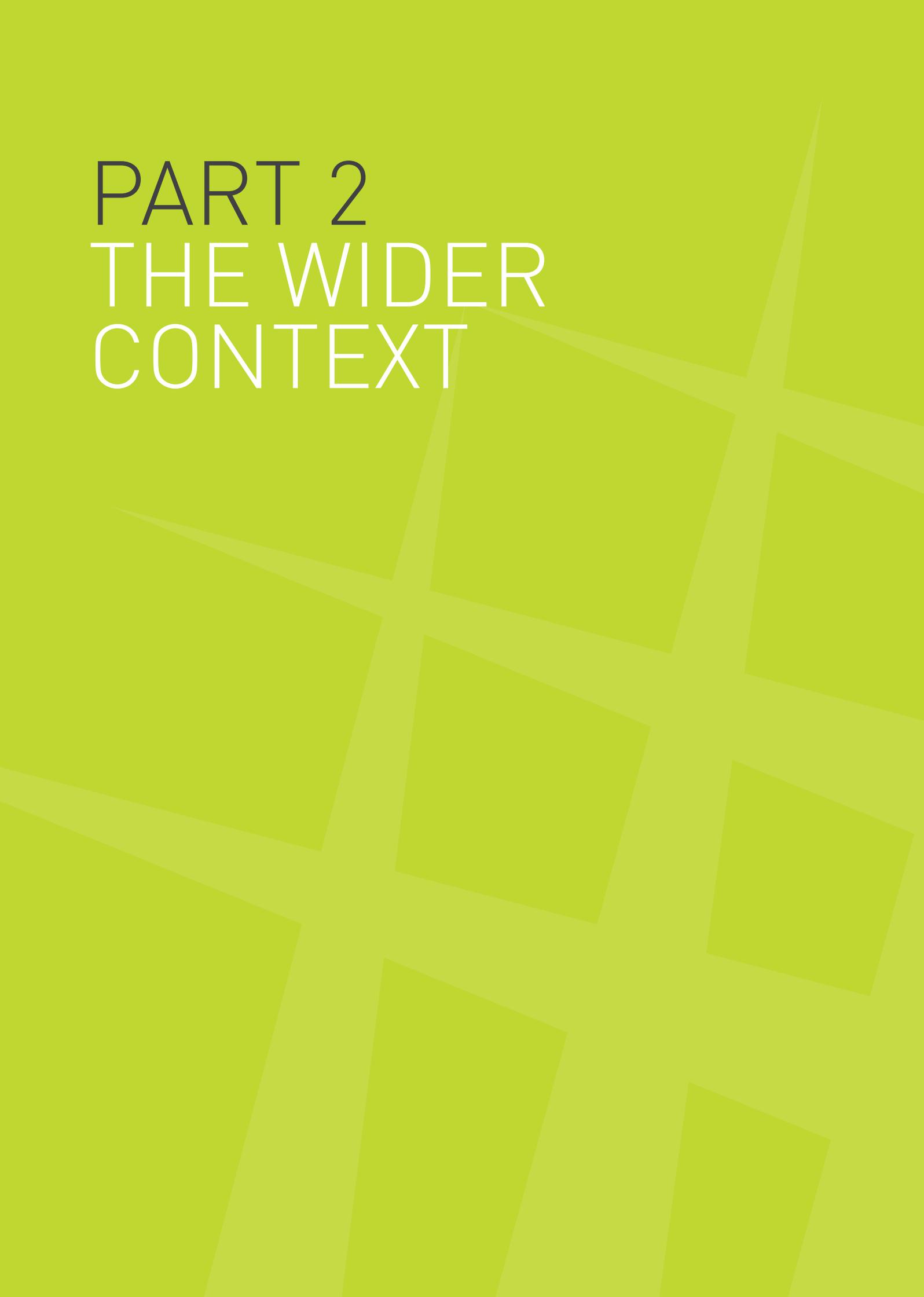
At the tertiary-to-employment interface, we are working with MBIE to improve the focus of TEOs on ensuring that graduates have the right skills for employment. Contributing to the BPS targets for NZQF Levels 4 and above is a key objective of our funding.

⁵ Note that there is no direct connection between the 'levels' on the NZQF and NCEA.



PART 2

THE WIDER CONTEXT



This section sets out what we must take into account in the wider public interest, as we work across government to provide advice on the next Tertiary Education Strategy and prepare our next Plan Guidance.

ECONOMY, LABOUR MARKET AND SKILLS

Economic growth is a central priority for the Government and consequently for us. The Government's Business Growth Agenda (BGA)⁶ seeks to address low growth in GDP per capita and low labour productivity. The Tertiary Education Commission will contribute to these BGA work streams:

- The *Skilled and Safe Workplaces* work stream, aimed at enhancing productivity through a higher number of qualified graduates who are learning the right skills.
- The *Innovation* work stream, aimed at better qualifying the workforce for innovation and ensuring tertiary education organisations create and transfer innovative knowledge to businesses.
- The *Building Export Markets* work stream, aimed at increasing exports by New Zealand businesses, including education sector's goal of doubling the value of international education to \$5 billion by 2025.

BETTER PUBLIC SERVICES

To sharpen the public sector's focus on high-quality delivery, the Government has set Better Public Services⁷ targets for the next three to five years to boost skills and employment by increasing educational achievement among young New Zealanders. Two of the targets aimed at boosting skills and employment are directly relevant to TEC's activities:

- Education achievement by young people: By 2017, 85 percent of 18-year-olds will have achieved a National Certificate of Educational Achievement Level 2 or an equivalent qualification.

- Education achievement for 25- to 34-year-olds: By 2017, 55 percent of 25- to 34-year-olds will have a qualification at Levels 4 and above on the New Zealand Qualifications Framework.

We will be implementing the Results Action Plans for these targets. Although some of our activities will contribute to the BPS target for NCEA Level 2, our core activities are focused on the BPS target for NZQF Level 4 and above.

DEMAND FOR SKILLS

The Ministry of Business, Innovation and Employment forecasts⁸ continuing demand for skilled workers in the New Zealand economy over the next two to three years.

We will lay a foundation for this employment growth by allocating funding to increase the number of qualified graduates with the skills and knowledge the economy needs. We will prioritise education and training in areas of skills shortages such as science, technology, engineering and mathematics. We will fund training that addresses skills gaps in the existing workforce, such as language, literacy and numeracy skills.

SOFT SKILLS

Overseas research suggests that jobs will become more knowledge-intensive. 'Soft' skills such as teamwork and communication are becoming increasingly important⁹ as are adaptability, creativity and the ability to think imaginatively about problems.

These skills are already highly valued by employers and can also 'future-proof' graduates for roles that do not yet exist in the economy. TEC will work with quality-assurance bodies and TEOs to encourage these to be reflected in expectations for graduate attributes and qualification outcomes.

⁶ <http://www.med.govt.nz/business/economic-development/the-governments-business-strategy>.

⁷ The rationale for this target and the cross-agency plan for achieving it is at <http://www.minedu.govt.nz/theMinistry/BetterPublicServices/BoostingSkillsEmployment.aspx>.

⁸ Strong employment growth is expected in skilled occupations in primary processing, construction, and certain manufacturing industries (machinery and equipment, metal products). Employment growth is expected to be weakest for semi-skilled jobs (clerical and some service and primary-sector workers). Demand for skilled (trades) workers is expected to be strongest over the next two years as the Canterbury rebuild reaches its peak. In the medium term, service industries, including the health and education sectors, will also experience modest employment growth. The growth is likely to be strongest in highly-skilled occupations, including managers and professionals.

⁹ Leitch, Sandy, *Skills in the UK: The long-term challenge*, Interim report of the Leitch Review of Skills, HM Treasury, December 2005.



CHANGING DEMAND FOR SKILLS

Research¹⁰ indicates a gradual hollowing-out of the labour market with the share of middle-wage jobs falling, jobs in high-skill, high-wage professional and managerial occupations growing, and growth in lower-wage service occupations.

A shift of this kind in New Zealand would place increased emphasis on tertiary education's role in promoting social mobility.

ON-THE-JOB TRAINING

Demand is likely to grow in coming years for on-the-job training. Rising levels of employment, more opportunities for training in the workplace, the introduction of New Zealand Apprenticeships¹¹ and the Christchurch rebuild are likely to attract young people who will train while they work. In response, we are implementing a new industry training system from 2014¹².

POPULATION

Statistics New Zealand makes the following population predictions that will affect demand for tertiary education:

- Population growth is projected to slow in coming years.
- The proportion of the population aged 65 and above (14 percent in 2012) will increase to 23 percent in 2036.
- The population of 18- to 22-year-olds (the key demographic driver of demand for tertiary education) has peaked and will fall significantly over the next decade.
- The youth population will continue to become more ethnically diverse, given higher birth rates in Māori and Pasifika families.
- Sixty percent of New Zealand's population growth between 2006 and 2031 will be in the Auckland region. Most of this will be among the Māori, Pasifika and Asian populations.

The Ministry of Education predicts that demand for provider-based tertiary education will flatten or fall over the next decade. However, demand from population groups including Māori, Pasifika and Asian will remain strong, particularly in Auckland.

SUSTAINABILITY

New Zealand's economy depends more heavily than most OECD nations on primary production (agriculture, forestry and fisheries) for export and tourism. The Treasury's work on sustainability indicates that current and future living standards will continue to rely on New Zealand's natural resource base. The tertiary sector can contribute the necessary skills and research to increase the returns from these resources.

Growing environmental consciousness and a trend towards the 'greening' of business are thus likely to be of special significance for New Zealand. This in turn may require new sets of skills in future employees, with implications for the focus of tertiary education, including both the attributes of its graduates and its research priorities.

¹⁰ Autor, David H., Lawrence F. Katz and Melissa S. Kearney, *The Polarization of the U.S. Labor Market*, NBER Working Paper No. 11986, National Bureau of Economic Research, January 2006.

¹¹ <http://www.beehive.govt.nz/release/new-zealand-apprenticeships-boost-skills-amp-support-jobs>.

¹² The Apprenticeships Re-boot is being implemented from 2013.





PART 3
OUR FUTURE
FOCUS

The contribution of the Tertiary Education Commission to New Zealand is driven by several complementary strategies.

THE TERTIARY EDUCATION STRATEGY 2010-15

Our primary strategic guidance comes from the Tertiary Education Strategy. It is issued by the Minister for Tertiary Education, Skills and Employment, and sets out the Government's long-term strategic direction for tertiary education, the current and medium-term priorities, and the Government's expectations of the sector.

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

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

Through the TES, the Government has indicated clear choices about the priorities for investment and access across the tertiary education system. The TES identifies seven priorities:

- increasing the number of young people (those aged under 25 years) achieving qualifications at Level 4 and above on the New Zealand Qualifications Framework, particularly degrees

- increasing the number of Māori students enjoying success at higher qualification levels
- increasing the number of Pasifika students achieving at higher qualification levels
- increasing the number of young people moving successfully from school into tertiary education
- improving the literacy, language and numeracy and skills outcomes from NZQF Levels 1-3 study
- improving the educational and financial performance of providers
- strengthening research outcomes.

Targets for each of these priorities are reflected in the Investment Plan commitments of tertiary education organisations.

Our Minister has commissioned a new Tertiary Education Strategy for release in 2013. We will provide the Ministry of Education and Ministry of Business, Innovation and Employment with our perspectives on the current strategy and work with them to develop the new strategy. We expect to reflect the priorities of the new strategy in TEC's Plan Guidance from 2014 and in our Statement of Intent 2014/15 to 2016/17.

ASSISTING CANTERBURY'S TERTIARY EDUCATION INSTITUTIONS

Following the earthquakes in 2010 and 2011, TEC worked closely with Canterbury-based tertiary education institutions to restore their education and research services, and to ensure continuity through extraordinary financial support.

The focus is now on supporting the University of Canterbury, Christchurch Polytechnic Institute of Technology and Lincoln University with their business cases for capital support, and to provide advice to Ministers on those proposals.



OUR EXPECTATIONS FOR THE OVERALL NETWORK

From 2013/14 to 2015/16, we intend to analyse the overall tertiary education network and explore ways to improve its efficiency, effectiveness and value. This will involve increasing the responsiveness of the tertiary education system to population shifts, changes in demand and performance and learners' and employer's needs in different regions.

This process has already started¹³. Our Plan Guidance for 2013 Investment Plans requires:

- TEOs to clearly articulate and deliver on their long-term strategic mission and their role in New Zealand's wider educational, economic, social and environmental context
- learners to have access to foundational education at the local level, vocational and higher education at the regional level, and specialist degree and postgraduate programmes in selected main centres.

In addition, we set out expectations on how TEOs and the system should contribute to the economy and to skills development, learners navigating the system, increasing knowledge transfer, and improvements in governance and management.

LEADERSHIP STATEMENT FOR INTERNATIONAL EDUCATION

The Leadership Statement for International Education sets out the Government's policy objectives and 'stretch' goals for international education. These include doubling the annual value of New Zealand's international education services to \$5 billion by 2025.

Through our Plan Guidance, TEC has already set expectations of TEOs operating in this market that they grow their international revenue in a way that:

- supports their core business, including international core business, and grows income streams that are connected to the TEO's educational mission both onshore and offshore
- generates educational benefits for domestic as well as international students
- generates wider economic and social benefits for New Zealand.

OUTCOMES FRAMEWORK

Our outcomes framework identifies TEC's key intended impact and immediate outcome, which is a *world-leading and high-performing tertiary education system*. This overarching impact has three elements:

- an increased proportion of the population with a tertiary qualification
- higher-quality and more relevant research
- a tertiary system that is more responsive to the needs of employers and learners.

These elements are further described in Part 4.

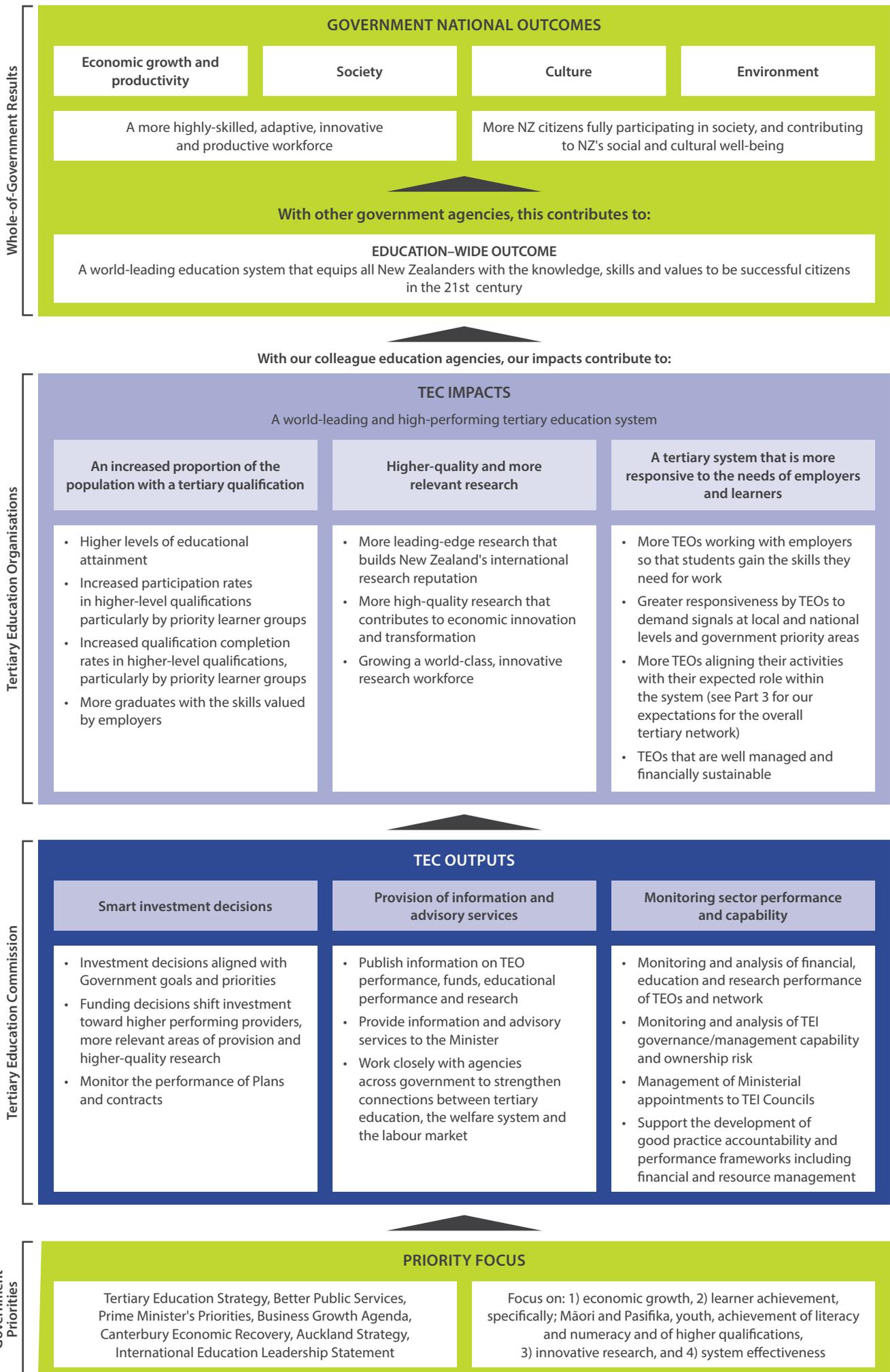
Our outcomes framework also:

- *Shows the line of sight between TEC's outputs, their impacts, and the outcomes the Government seeks as the tertiary education system's contribution to national outcomes.* For example, if we allocate funding based on high performance, and shift investment to high-quality TEOs that have good links to industry and meet the requirements of employers, then the tertiary system and TEOs are likely to deliver more and higher-skilled graduates in areas of labour market need, and this will contribute to labour-market productivity.
- *Provides a basis for identifying performance measures for TEC outputs.* Our performance measures are influenced by the Government's priorities and the available information. Over time, we expect to develop additional performance measures based on new information sources. We have also developed outcomes frameworks for TEIs so that they can see how their activities and outputs contribute to outcomes for learners and New Zealand.

¹³ <http://www.tec.govt.nz/Documents/Forms%20Templates%20and%20Guides/2013-Plan-Guidance-for-all-TEOs.pdf>



Figure 3: TEC Outcomes Framework





PART 4
OUR
CONTRIBUTION
TO POSITIVE
IMPACTS

The Tertiary Education Commission is working to create a world-leading tertiary education system that is characterised by:

- an increased proportion of the population with a tertiary qualification
- higher-quality and more relevant research
- more responsiveness to the needs of employers and learners.

A tertiary education system with those features will contribute to higher educational attainment in New Zealand, which in turn is associated with a range of positive outcomes, including better income and employment¹⁴.

In general, tertiary education contributes to the Government's economic, social, cultural, environmental and Māori developmental goals by:

- improving economic growth and productivity through a more highly-skilled, adaptable, innovative and productive workforce, plus new knowledge
- enhancing cultural wellbeing through the arts and creative endeavours, and by transmitting cultural knowledge, including ahuatānga Māori and tikanga Māori
- supporting a vibrant and healthy society whose citizens enjoy freedom of thought and expression, and who have the skills and knowledge required to participate fully in society and the economy.

IMPACT 1: AN INCREASED PROPORTION OF THE POPULATION WITH A TERTIARY QUALIFICATION

The Government has set a Better Public Services target of increasing to 55 percent by 2017 the proportion of 25- to 34-year-olds with a qualification at Level 4 or higher on the New Zealand Qualifications Framework. This target will play a key role in improving the workforce and thus productivity and economic growth.

WHAT WE WANT TO SEE

- Higher levels of educational attainment.
- Increased participation rates in higher levels qualifications, particularly by priority learner groups.
- Increased qualification completion rates in higher level qualifications, particularly by priority learner groups.
- More graduates with the skills valued by employers.

The Government's priority learner groups are learners who are under the age of 25, and Māori and Pasifika learners – the latter because educational outcome disparities have remained the same or widened compared to non-Māori and non-Pasifika.



¹⁴ In mid-2012 the unemployment rate for those with a tertiary qualification was 4.5 percent, compared to 8.5 percent for those with a school qualification only, and 10.1 percent for people without formal qualifications. (Source: Statistics New Zealand, Household Labour Force Survey, June 2012 quarter.)

Proportion of 25- to 34-year-olds who attain a qualification at NZQF Levels 4 and higher, particularly among priority learner groups

Measure	2011 Actual	2012 Target	2013 Target	2014 Target	2015 Target
Proportion of 25- to 34-year-olds who have a qualification at NZQF Level 4 or above	51.8%	52.6%	52.7%	53.5%	53.9%

Progression at NZQF Levels 1-3 within two years

Measure	2011 Actual	2012 Actual	2013 Target	2014 Target	2015 Target
Proportion of students with NZQF Levels 1-3 progressing to study at higher levels	35.8%	36.2%	36.6%	37.0%	37.4%

Proportion participating at NZQF Levels 4 and higher, particularly among priority learner groups

Measure	2011 Actual	2012 Target	2013 Target	2014 Target	2015 Target
Proportion of 19-year-olds who have studied at NZQF Level 4 or above	50%	50%	50%	50%	50%
Proportion of Māori 19-year-olds who have studied at NZQF Level 4 or above	36%	39%	42%	45%	47%
Proportion of Pasifika 19-year-olds who have studied at NZQF Level 4 or above	45%	47%	49%	50%	50%

Proportion who complete a qualification at NZQF Levels 4 and higher, particularly among priority learner groups

Measure	2011 Actual	2012 Target	2013 Target	2014 Target	2015 Target
Proportion of 22-year-olds who have completed a qualification at NZQF Level 4 or above	31%	32%	33%	35%	36%
Proportion of Māori 22-year-olds who have completed a qualification at NZQF Level 4 or above	20%	22%	24%	25%	27%
Proportion of Pasifika 22-year-olds who have completed a qualification at NZQF Level 4 or above	22%	24%	26%	27%	29%

We will also develop measures for graduate earnings and graduate employment rates in order to measure the impact of improved learner achievement.

HOW WE WILL MAKE A DIFFERENCE

We contribute to this impact primarily through our key outputs of investment, the information we publish and the advice we provide.

The majority of our funds are allocated through Investment Plans, which require tertiary education organisations to commit to improving participation and achievement among priority learner groups.

We also directly link funding to the educational performance indicators through performance-linked funding. A key focus is on implementing the Result Action Plan for the BPS targets for NCEA Level 2 and for NZQF Levels 4 and above.

In addition, we incentivise improvement by annually publishing information that measures TEOs' performance on the educational performance indicators.

We are working with other government agencies, such as the Ministry of Education, the New Zealand Qualifications Authority and the Ministry of Business, Innovation and Employment to develop other relevant initiatives.

¹⁵ The targets for improving participation, completion and attainment are to achieve the Better Public Services target for NZQF Levels 4 and above. The targets assume that the performance of the system will continue to improve and there will be a greater emphasis on achieving participation and completion for Māori and Pasifika.



IMPACT 2: HIGHER-QUALITY AND MORE RELEVANT RESEARCH

This impact is about tertiary education organisations producing high-quality research and a greater focus on producing research that encourages innovation and that advances economic and social development and environmental sustainability in New Zealand.

WHAT WE WANT TO SEE

- More leading-edge research that builds New Zealand's international research reputation.
- More high-quality research that contributes to innovation and economic transformation.
- A growing, world-class, innovative research workforce.

HOW WE WILL MEASURE PROGRESS

Measure	2011 Actual	2012 Target	2013 Target	2014 Target	2015 Target
Average Quality Score of the sector, as measured by the PBRF Quality Evaluation	4.4	4.66	4.66	4.66	4.66
Increase in External Research Income ¹⁶	-1.9%	4%	2%-4%	2%-4%	2%-4%
Number of Research Degree Completions	3,204	3,268	3,333	3,400	3,468

We will also work with other research funding agencies to develop monitoring and performance measures of the contribution tertiary sector makes to the research and innovation systems¹⁷.

HOW WE WILL MAKE A DIFFERENCE

TEC is one of a number of agencies¹⁸ that fund and support research.

Our key role is to influence improvements in research through the Performance-Based Research Fund (PBRF) and the Centres of Research Excellence (CoREs) fund.

The PBRF has three measures that support the Government's aims. The Quality Evaluation measure encourages and rewards the quality of a broad range of research outputs. The Research Degree Completion measure supports tertiary organisations to build their human research capability through higher-level skills development. The External Research Income measure rewards organisations for undertaking high-quality research funded through external sources.

The CoREs fund supports excellence in collaborative research in areas that are strategically relevant to New Zealand. It encourages the dissemination of knowledge to end-users and, like PBRF, supports TEOs to build New Zealand's future research workforce.

We will continue to support and advise tertiary education institutions and the other agencies on strategies and initiatives to better meet Government goals for research, science and innovation. Such initiatives include:

- significant advances in knowledge and a greater focus on New Zealand-specific needs and opportunities
- increased research collaboration and uptake, application and commercialisation of research
- TEOs meeting the labour-market needs to support innovation.

¹⁶ TEOs' ability to generate increased External Research Income in the short to medium terms has been negatively affected by the global financial crisis and by changes to the Vote Science and Innovation appropriation.

¹⁷ Advanced scientific and engineering skills are important for innovation that relies on new, research-led knowledge. Incremental change in products, services, and processes is the predominant form of innovation (especially in New Zealand, which generally aims to be a 'fast follower' of technological advances). Developing appropriate measures for these impacts will require cross-government work on stimulating demand for relevant education and training (particularly in regard to the labour market rewards, as above).

¹⁸ Others include MBIE, the Ministry of Primary Industries (MPI), the Royal Society and the Health Research Council.



IMPACT 3: A TERTIARY SYSTEM THAT IS MORE RESPONSIVE TO THE NEEDS OF EMPLOYERS AND LEARNERS

This impact is about improving how the tertiary system responds to the needs of employers and learners to support improved employment and economic outcomes. In order to achieve the Government's goal to grow the economy, the tertiary system needs to focus on priority areas of education and training and to increase its role as places for educators, researchers and businesses to engage, collaborate and innovate.

WHAT WE WANT TO SEE

- More TEOs working with employers so that students gain the skills they need for work.
- Greater responsiveness by TEOs to demand signals at local and national levels and to Government priority areas.
- More TEOs aligning their activities with their expected role within the system (see Part 3 for our expectations for the overall tertiary network).
- TEOs that are well managed and financially sustainable.

HOW WE WILL MEASURE PROGRESS

Measure	2011 Actual	2012 Target	2013 Target	2014 Target	2015 Target
Increased delivery in priority areas – NZQF Levels 4 and above, Maori, Pasifika, and engineering	New measure	See baselines below	Increase	Increase	Increase
Proportion of investment in TEOs with Category 1 and 2 External Evaluation and Review rating ¹⁹	New measure	95.4%	Increase	Increase	Increase
TEI asset management ²⁰ is steady or improves, as measured by the Asset Management Maturity Assessment tool	New measure ²¹	48	52	56	60
Proportion of TEI councils that appropriately mitigate shifts in risk rating as measured by Financial Management Framework (FMF) ²²	New measure	33%	Increase	Increase	Increase

The 2012 baselines for increased delivery priorities are:

- 17 percent of equivalent full-time students (EFTS) funded through the Student Achievement Component (SAC) fund were Māori at NZQF Level 4 and above
- 8 percent of SAC-funded EFTS were Pasifika at NZQF Level 4 and above
- 62 percent of SAC-funded EFTS were under the age of 25 at NZQF Level 4 and above
- Engineering EFTS were 7,883.

To measure the system's responsiveness to the needs of employers and learners, we are developing measures for graduate earnings and employment rates. We will also develop measures on TEOs aligning their activities with their expected role within the system.

¹⁹ External evaluation and review is a periodic evaluation of a TEO undertaken by the New Zealand Qualifications Authority which provides an independent judgement (or 'statement of confidence') about an organisation's educational performance and capability in self-assessment. NZQA will report the judgements as one of four levels of confidence: 1 - Highly Confident, 2 - Confident, 3 - Not Yet Confident or 4 - Not Confident. Further information can be found in the guidelines here: <http://www.nzqa.govt.nz/assets/Providers-and-partners/Registration-and-accreditation/External-evaluation/policy-guidelines-eer.pdf>.

²⁰ This refers to how well TEIs are making decisions in relation to their asset requirements.

²¹ The ratings for capital asset management capability refer to a score out of 100, with 5 bands in intervals of 20. The score of 40 – 60 represents core CAM capability; 60-80 represents intermediate and 80-100 represents advanced.

²² TEC uses the Financial Monitoring Framework to measure and monitor financial risk. For more information on the Financial Monitoring Framework, see <http://www.tec.govt.nz/Tertiary-Sector/Crown-Interest/Financial-monitoring/Financial-monitoring-framework-overview/>



HOW WE WILL MAKE A DIFFERENCE

We contribute to this impact primarily through our funding decisions. The majority of our funds are allocated through Investment Plans that require TEOs to demonstrate how they will shift their delivery toward priority areas. In response to our Plan Guidance, TEOs were required in their 2013-14 Plans to provide performance commitments for how they will shift their delivery toward priority areas, such as Levels 4 and above, young learners, Māori and Pasifika.

As part of the Plan process, we reprioritised approximately \$42 million over four years to increase funding of quality engineering training. This is designed to increase the number of engineering graduates by 500 per annum from 2017.

To make the system more responsive to the needs of employers and learners, we will work with the sector and industry to identify and support what kinds of public engagement and operational approaches will be most useful. The newly-expanded Skills Highway programme is one promising avenue for exploring new ideas with providers and firms.

Through our monitoring role, we will help improve the governance and operations of TEIs through our advice to Ministers on their appointments to TEI councils.

PART 5

ORGANISATIONAL CAPABILITY

High-quality tertiary education enriches people's lives, increases their employment opportunities and helps to build a productive skills base to drive economic growth. To maximise the impact the Tertiary Education Commission makes towards these goals for New Zealand, we need talented, diverse and capable staff who are prepared and supported to fulfil their roles.

OUR PEOPLE

Our people are the critical component of our organisational capability. We rely on them to undertake quality analysis, provide quality information and advice, and foster and maintain quality relationships.

We are focused on getting the right people, supporting their development and ensuring we obtain mutual benefit. This requires an environment where people feel empowered, valued and supported, and have a shared purpose and commitment to results.

WHAT WE WANT TO SEE

- Staff more engaged in their role and with the organisation.
- Turnover tracking toward the average rate for the core public service or below.
- Better alignment between our resources and capability and our work and skill requirements.
- Increased productivity through effective use of technology.

HOW WE WILL MEASURE PROGRESS

- During 2013/14, we will develop and implement a People Capability Plan.
- We will establish a benchmark for staff engagement and act on the specific areas highlighted in the annual survey.
- We will quantify the benefits of technology to demonstrate how it can improve efficiency and reduce costs of our transaction processes.

Measure	Actual 2011/12	Actual 2012/13	Target 2013/14	Target 2014/15
Annual voluntary staff turnover	16.7%	Projected year end total 23% ²³	19%	Core public sector average or below ²⁴
Level of staff engagement (engagement survey)		New measure	5% increase on 2012/13	Above the NZ public-sector average

WORKING WITH OTHERS

We work with a wide range of tertiary education organisations, industry training organisations and other stakeholders on a daily basis. This includes partnering with the sector to prepare for significant changes, such as the implementation of the Industry Training Review. We also work closely with colleagues across government – the education agencies as well as the Ministry of Business, Innovation and Employment and the Ministry of Social Development to realise the Government's expectations of better public services.

WHAT WE WANT TO SEE

- Better alignment of activities across government.
- Greater use of shared services across education sector agencies.
- Increased outsourcing of non-core TEC services through all-of-government procurement arrangements.

HOW WE WILL MEASURE PROGRESS

- Increasing the number of all-of-government procurement contracts signed by TEC.

²³ Projected year end total based on analysis of trend as at April 2013.

²⁴ In 2012, the turnover for the core public sector was 11.4%.



SYSTEMS, PROCESSES AND TECHNOLOGY

Better information is needed to understand the connections between the outputs of tertiary education and the outcomes for learners. The education agencies are developing an accessible information service for students, tertiary education organisations, government agencies, employers and the public. This is planned to provide useful and reliable information to inform decisions and enables performance comparisons that lead to continuous improvement.

A key priority for TEC is improving our information systems and processes to ensure we can carry out our core function as efficiently and effectively as possible. This improvement work supports the goals of the Tertiary Information Future State²⁵ programme.

WHAT WE WANT TO SEE

- Improved processing, analysis and management of information to improve performance monitoring and funding decisions.
- Improved timeliness, quality and reporting of our information.
- Improved capability to translate data into reliable, consistent performance information.
- Better-informed decision making by all players in the tertiary education system.

HOW WE WILL MEASURE PROGRESS

- We will implement our Information Systems Capability Development Plan, which includes actions to improve systems and processes and developing a five-year Information Systems Strategic Plan.

MANAGING RISKS

To be successful, we must identify and manage the internal and external risks that might affect delivering on the Government's priorities. We operate an effective risk-management and assurance system to identify, evaluate, mitigate and monitor risks to the organisation.

Our approach is consistent with the Joint Australian New Zealand International Standard for Risk Management (AS/NZS ISO 31000:2009). Governance and high-level management structures are in place to support the management of risks. These include the strategic-risk review function of the Executive Team and the risk-management activities of the Audit and Risk Committee of the TEC Board of Commissioners.

Our focus through to 2016 will be to continue to build the organisation's risk-management capability. We will align risk management with our core business and embed an organisational mindset and culture that recognise risks and takes appropriate, timely action.

OUR MEDIUM-TERM FINANCIAL STRATEGY

Our medium-term financial strategy is to operate in a financial responsible manner under section 51 of the Crown Entities Act by:

- prudently managing the levels of assets and liabilities
- running a successful going concern.

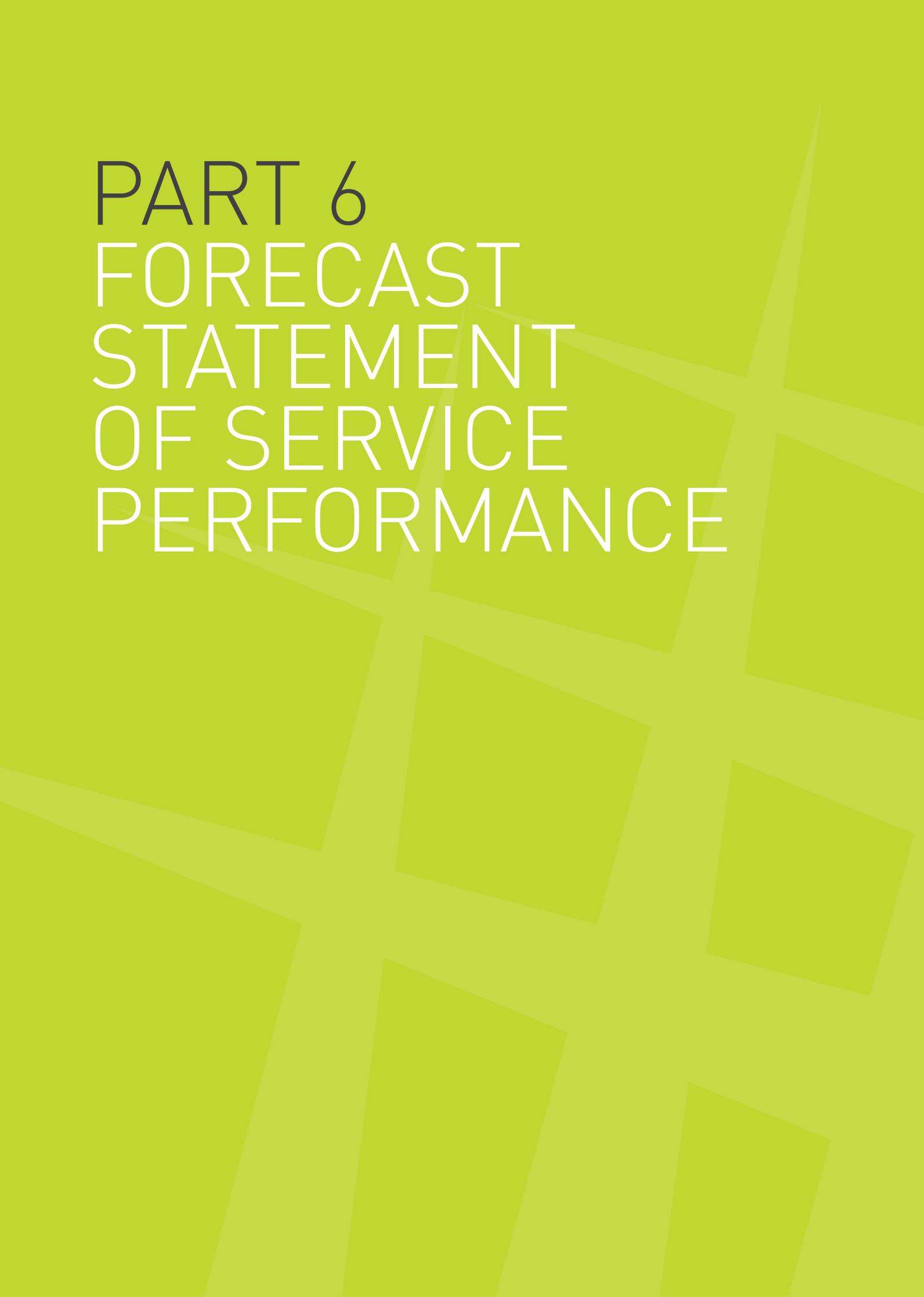
We will achieve this by:

- ensuring grants revenue is provided to the sector in accordance with Government priorities, or returned to the Crown
- seeking value for money in our expenditure and managing cost pressures by seeking ongoing improvements in operational efficiencies
- ensuring operating revenue matches or exceeds expenditure, including running surpluses and deficits appropriately to manage cyclical expenditure
- carrying reasonable depreciation, cash and balance sheet reserves to manage and improve capability of our assets and operations.

We will discharge our fiscal accountability by providing quarterly and annual reports to the Minister for Tertiary Education, Skills and Employment.

²⁵ TEC is working closely with the Ministry of Education and other education agencies on this programme, which seeks to better align data, information, technology systems and business processes to support tertiary policy.





PART 6
FORECAST
STATEMENT
OF SERVICE
PERFORMANCE

The Tertiary Education Commission has three key output classes.

OUTPUT CLASS 1: SMART INVESTMENT DECISIONS

This output class includes investments and funding that we allocate through Investment Plans and contract agreements.

This output draws on TEC's operational appropriation *Managing the Government's Investment in the Tertiary Education Sector*²⁶ (budget 2013/14 - \$41.082 million).

The projected volumes for all of our grant funding are included in Table 2 at the end of the forecast Statement of Service Performance.

Cost and funding	2013/14 \$000
Income	
Crown – Managing the Government's Investment in the Tertiary Education Sector	41,082
Immigration NZ – Funding for Administration of English For Migrants	77
Interest on Bank Deposits	799
Total income	41,958
Expenses	41,734
Net funded to TEC reserves	224

OUTPUT 1.1: FUNDING ALLOCATED THROUGH PLANS

The majority of our funding is allocated to tertiary education organisations through Plans²⁷.

The following funds are allocated through Plans:

- Student Achievement Component (budget 2013/14 - \$2,040.201 million)
- Training for Designated Groups (budget 2013/14 - \$331.897 million):
 - Industry Training
 - Modern Apprenticeships
 - Youth Guarantee
 - Gateway
- Performance-Based Research Fund (budget 2013/14 - \$268.750 million)
- Community Education (budget 2013/14 - \$61.219 million).

The key activities in this output are:

- assessing and approving Plans against gazetted Content and Criteria
- making payments after Plans have been approved
- monitoring Plans
- evaluations and quantitative studies of TEC's key initiatives.

In 2012, TEC assessed and approved 406 Investment Plans across the sector. In 2013, TEC will be assessing Investment Plans for 377 TEOs.

In return for government funding, we require TEOs to demonstrate in their Plans how they will shift their provision and improve their performance in line with Government goals and priorities.

A key measure of success for TEC's investment decisions is the degree to which aggregated Plan commitments demonstrate shifts towards the requirements expressed in Plan Guidance. Through monitoring Plans and analysis of performance, we will track the degree to which those shifts subsequently occur.

²⁶ This appropriation is limited to developing, implementing and managing an investment system that aligns planning, funding and monitoring.

²⁷ A Plan is an accountability document that sets out how each TEO will respond to Government priorities and contribute to national outcomes as expressed in the Tertiary Education Strategy and Plan Guidance; the proposed activities each TEO commits to delivering in return for government investment as well as the rationale for these activities; and measures for indicating the success of the activities delivered (mix of provision and performance commitments). The Plan-based investment process (Education Act 1989, Part 13A refers) begins with TEC publishing Plan Guidance which outlines its expectations of TEOs in general. In the course of engaging with TEOs and approving their Plans, TEC shifts funding from lower-performing to higher-performing TEOs and ensures adequate investment occurs in high-priority areas such as engineering.



Performance measure	Dimension	Actual 2011/12	Target 2012/13	Target 2013/14
Plans for tertiary education organisations demonstrate evidence of alignment with employer, community and learner needs	Quality	100%	100%	100%
Plans for tertiary education organisations include targets for improving achievement rates for priority groups in the Tertiary Education Strategy (see Table 1)	Quality ²⁸	100%	100%	100%
Payments are made to tertiary education organisations as per the agreed contractual terms and conditions		100% - payments made to the correct TEOs (quality) 100% correct amounts paid to TEOs (quality) 99.65% of payments to TEOs were paid on time (timeliness)	100% ²⁹	100%
Percentage of Investment Plans that are monitored	Quantity	New measure	100%	100%
Appropriate actions are undertaken in accordance with the Performance Consequences Framework	Quality	New measure	100%	100%
Evaluations and quantitative studies of TEC initiatives are undertaken in accordance with agreed standards ³⁰	Quality	New measure	100%	100%
Evaluations and quantitative studies of TEC initiatives are completed within agreed timeframes	Timeliness	New measure	100%	100%
Number of evaluations and quantitative studies of TEC initiatives are undertaken	Quantity	5 evaluations and studies completed	3 - 5 evaluations and studies completed	3 evaluations and studies completed

²⁸ A timeliness measure has not been included because the approval of Plans is a key step prior to making payments. Thus timeliness of payments is also a timeliness measure for the approval of Plans.

²⁹ The target is an aggregation of the three measures noted in the 2011/2012 actual.

³⁰ The deliverables, methodological approach, performance standards and timeframes are agreed through a Project Plan with the team requesting the work.

TABLE 1: INVESTMENT PLAN PERFORMANCE COMMITMENTS LINKED TO STUDENT ACHIEVEMENT COMPONENT FUNDING

Student Achievement Component funding		2011 Sector commitment	2011 Actual	2013 Sector commitment	2014 Sector commitment
Proportion of SAC-funded Māori enrolments at NZQF Levels 4 and above		13%	14%	15%	16%
Proportion of SAC-funded Pasifika enrolments at NZQF Levels 4 and above		6%	6%	7%	7%
Proportion of SAC-funded under-25-year-old enrolments at NZQF Levels 4 and above		49%	51%	51%	52%
Sector performance commitment shifts linked to funding		2011 Sector commitment (2011-12 Plans)	2011 Actual (2011-12 Plans)	2013 Sector commitment (2013-14 Plans)	2014 Sector commitment (2013-14 Plans)
Course completion	All learners	79%	82%	83%	84%
	Māori learners at NZQF Levels 4 and above	71%	77%	78%	80%
	Pasifika learners at NZQF Levels 4 and above	66%	73%	75%	77%
	Under-25-year-old learners at NZQF Levels 4 and above	82%	84%	84%	85%
Qualification completion	All learners	64%	71%	70%	71%
	Māori learners at NZQF Levels 4 and above	56%	59%	63%	65%
	Pasifika learners at NZQF Levels 4 and above	54%	58%	60%	62%
	Under-25-year-old learners at NZQF Levels 4 and above	64%	66%	68%	69%
Progression	From NZQF Levels 1-3 to Levels 4 and above for all learners	35%	32%	36%	38%
Retention	For all learners across all NZQF All Levels and all learners	59%	64%	66%	67%

Similar tables for the Industry Training Fund, Performance-Based Research Fund, Youth Guarantee, Gateway, and Community Education have not been provided.

The industry training sector is going through significant changes with a focus on moving towards fewer and more capable industry training organisations through mergers and implementing new funding and regulatory arrangements through the industry training review.

These changes to the sector will likely lead to setting new performance measures and baseline expectations for this sector from 2014 that align with the new policy settings.

Although the Performance-Based Research Fund, Youth Guarantee, Gateway, and Community Education are allocated through the Plan process, these funds are distributed through contractual arrangements with specific allocation mechanisms and fund requirements.



OUTPUT 1.2: FUNDING ALLOCATED THROUGH CONTRACT AGREEMENTS

TEC invests the following funds through funding agreements and contracts and outside of the Plan process:

- Centres of Research Excellence (budget 2013/14 - \$31.690 million)
- Tertiary Education Grants and Other Funding³¹ (budget 2013/14 - \$24.097 million)
- Secondary-Tertiary Interface (Vote Education) (budget 2013/14 - \$15.247 million)
- Apprenticeships Re-boot (budget 2013/14 - \$13.150 million)

- Tertiary Scholarships and Awards (budget 2013/14 - \$11.091 million)
- Tertiary Education Institutions Merger Support (budget 2013/14 - \$1.500 million)
- University of Auckland Starpath Project (budget 2013/14 - \$1.000 million)

TEC also administers two programmes under contract with the Ministry of Social Development (Foundation-Focused Training Opportunities - budget 2013/14 - \$46.784 million) and Immigration New Zealand (English for Migrants – budget 2013/14 - \$0.849 million).

The key activities include making funding available for applications, receiving and assessing applications for funding, awarding funds, and managing delivery against contract.

Fund	Performance measure	Actual 2011/12	Target 2012/13	Target 2013/14
Tertiary Education Grants and Other Funding	Funding agreements are consistent with funding rules and objective of fund	100%	100%	100%
Tertiary Education Institutions Merger Support	Merger milestones are met according to funding agreements	Achieved	Achieved	Achieved
University of Auckland Starpath Project	Project milestones are monitored and met according to funding agreement	100% ³²	100%	100%
Foundation-Focused Training Opportunities (Vote Social Development)	Percentage of learners who complete their course of study (minimum 14 weeks training)	58%	58%	58%
	Percentage of learners who achieve employment outcomes commensurate with their benefit type and aligned job seeking obligations, within 91 days of completion of training	41%	38%	38%
	Percentage of learners who move off benefit and progress into further training or education and NZQF Level 2 or above, within 91 days of completion of training	24%	26%	26%
English for Migrants (Vote Immigration)	Effective ³³ management of contracts with training providers to deliver English for Speakers of Other Languages training for migrants who have pre-purchased their tuition through Immigration New Zealand	100%	100%	100%
Centres of Research Excellence	Centres of Research Excellence Annual Plans are assessed against assessment criteria and have been revised, where appropriate, by end of March ³⁴	100% Achieved	100%	100%
	Centres of Research Excellence Annual Reports are reviewed against research plans and meet assessment criteria ³⁵	100% Achieved	100%	100%

³¹ Some funding from this appropriation is allocated through Investment Plans.

³² Stage 2 contractual key performance indicators were met in 2011.

³³ "Effective" here means management of contracts in accordance with timeframes and rules required by the funding policy.

³⁴ The key criteria are compliance with contractual requirements for annual plans and alignment of activities with the generic CoRE purpose and the individual CoRE's strategy.

³⁵ The key criteria are compliance with contractual reporting requirements and delivery on and alignment with the predecessor annual plan.



OUTPUT CLASS 2: PROVISION OF INFORMATION AND ADVISORY SERVICES

This output class includes our work to provide information and advisory services to the Minister, the sector, students, other government agencies and external stakeholders. Providing relevant information about learner outcomes and TEO performance is a key means by which we support student choice and incentivise improvements in the performance of TEOs.

This output draws on TEC's operational appropriation *Tertiary Education and Training Advice* (budget 2013/14 - \$3.837 million).

The key activities in this output are to:

- provide information and advisory services to the Minister
- work closely with and providing advice to agencies across government to strengthen connections between tertiary education, the welfare system and the labour market
- publish information on TEO performance, funds, educational performance and research.

In 2011/12, TEC provided 743 ministerial-related items to the Office of the Minister for Tertiary Education, Skills and Employment.

Cost and funding	2013/14 \$000
Income	
Crown - Tertiary Education and Training Advice	3,837
Other	-
Total income	3,837
Expenses	3,789
Net funded to TEC reserves	48

Performance measure ³⁶		Actual 2011/12	Target 2012/13	Target 2013/14
Percentage of ministerial items provided to Ministers requiring redraft	Quality	New measure	Less than 5%	Less than 5%
Percentage of ministerial items provided to Ministers within agreed and/or statutory timeframes	Timeliness	New measure	95%	95%
Publications that are produced in accordance with agreed standards and timelines	Quality and timeliness	New measure	100%	100%
Number of reports published	Quantity	New measure	7	6

³⁶ TEC will aim to develop a broader indicator to measure the quality of information and advice that it provides to other government agencies.



OUTPUT CLASS 3: MONITORING SECTOR PERFORMANCE AND CAPABILITY

This output class includes our activities to monitor and analyse the governance and management capability of TEOs, manage ministerial appointments to the councils of tertiary education institutions, support the development of good-practice accountability and financial frameworks, and analyse the financial, educational and research performance of TEOs.

A key role of TEC is to monitor and provide independent advice on the financial and organisational risk of TEIs, which are Crown entities. This helps protect the Crown’s ownership interests³⁷ in relation to the governance, accountability and operation of these organisations.

TEC also monitors and audits the financial and non-financial performance of TEOs based on objective analysis using a number of established frameworks and taking into account the desired network of provision. This work is undertaken in order to make informed funding-allocation decisions for research and teaching activities.

This output draws on TEC’s operational appropriation *Ownership Monitoring of Tertiary Education Institutions* (budget 2013/14 – \$2.567 million).

The key activities in this output are:

- monitoring and analysis of financial, education and research performance of TEOs and network
- monitoring and analysis of TEI governance and management capability, and ownership risk
- management of ministerial appointments to TEI councils
- supporting the development of good-practice accountability and performance frameworks, including financial and resource management.

Cost and funding	2013/14 \$000
Income	
Crown - Ownership Monitoring of Tertiary Education Institutions	2,567
Other	-
Total income	2,567
Expenses	
Net funded to TEC reserves	59

³⁷ Ownership interest occurs where the Crown holds the responsibility to meet any residual liabilities of TEIs and exercises (or can exercise) a range of actions that reflects this, such as the appointment of council members and the application of the interventions framework.

Performance measure	Actual 2011/12	Target 2012/13	Target 2013/14
Ownership risks - risks are assessed ³⁸ and appropriate mitigation strategies are put in place - risks are reported annually to the Minister	New measure	100%	100%
Percentage of TEIs where close monitoring and engagement is taken after having received a high-risk rating under Financial Monitoring Framework	New measure	100%	100%
Recommendations on ministerial appointments to TEI councils are made two months prior to the appointment expiring, and the appointment process is managed effectively	New measure	100%	100%
Number of tertiary education organisations audited by the Tertiary Education Commission	31 audits	30	30
Percentage of audits completed within 70 days according to audit compliance standards	New measure	95%	95%
Percentage of TEOs where an appropriate action plan is initiated (as per the TEC performance consequences framework) on the basis of an identified material breach of TEC's rules or requirements	New measure	100%	100%

³⁸ The assessments are undertaken against legislative requirements or frameworks agreed with tertiary education institutions, such as the Financial Monitoring or Capital Asset Management frameworks.

TABLE 2: TARGETS FOR INVESTMENTS AND FUNDING ALLOCATED UNDER OUTPUT CLASS 1

This table shows target volumes linked to TEC investments and funding appropriations. It excludes funds for which performance measurement are not volume-related.

	Actual 2011	Actual 2012	Target 2013	Forecast 2013	Target 2014	Target 2015
STUDENT ACHIEVEMENT COMPONENT						
Estimated funded domestic equivalent full-time students (EFTS) ¹						
Number of EFTS at all levels	234,953	234,852	-	-	-	-
Number of EFTS at NZQF Level 3 and above ²	-	-	216,023	218,715	215,863	215,311
Number of EFTS at NZQF Levels 1 and 2 ²	-	-	16,168 ±3%	15,451	13,861 ±3%	13,467 ±3%
Total Student Achievement Component	234,953	234,852	232,191	234,166	229,724	228,778
TRAINING FOR DESIGNATED GROUPS						
Industry Training - funded standard training measures ³	35,565	32,638	48,100	34,352		
Industry Training - funded standard training measures ^{3,4}					28,594	29,680
Modern Apprenticeships ⁶ - total funded trainees	10,450	10,985	14,000	11,604		
Apprentices - funded standard training measures ^{3,4,5}					13,140	13,522
Youth Guarantee - funded places ⁶	7,596	7,285	8,525	8,542	9,835	10,360
Gateway - total participants	11,615	13,457	13,000	13,000	13,000	13,000
COMMUNITY EDUCATION						
Adult and community education						
Participation by learners in school-based programmes	23,999	26,137	24,000	24,000		
Total number of school-based ACE hours funded (new measure)			395,000	395,076	395,000	395,000
Among the priority groups identified in the Tertiary Education Strategy, percentage of learners identified:						
as Māori or Pasifika	22%	20%	All – 50%	All – 50%	All – 50%	All – 50%
with English-language needs	40%	44%				
as having low or no formal qualifications	46%	46%				
Number of EFTS in tertiary education institutions ⁷	1,937	1,870	1,808	1,808	1,808	1,808
Intensive Literacy and Numeracy – total number of learners	5,742	5,517	5,100	4,681	4,750	4,750
Workplace Literacy Fund - total number of learners ⁸	6,830	6,777	5,465	5,359	7,823	7,823
BENEFITS AND UNREQUITED EXPENSES						
Number of medical intern places funded	343	339	365	387	395	435

- Note 1:** Funded EFTS data represent a proportion of the total EFTS delivered, some of which are not funded due to funding caps.
- Note 2:** From 2013 the Tertiary Education: Student Achievement Component appropriation is structured by level rather than by subsector. The performance measures of the number of domestic equivalent full-time students is divided by subsector for provision at Level 3 and above, but from the 2013 calendar year it is expressed as a range rather than a specific target.
- Note 3:** Standard training measure is the amount of training required for a trainee to achieve 120 National Qualifications Framework credits. Funding is based on the number of standard training measures provided by an industry training organisation in a calendar year.
- Note 4:** From 1 January 2014, significant policy changes will take effect that change how industry training is funded. This includes the new definition of an apprentice, which will impact on the number of trainees and the number of apprentices.
- Note 5:** The definition of an apprentice will be changing from 2014 to reflect the removal of the age restriction and the new requirement for all apprenticeships to have a minimum qualification of 120 credits at Level 4. It should be noted that neither of the relevant 2014 and 2015 performance measures allow for the 'grandparenting' of apprentices from the old Modern Apprenticeship scheme. It is yet to be determined whether they will be counted with the new apprentices, or continue to be reported as Modern Apprentices.
- Note 6:** Youth Guarantee – 2011 includes places delivered in the predecessor Youth Training fund.
- Note 7:** This includes Search and Rescue short courses from 2013.
- Note 8:** The total number of learners in 2014 and 2015 includes an estimated increase due to the additional \$5 million per annum funding approved at Budget 2013.
- Note 9:** The Secondary-Tertiary Interface was previously known as Trade Academies. From 2013, the contracts are agreed between the providers and the Ministry of Education, but TEC administers the funding and monitors performance. The number of learners are for TEC-administered contracts and exclude statistics for the schools involved in this initiative. The appropriation increases in 2014 and 2015; the target number of learners for these years has not yet been determined.





PART 7
FORECAST
FINANCIAL
STATEMENTS

FORECAST STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEARS ENDING 30 JUNE

	Budget 2014 \$000	Forecast 2015 \$000	Forecast 2016 \$000
CONTINUING OPERATIONS			
Operating and Contract Revenue:			
Vote Tertiary Education - Ministry of Education (MoE)	47,486	45,573	45,523
Contract Revenue - Immigration New Zealand (INZ)	77	75	73
Total Operating and Contract Revenue	47,563	45,648	45,596
Grants and Contract Revenue:			
Vote Education/Tertiary Education - MoE	2,799,842	2,789,173	2,802,642
Contract Revenue - MSD	46,784	26,784	26,784
Contract Revenue - INZ	849	828	807
Total Grants and Contract Revenue	2,847,475	2,816,785	2,830,233
Finance Revenue:			
Interest Income on Bank Deposits - Operating	799	749	701
Total Finance Revenue	799	749	701
TOTAL REVENUE	2,895,837	2,863,182	2,876,530
EXPENSES			
Operating Expenses:			
Personnel	23,681	23,181	23,181
Operating	10,876	10,016	10,017
Third Party Contract Payments	6,410	5,010	5,010
Capital Charge	1,660	1,720	1,750
Depreciation	789	634	564
Amortisation	4,615	4,865	4,851
Total Operating Expenses	48,031	45,426	45,373
Grants Expenses:			
Grants Expenses - MoE	2,799,842	2,789,173	2,802,642
Contract Expenses - MSD	46,784	26,784	26,784
Contract Expenses - INZ	849	828	807
Total Grants and Contract Expenses	2,847,475	2,816,785	2,830,233
TOTAL EXPENSES	2,895,506	2,862,211	2,875,606

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	Budget 2014 \$000	Forecast 2015 \$000	Forecast 2016 \$000
Operating Surplus/(Deficit)			
Operating Surplus	(468)	222	223
Grants Surplus	-	-	-
Finance Income	799	749	701
Total Comprehensive Income for the Year	331	971	924

FORECAST STATEMENT OF CHANGES IN EQUITY FOR THE YEARS ENDING 30 JUNE

	Budget 2014 \$000	Forecast 2015 \$000	Forecast 2016 \$000
Equity at the Start of the Year	20,915	21,496	22,467
Total Comprehensive Income	331	971	924
Total Recognised Revenues and Expenses for the Year	21,246	22,467	23,391
Capital Contribution - Vote Tertiary Education	250	-	-
Equity at the End of the Year	21,496	22,467	23,391

FORECAST STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE

	Budget 2014 \$000	Forecast 2015 \$000	Forecast 2016 \$000
Current Assets			
Cash and Cash Equivalents	20,947	20,366	20,902
Prepayments	700	700	700
Debtors and Other Receivables	2,000	2,500	3,250
Total Current Assets	23,647	23,566	24,852
Non-Current Assets			
Property, Plant and Equipment	2,751	2,651	2,316
Intangible Assets (Software)	12,697	12,397	12,068
Total Non-Current Assets	15,448	15,048	14,384
Total Assets	39,095	38,614	39,236
Current Liabilities			
Creditors and Other Payables	5,010	4,630	5,102
GST Payable	1,000	978	954
Employee Entitlements	1,800	1,800	1,800
English for Migrants - Revenue in Advance	1,189	939	689
Total Current Liabilities	8,999	8,347	8,545
Non-Current Liabilities			
English for Migrants - Revenue in Advance	7,800	7,000	6,500
Employee Entitlements	800	800	800
Total Non-Current Liabilities	8,600	7,800	7,300
Total Liabilities	17,599	16,147	15,845
Equity			
General Funds	21,496	22,467	23,391
Total Equity	21,496	22,467	23,391
Total Equity and Liabilities	39,095	38,614	39,236



FORECAST STATEMENT OF CASH FLOW FOR THE YEARS ENDING 30 JUNE

	Budget 2014 \$000	Forecast 2015 \$000	Forecast 2016 \$000
Cash Flows from Operating Activities			
Cash provided from:			
Funding - Operating MoE	47,486	45,573	45,523
Funding - Operating INZ	77	75	73
Funding - Grants MoE	2,799,842	2,789,173	2,802,642
Funding - Grants MSD	46,784	26,784	26,784
Funding - Grants INZ	849	828	807
	<u>2,895,038</u>	<u>2,862,433</u>	<u>2,875,829</u>
Cash applied to:			
Grants Payments	(2,847,474)	(2,817,683)	(2,830,789)
Payments to Employees	(23,781)	(23,080)	(23,080)
Other Operating Payments	(17,165)	(14,975)	(14,874)
Capital Charge	(1,660)	(1,720)	(1,750)
	<u>(2,890,080)</u>	<u>(2,857,458)</u>	<u>(2,870,493)</u>
Net Cash Inflows from Operating Activities	4,958	4,975	5,336
Cash Flows from Investing Activities			
Cash provided from:			
Interest Income on Bank Deposits - Operating	799	749	701
Interest Income on Bank Deposits - Grants	156	-	-
	<u>955</u>	<u>749</u>	<u>701</u>
Cash applied to:			
Purchase of Property, Plant and Equipment	(690)	(534)	(229)
Purchase of Intangible Assets (Software)	(4,215)	(4,565)	(4,522)
	<u>(4,905)</u>	<u>(5,099)</u>	<u>(4,751)</u>
Net Cash Outflows from Investing Activities	(3,950)	(4,350)	(4,050)
Cash Flows from Financing Activities			
Cash provided from:			
Capital Contribution - MoE	250	-	-

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	Budget 2014 \$000	Forecast 2015 \$000	Forecast 2016 \$000
Cash applied to:			
Payment to Crown - INZ	(500)	(1,050)	(750)
Repayment of Grants Surplus and Interest	(11,530)	(156)	0
Net Cash Outflows from Financing Activities	(11,780)	(1,206)	(750)
Net Increase/(Decrease) in Cash and Cash Equivalents	(10,772)	(581)	536
Cash and Cash Equivalents at the Start of the Year	31,719	20,947	20,366
Grants Surplus			
Cash and Cash Equivalents at the End of the Year	20,947	20,366	20,902

RECONCILIATION OF TOTAL COMPREHENSIVE INCOME WITH THE NET CASH INFLOWS FROM OPERATING ACTIVITIES FOR THE YEARS ENDING 30 JUNE

	Budget 2014 \$000	Forecast 2015 \$000	Forecast 2016 \$000
Total Comprehensive Income	331	971	924
Add/(Subtract) Non-Cash Items:			
Depreciation of Property, Plant and Equipment	789	634	564
Amortisation of Intangibles	4,615	4,865	4,851
	5,735	6,470	6,339
Add/(Less) Movements in Statement of Financial Position Items	22	(746)	(302)
Less Interest Received: Operating	(799)	(749)	(701)
Net Cash Flows from Operating Activities	4,958	4,975	5,336



DETAILS OF FORECAST PROPERTY, PLANT AND EQUIPMENT AS AT 30 JUNE

	Opening NBV \$000	Depreciation Charges \$000	Additions \$000	Closing NBV \$000
2014				
Computer Equipment	2,081	517	437	2,001
Motor Vehicles	-	-	-	-
Office Equipment	60	55	50	55
Furniture & Fittings	293	68	63	288
Leasehold Improvements	416	149	140	407
Total	2,850	789	690	2,751

2015				
Computer Equipment	2,001	419	339	1,921
Motor Vehicles	-	-	-	-
Office Equipment	55	5	5	55
Furniture & Fittings	288	65	60	283
Leasehold Improvements	407	145	130	392
Total	2,751	634	534	2,651

2016				
Computer Equipment	1,921	385	153	1,689
Motor Vehicles	-	-	-	-
Office Equipment	55	10	1	46
Furniture & Fittings	283	71	57	269
Leasehold Improvements	392	98	18	312
Total	2,651	564	229	2,316

DETAILS OF FORECAST INTANGIBLE ASSETS AS AT 30 JUNE

	Opening NBV \$000	Amortisation Charges \$000	Additions \$000	Closing NBV \$000
2014				
Software	13,097	4,615	4,215	12,697
2015				
Software	12,697	4,865	4,565	12,397
2016				
Software	12,397	4,851	4,522	12,068

FORECAST REVENUE FROM THE CROWN, AND PLANNED EXPENDITURE FOR THE YEAR ENDING 30 JUNE 2014

	Revenue \$000	Expenditure \$000
Grants and Contract Revenue		
Vote Tertiary Education:		
Non-Departmental Output Expenses		
Community Education	61,219	61,219
Centres of Research Excellence	31,690	31,690
Performance-Based Research Fund	268,750	268,750
Tertiary Education Grants and Other Funding	24,097	24,097
Tertiary Education: Student Achievement Component	2,040,201	2,040,201
Training for Designated Groups	331,897	331,897
Total Non-Departmental Output Expenses	2,757,854	2,757,854
Benefits and Other Unrequited Expenses		
Tertiary Scholarships and Awards	11,091	11,091
Apprenticeships Re-boot	13,150	13,150
Total Benefits and Other Unrequited Expenses	24,241	24,241
Non-Departmental Other Expenses		
University of Auckland Starpath Project	1,000	1,000
Tertiary Education Institutions Merger Support	1,500	1,500
Total Non-Departmental Other Expenses	2,500	2,500
Vote Education:		
Non-Departmental Other Expenses		
Secondary-Tertiary Interface	15,247	15,247
Total Non-Departmental Output Expenses	15,247	15,247
Grants Revenue - Vote Education/Tertiary Education	2,799,842	2,799,842
Contract Revenue:		
Contract - Ministry Social of Development - Foundation Focused Training Opportunities	46,784	46,784
Contract - Immigration New Zealand - English for Migrants	849	849
Total Grants and Contract Revenue	2,847,475	2,847,475

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	Revenue \$000
<u>Revenue to fund TEC's Operations</u> ⁽¹⁾	
Vote Tertiary Education:	
Non-Departmental Output Expenses	
Managing the Government's Investment in the Tertiary Education Sector	41,082
Tertiary Education and Training Advice	3,837
Ownership Monitoring of Tertiary Education Institutions	2,567
Operating Revenue - Vote Tertiary Education	47,486
Other Revenue	
Contract - Immigration New Zealand - Funding for Administration of English for Migrants	77
Total Operating and Contract Revenue	47,563
<u>Non-Departmental Capital Expenditure</u>	
Literacy and Numeracy Assessment Tool	250
Total Non-Departmental Capital Expenditure	250

⁽¹⁾ The planned expenditure associated with this revenue is reported in Part 6 (Forecast SSP) from page 25.

NOTES TO THE PROSPECTIVE FINANCIAL STATEMENTS

The Tertiary Education Commission's forecast financial statements have been prepared in accordance with the Education Act 1989 and Crown Entities Act 2004. The purpose of the forecast financial statements is to provide information on the Tertiary Education Commission's future operating intentions, against which it must report and be audited against at the end of the fiscal year. Use of this information for any other purpose may not be appropriate. The reader of this Statement of Intent should note that these forecast financial statements contain no actual results. Actual results achieved are likely to vary from the forecast information presented.

STATEMENT OF COMPLIANCE

The forecast financial statements comply with Financial Reporting Standard No.42: Prospective Financial Statements and other applicable financial reporting standards as appropriate for public benefit entities as they relate to forecast financial statements.

STATEMENT OF ACCOUNTING POLICIES

REPORTING ENTITY

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

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

BASIS OF MEASUREMENT

The forecast financial statements have been prepared on a historical cost basis. The forecast financial statements are presented in New Zealand dollars rounded to the nearest thousand dollars (\$000). The functional currency for TEC is New Zealand dollars.

CHANGES IN ACCOUNTING POLICIES

There have been no changes from the accounting policies adopted in the last audited financial statements.

ACCOUNTING STANDARDS

A new Accounting Standards Framework for Public Benefit Entities (incorporating a Tier Strategy) is being developed by the External Reporting Board (XRB). Under this new Accounting Standards Framework, TEC is classified as a Tier 1 reporting entity and it will be required to apply full Public Benefit Entity 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. TEC expects to transition to the new standards in preparing its 30 June 2015 financial statements.

With the impending change in the Accounting Standards Framework for public benefit entities, 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

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

Interest 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 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 period 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. All leases entered into by TEC are operating leases.

Lease incentives received are recognised in the Statement of Comprehensive Income 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 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 consist of the following asset classes: leasehold improvements, furniture and office equipment, and motor vehicles. Property, plant and equipment are measured at cost, less accumulated depreciation and impairment losses.

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 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 Statement of Comprehensive Income.

Subsequent Costs

Costs incurred subsequent to initial acquisition are capitalised only when it is probable that future economic benefits or service potential associated with the item will flow to TEC and the cost of the item can be measured reliably.

The costs of day-to-day servicing of property, plant and equipment are recognised in the Statement of Comprehensive Income as they are incurred.

Depreciation

Depreciation is provided on a straight-line basis on all property, plant and equipment, 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:

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

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

Intangible Assets

Software Acquisition and Development

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 TEC are recognised as an intangible asset. Direct costs include the software development and employee costs.

Staff training costs are recognised as an expense when incurred.

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

Costs associated with the development and maintenance of 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 Statement of Comprehensive Income.

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

Computer software	4 years	25%	straight line
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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 at least annually for impairment or 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.

TEC currently has no assets carried at a re-valued amount. For assets not carried at a re-valued 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 Kiwi Saver, 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 Statement of Comprehensive Income 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 Services Tax

All items in the financial statements are presented exclusive of goods and services tax (GST), except for receivables and payables which are presented on a GST-inclusive basis. Where GST is not recoverable as an input tax, then it is recognised as part of the related asset or expense.

TEC is not required to account for GST on its Vote Tertiary Education grants revenue and expense. This grant revenue and expense is stated exclusive of GST for reporting purposes.

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

TEC is a public authority and consequently is exempt from the payment of income tax. Accordingly no provision has been made for income tax.

Cost Allocation

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 as 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 FTEs and direct labour hours.



Critical Accounting Estimates and Assumptions

In preparing these forecast financial statements, 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 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 Statement of Comprehensive Income, and carrying amount of the asset in the statement of financial position. 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.

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

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

STATEMENT OF SIGNIFICANT UNDERLYING ASSUMPTIONS

These forecast financial statements have been prepared on the basis of the following significant assumptions:

- Grants income will be expensed in the year in which it is appropriated.
- Interest income is based on the expected interest rate during the year.
- Operating income is mostly expensed in the year in which it is appropriated and any minor surpluses used to reinvest in capability.



APPENDIX: DETAILED TARGETS FOR INVESTMENTS AND FUNDING ALLOCATED

Refer to Table 2 (page 32) for notes regarding the measures.

	Actual 2011	Actual 2012	Target 2013	Forecast 2013	Target 2014	Target 2015
STUDENT ACHIEVEMENT COMPONENT						
Estimated funded domestic equivalent full-time students (EFTS)						
Number of EFTS at all levels by subsector						
Universities	119,404	118,715				
Institutes of technology and polytechnics	66,614	67,241				
Wānanga	24,874	24,772				
Private training establishments	24,061	24,124				
Number of EFTS at NZQF Level 3 and above by subsector						
Universities			111,540 ±5%	118,919	111,071 ±5%	110,597 ±5%
Institutes of technology and polytechnics			54,282 ±5%	58,167	53,617 ±5%	53,567 ±5%
Wānanga			16,560 ±5%	17,423	17,386 ±5%	17,386 ±5%
Private training establishments			22,839 ±5%	24,206	22,996 ±5%	22,996 ±5%
Total EFTS at NZQF Level 3 and above			216,023	218,715	215,863	215,311
Number of EFTS at NZQF Levels 1 and 2			16,168 ±3%	15,451	13,861 ±3%	13,467 ±3%
Total Student Achievement Component	234,953	234,852	232,191	234,166	229,724	228,778
TRAINING FOR DESIGNATED GROUPS						
Industry Training - funded standard training measures	35,565	32,638	48,100	34,352		
Industry Training - funded standard training measures					28,594	29,680
Modern Apprenticeships - total funded trainees	10,450	10,985	14,000	11,604		
Apprentices - funded standard training measures					13,140	13,522
Youth Guarantee - funded places	7,596	7,285	8,525	8,542	9,835	10,360
Gateway - total participants	11,615	13,457	13,000	13,000	13,000	13,000
COMMUNITY EDUCATION						
Adult and community education						
Participation by learners in school-based programmes	23,999	26,137	24,000	24,000		
Total number of school-based ACE hours funded (new measure)			395,000	395,076	395,000	395,000
From the priority groups identified in the Tertiary Education Strategy; percentage of learners identified:						
as Māori or Pasifika	22%	20%				
with English language needs	40%	44%	All – 50%	All – 50%	All – 50%	All – 50%
as having low or no formal qualifications	46%	46%				
Number of EFTS in TEIs	1,937	1,870	1,808	1,808	1,808	1,808
Intensive Literacy and Numeracy – total number of learners	5,742	5,517	5,100	4,681	4,750	4,750
Workplace Literacy Fund - total number of learners	6,830	6,777	5,465	5,359	7,823	7,823
TEO-led total number of learners	4,274	3,895	2,841	2,841	2,800	2,800
Employee-targeted total number of learners	1,983	1,765	1,724	1,724	2,200	2,200
Employer-led total number of learners	573	1,117	700 – 1,100	794	700 – 1,100	700 – 1,100
BENEFITS AND UNREQUITED EXPENSES						
Number of medical intern places funded	343	339	365	387	395	435



TERTIARY EDUCATION COMMISSION
Te Amorangi Mātauranga Matua
44 The Terrace, PO Box 27-048
Wellington, 6141, New Zealand

www.tec.govt.nz

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