



Tertiary Education Commission
Te Amorangi Mātauranga Matua

Annual Report

For the year ended 30 June 2013

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For the year ended 30 June 2013

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

This audit report relates to the financial statements and non-financial performance information for the year ended 30 June 2012 included on the Tertiary Education Commission's (the Commission) website. The Commission's Board of Commissioners is responsible for the maintenance and integrity of the website. We have not been engaged to report on the integrity of the website. We accept no responsibility for any changes that may have occurred to the financial statements and non-financial performance information since they were initially presented on the website.

The audit report refers only to the financial statements and non-financial performance information named above. It does not provide an opinion on any other information which may have been hyperlinked to or from the financial statements and non-financial performance information. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and non-financial performance information as well as the related audit report dated 1 October 2012 to confirm the information included in the audited financial statements and non-financial performance information presented on this website.

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

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CHAIR'S FOREWORD: REALISING OPPORTUNITIES AND MEETING CHALLENGES

During the 2012/13 financial year, the Tertiary Education Commission Te Amorangi Mātauranga Matua (TEC) worked with the tertiary education sector to make significant progress towards realising the Government's vision for a world-leading tertiary education system. Our focus has been to work with the sector on three key elements to achieve this vision:

- 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.

Using a partnership approach, the TEC has worked with the tertiary education sector, other government agencies, research providers and businesses to enhance the tertiary sector's operational performance. Some of these partnerships, for example in foundation learning and trades training, have also provided innovative opportunities that better connect the needs of learners with the needs of industry and communities.

The TEC is responsible for allocating approximately \$2.7 billion a year to fund tertiary education provision and research as well as providing oversight of the tertiary education sector, with a focus on improving economic, societal, cultural and environmental outcomes. The TEC Board recognises that the best way to achieve the Government's vision is to support tertiary education organisations and programmes that are results focused. Our funding decisions have emphasised accountability and supporting high performance within the sector. Our Performance-Based Research funding decisions have also supported and promoted quality research across the system.

It has been just under a year since I have taken the role as Chair of the TEC Board. At the governance level, it has been a year of change as we have welcomed new Commissioners and appointed a new Chief Executive. These changes have brought a renewed focus and dynamism to the governance and day-to-day management of the TEC, which is reflected in this year's annual report. One thing that has not changed, however, is our commitment to ensure the approximately 620,000 students and trainees within the tertiary education system receive high-quality education and training that will help them realise their potential as individuals. We recognise that as a whole, these learners represent one of New Zealand's greatest future assets in terms of our economic, social, environmental and cultural health. They are New Zealand's future.



John Spencer, Chair

The Tertiary Education Commission

28 June 2013

MESSAGE FROM THE CHIEF EXECUTIVE

In this Annual Report, we provide an update on the way the work of the Tertiary Education Commission Te Amorangi Mātauranga Matua (TEC) is contributing to the Government's vision for a world-class education system.

Much of the TEC's work in 2012/13 has been to provide direction for the sector through Investment Plans and other funding and operational policy tools. This year, for example, the TEC conducted a full investment round. This follows the introduction in 2012 of performance-linked funding for tertiary education organisations. Investment Plans were developed with greater emphasis on performance incentives and accountability; already we're seeing significant improvements in the sector through this adjustment.

Other highlights for the year include continuing to move towards parity of participation and achievement for Māori and Pasifika, supporting outcomes-focused literacy and numeracy programmes, expanding trades training, and completing the second full Quality Evaluation of research for the Performance-Based Research Fund. In all these areas we have seen steady gains.

In addition, to further support the sector, the TEC has focused on refining our core services and streamlining systems and processes. Part of that work resulted in the development of an Information Process – Capability Development Plan. Implementation of the plan began in early 2013 and has allowed us to serve the sector better while also stabilising our workforce.

Since starting in this role in April 2013, I have looked to build our capabilities as an organisation and to encourage better collaboration with the tertiary education sector, other government agencies, and the private sector. This collaborative spirit can be seen in much of our work over the past year and has laid the groundwork for our future work programme.

One of my first pieces of work as Chief Executive was to meet with all of the TEC's current staff for one-on-one interviews and to seek feedback from various sectors and colleague agencies. At the same time, a series of workshops on organisational culture were independently conducted and informed. This work, along with a number of background materials, helped inform the TEC's business transformation project Te Kahurangi: Good to Great that is being rolled out in 2013/14.

As you will see in the following pages, our remit is wide ranging, from foundation education to academic study and from trades training through to doctoral research. No matter the programme or the organisation, our commitment is the same – to ensure that learners are receiving the education and training they need to be successful citizens.



Tim Fowler, Chief Executive

The Tertiary Education Commission

28 June 2013

THE ROLE OF THE TERTIARY EDUCATION COMMISSION

High-quality education is central to New Zealand achieving its economic, social, cultural and environmental goals. Tertiary education organisations (TEOs), government agencies, business, communities and learners all play a part in contributing to successful tertiary education outcomes.

The Tertiary Education Commission Te Amorangi Mātauranga Matua (TEC) is a Crown entity. Our legislated function, under the Education Act 1989, is to give effect to the Tertiary Education Strategy.¹

We do this by:

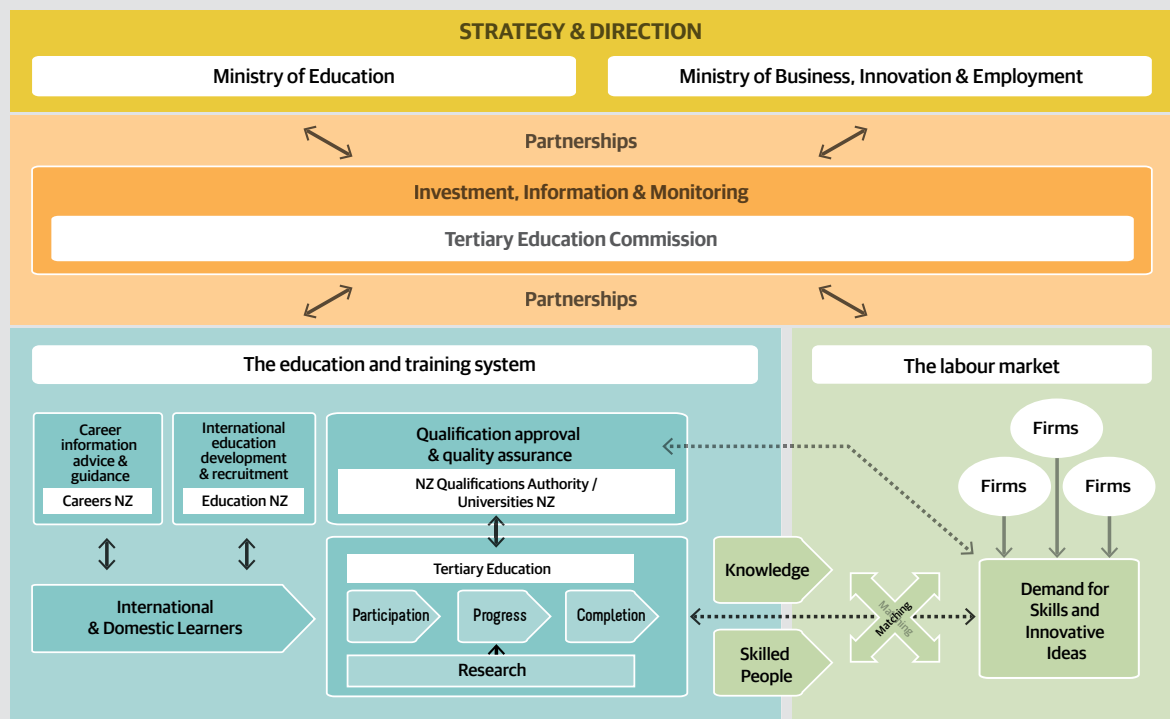
- issuing guidance on our expectations to the sector
- allocating Government funding to TEOs through the Investment Plan process in accordance with Government's objectives and priorities
- monitoring the performance of TEOs
- providing advice to the Government (including ownership advice) on the tertiary education sector.

We allocate approximately \$2.7 billion a year on behalf of the Government to fund the provision of tertiary education.²

Through our partnerships with the sector, industry, employers and other government agencies, such as the Ministry of Education (MoE) and the Ministry of Business, Innovation and Employment (MBIE), the TEC focuses on providing oversight of the system to support a higher-performing sector that will better meet the needs of New Zealand and its economy.

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

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



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

In 2012/13, the TEC funded educational provision through:

- eight universities
- 18 institutes of technology and polytechnics (ITPs)
- three wānanga
- 19 industry training organisations (ITOs)³
- 351 TEC-funded private training establishments (PTEs), and other organisations, including adult and community education providers, government training establishments, and secondary schools.

Overall, there are approximately 620,000 students, learners and trainees (including international students) in the tertiary education system.

³ This is the number of ITOs as of August 2013.

STRATEGIC CONTEXT AND OUTCOMES

Tertiary Education Strategy

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, its current and medium-term priorities, and the Government's expectations of the sector.

The current Tertiary Education Strategy 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 Tertiary Education Strategy, the Government has indicated clear choices about the priorities for investment and access across the tertiary education system. The Tertiary Education Strategy 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 (NZQF), 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 study at NZQF Levels 1 to 3
- improving the educational and financial performance of providers
- strengthening research outcomes.

Our contribution to these priorities is set in our outputs, which involved working with the tertiary education organisations to set Investment Plan commitments for these priorities in return for government investment.

Our Minister has commissioned a new Tertiary Education Strategy. The TEC will provide the Ministry of Education and the Ministry of Business, Innovation and Employment with our operational 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 the TEC's Plan Guidance from 2014 and in our Statement of Intent (SOI) 2014/15 to 2016/17.

Assisting Canterbury tertiary education institutions

Following the Canterbury earthquakes in 2010 and 2011, the TEC worked closely with the Christchurch-based tertiary education institutions (TEIs) 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 to develop business cases for capital support, and providing advice to Ministers on the proposals contained within them.

Our expectations for the tertiary education system

From 2013/14 to 2015/16, we intend to analyse the overall system and explore ways to improve its efficiency, effectiveness and value. This will involve making the tertiary education system more responsive to population shifts, to changes in demand and performance, and to learners' and employers' needs in different regions.

This process started by setting out the following expectations for the network. In our Plan Guidance for 2013 Investment Plans, we required that:

- TEOs 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 have access to foundation 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. This includes a goal to double the annual economic value of New Zealand's international education services to \$5 billion between 2011 and 2025.

Through our Plan Guidance, the TEC has 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

We have developed a new outcomes framework as part of our 2013/14 to 2015/16 Statement of Intent. The framework illustrates how our key activities and outputs aim to contribute to high-level economic, social, cultural and environmental outcomes through our key impact, which is a world-leading and high-performance tertiary education system.

This impact has three elements:

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

Our new framework provides a more enduring structure against which we can identify specific short- and medium-term priorities, such as those in the Tertiary Education Strategy.

Because the new framework provides a simpler structure for describing how our activities contribute to our impacts, we have used it to report against our activities in the 2012/13 to 2014/15 Statement of Intent. We have mapped the activities under our previous priority outcomes to the three new impacts.

The activities under *Outcome 1: Doing Better for Māori and Pasifika* and *Outcome 2: Enhancing Transitions from Post Compulsory to Tertiary Education* have been mapped to our new impact for

learner achievement – *An Increased Proportion of the Population with a Tertiary Qualification*.

Research-related activities under *Outcome 3: Increasing Tertiary Education's Contribution to Economic Recovery and Growth* have been mapped to our research impact: *Higher Quality and More Relevant Research*. All other activities under Impact 3 have been mapped to our system-responsiveness impact: *A Tertiary System that is More Responsive to the Needs of Employers and Learners*.

The activities under *Outcome 4: Improving System Performance* have been mapped to our system responsiveness impact: *A Tertiary System that is More Responsive to the Needs of Employers and Learners*.

The TEC's outcomes framework (updated from 2013/14-2015/16 framework)

Whole-of-Government Results

GOVERNMENT NATIONAL OUTCOMES

Economic growth
and productivityA more highly-skilled, adaptive,
innovative and productive workforce

Society

Culture

Environment

More NZ citizens fully participating in society,
and contributing to NZ's social and cultural well-beingWith other government agencies, this contributes to
EDUCATION-WIDE OUTCOME

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



With our colleague education agencies, our impacts contribute to

Tertiary Education
Organisations

TEC IMPACTS

A world-leading and high-performing tertiary education system

An increased proportion of the population
with a tertiary qualification

Higher levels of educational attainment
Increased participation rates in higher-level 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

Higher quality and more
relevant research

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

A tertiary system that is more responsive
to the needs of employers and learners

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 government priority areas
More TEOs aligning their activities with their expected role within the system
TEOs that are well managed and financially sustainable

The Tertiary Education
Commission

TEC OUTPUTS

Smart investment
decisions

Investment decisions aligned with Government goals and priorities
Funding decisions shift investment toward higher performing providers, more relevant areas of provision and higher-quality research
Monitor the performance of Plans and contracts

Provision of information
and advisory services

Publish information on TEO performance, funds, educational performance and research
Provide information and advisory services to the Minister
Work closely with agencies across government to strengthen connections between tertiary education, the welfare system and the labour market

Monitoring sector
performance and capability

Monitoring and analysis of financial, education and research performance of TEOs and network
Monitoring and analysis of TEI governance/management capability and ownership risk
Management of Ministerial appointments to TEI Councils
Support the development of good practice accountability and performance frameworks including financial & resource management

Government
Priorities

PRIORITY FOCUS

Tertiary Education Strategy, Better Public Services, Prime Minister's Priorities, Business Growth Agenda, Canterbury Economic Recovery, Auckland Strategy, International Education Leadership Statement.

Focus on: 1) economic growth, 2) learner achievement, specifically Māori and Pasifika, youth, achievement of literacy and numeracy and of higher qualifications, 3) innovative research, and 4) system effectiveness.

"Success breeds success, the more they got right the more eager they were to learn. Teaching them dedication, commitment, pride in themselves and in their workmanship ultimately reflects on the finished product"

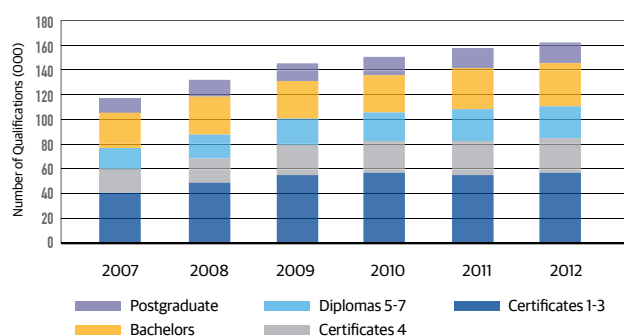
WelTec Tutor Len Matautia

OUR KEY ACHIEVEMENTS

Improvements in qualification completions

The number of qualifications completed by formal students has continued to increase over the past several years. In 2010, 150,000 qualifications were completed. In 2011, 157,000 qualifications were completed and in 2012, 162,000 qualifications were completed. Of the qualifications completed in 2012, 51,700 were bachelors or higher qualifications and 110,000 were non-degree qualifications.

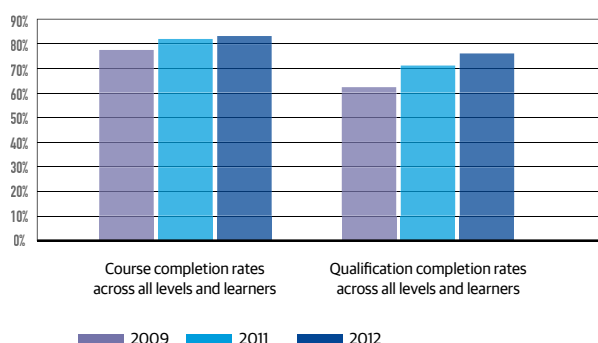
QUALIFICATIONS COMPLETED BY FORMAL STUDENTS BY LEVEL OF STUDY



Performance-linked funding: improving performance

In 2012⁴, 5% of Student Achievement Component (SAC) funding (approximately \$2 billion) was linked to 2011 performance against the educational performance indicators. Since performance thresholds were introduced in 2009, relatively small changes in incentives were associated with large improvements in outcomes: in 2012, only \$3 million out of \$2.01 billion (0.15%) of SAC funding was withheld due to underperformance, but course completion rates rose by 4% and qualification completion rates were up by 13% between 2010 and 2012. The performance thresholds for assessing 2012 performance were raised, which has led to further performance improvements.

SYSTEM IMPROVEMENTS



Improvements in foundation education

In 2012 the TEC allocated \$37.2 million of the total SAC Levels 1 and 2 funding pool through a contestable process to improve the quality of this provision and how well it responds to learner needs. A competitive tender process delivered a significant improvement in value for money. An independent report commissioned by the TEC estimated that the competitive process achieved a financial saving of \$17 million compared to the prices previously paid for SAC Levels 1 and 2 provision. This represents a financial gain of \$32 million compared to the prices paid for Youth Guarantee provision, and the TEC was thereby able to fund 2,500 more equivalent full-time students (EFTS) compared to what it could have funded at Youth Guarantee prices.

→ EMBEDDING LITERACY AND NUMERACY

Embedded literacy and numeracy is teaching and learning that both enhances learners' literacy and numeracy and develops their vocational and other skills. Since the beginning of 2013, a condition of funding for TEOs is that literacy and numeracy is embedded into all Level 1 to 3 courses.

The TEC has supported the development of TEOs' capability to embed literacy and numeracy by funding the National Centre of Literacy and Numeracy for Adults to work with the sector. NorthTec, for example, has taken a whole-of-organisation approach to embedding literacy and numeracy. This starts with an enrolment process that uses simplified written material supported by visual and oral methods and gives the learner the option to have a person support them through the process.

Khalid Bakhshov, Director Creative Industries and Humanities at NorthTec, says: "We have initiated a regional literacy and numeracy strategy group among a wide range of tertiary education providers. We realise that together we can make literacy and numeracy more accessible and more relevant to people's lives."

→ YOUTH GUARANTEE: AGRICULTURE GETS A BOOST

The TEC's fees-free Youth Guarantee funding creates opportunities for disengaged 16- and 17-year-olds to re-enter education in a tertiary setting. During 2012, the TEC's Youth Training programmes were brought under the umbrella of the Youth Guarantee to ensure programmes are better aligned with the Government's priorities.

Taratahi Agricultural Training Centre is based in the Wairarapa, with some delivery in Taranaki, Hawke's Bay, Auckland and Northland. The required clothing for the fees-free Youth Guarantee programme introduced by Taratahi in 2012 says it all: gumboots, overalls, wet-weather gear and sturdy work boots.

Nigel Udy, Education Delivery Manager for Taratahi, says, "We've developed a programme that teaches students basic agricultural skills that are required to be successful in farming. In 2012, we had a full occupation rate with 23 students completing the course, and we're on track for similar numbers in 2013. What's more, our average credit achievement sits at 96.85. There's a great need for people who have hands-on farm experience, so adding the Youth Guarantee option to our work is a great way to help young people get the skills they need to work within the sector."

⁴ Throughout the document, all references to 2012 refer to the calendar year ending 31 December and all references to 2012/13 refer to the budget year ending 30 June 2013.



Doing better for Māori and Pasifika

The TEC's Board made a commitment to achieving parity of participation and achievement for Māori and Pasifika by 2015 at ITPs, wānanga, ITOs and PTEs, and by 2018 in universities. In return for Government investment, the sector committed to increasing participation and achievement for Māori and Pasifika toward achieving parity. The TEC rewarded some tertiary education institutions with a strong track record of high performance for Māori and Pasifika learners with \$6.5 million for more places⁵.

→ HE TOKI KI TE RIKA:

INSPIRING MĀORI LEADERSHIP IN TRADES

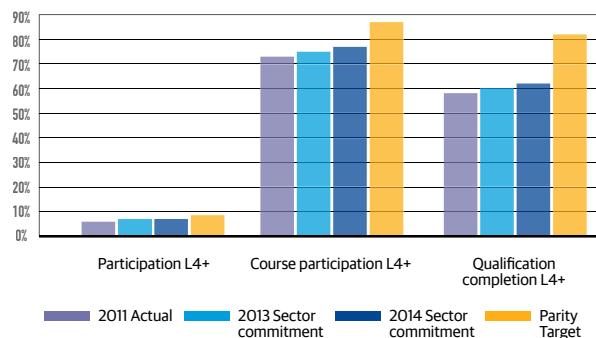
He Toki ki te Rika is an iwi-led collaboration between Christchurch Polytechnic Institute of Technology (CPIT), Te Tapuae o Rehua, Te Rūnanga o Ngāi Tahu, and Hawkins Construction, with support from other industry organisations, Te Puni Kōkiri, the Ministry of Social Development (MSD), and the TEC. Initiated in 2011, the programme includes courses on carpentry, welding, plumbing, painting and more.

In the 2012/13 financial year alone, nearly 100 He Toki ki te Rika students moved into full-time employment in the building trades, with another 87 enrolling for further training. There were 141 new enrolments in the first half of 2013.

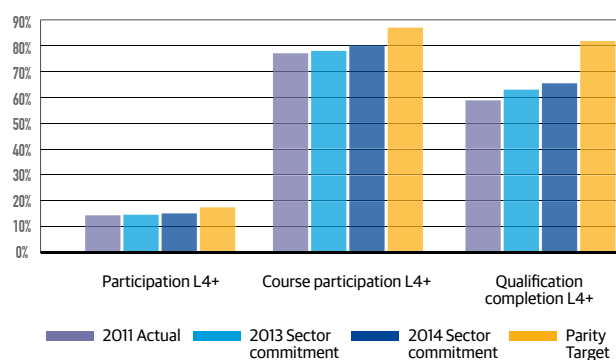
The Kaiwhakahaere (Chair) of Te Rūnanga o Ngāi Tahu, Tā Mark Solomon, says the programme is an important first step for many students. "Our graduates may start as the labourers or hammer-hands, but we want them to go on and become the supervisors, the project managers, the foremen."

Building on the success of He Toki ki te Rika and the Pasifika pre-trades training initiative, Budget 2013 announced an expanded Māori and Pasifika trades training initiative. New funding will help form similar partnerships between employers, TEOs, Māori, iwi and Pasifika groups. This initiative aims to enable more Māori and Pasifika young people to complete education and move into employment and further training. Through partnerships with Māori and Pasifika groups, employers can also help grow the pool of Māori and Pasifika people ready, willing and able to work in areas of high industry demand.

PASIFIKA



MĀORI



→ PASIFIKA PRE-TRADES TRAINING

Five ITPs participated in the Pasifika Trades Training initiative, which is funded through the TEC. The initiative boosts the skills and earning levels of Pasifika learners, while also supporting trades training. In 2012, a total of 234 eligible learners participated in this one-year fees-free programme, with Pasifika community leaders promoting the initiative and recruiting learners.

WelTec Tutor Len Matautia taught carpentry to 19 Pasifika trades training students, with 14 earning their Pre-Trades Training Certificate. He says that, while the focus was on constructing a house over a 34-week course, the students also gained confidence and other life skills. "Success breeds success, and the more they got right the more eager they were to learn. Teaching them dedication, commitment, and pride in themselves and in their workmanship ultimately reflects on the finished product."

⁵ The participation parity target represents the percentage of 15- to 24-year-old Māori and Pasifika in the national 15- to 24-year-old population. The parity target for the course and qualification completion rates represents the course and qualification completion rates for non-Māori and non-Pasifika.

PASIFIKA CARPENTRY

WelTec Tutor Len Matautia taught
19 Pasifika carpentry students

2013-15 Investment Plans

2012 was a full investment round covering all parts of the tertiary education sector. In return for Government investment, the sector made commitments that included increasing priority trades training to support the Canterbury rebuild and to more engineering places. On the latter, the TEC agreed to SAC funding of \$8.6 million to purchase 706 additional Priority Engineering EFTS at universities and institutes of technology and polytechnics in 2013. Providers who receive SAC funding (approximately \$2 billion) also committed to delivering higher-level qualifications and improving their course completion, qualification completion, progression and retention rates.

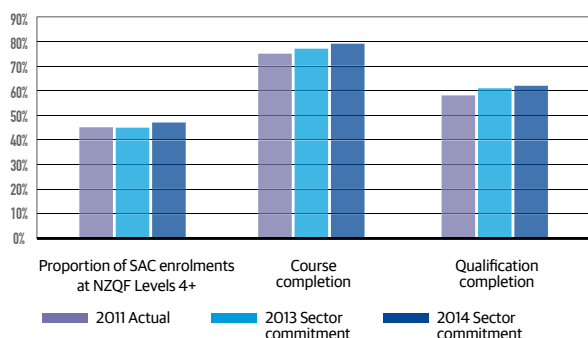
→ LINKING TO INDUSTRY

The TEC worked with the tertiary education sector to develop Investment Plans that emphasise knowledge exchange between the sector and industry. The efforts by universities in this area are paying dividends for students, universities, and New Zealand businesses.

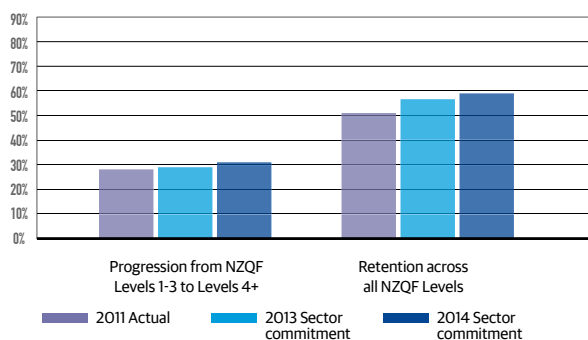
For example, the University of Otago School of Business introduced an internship programme four years ago. After successfully completing two years of academic study (with at least a B average), undergraduate students are placed with companies ranging from two academic semesters to 15 months to experience working in a corporate environment before returning to the university to complete their academic study. While working, they also complete a research project as part of the programme. To date, 43 students have taken up internships with organisations including Unilever, Ernst and Young, PricewaterhouseCoopers, Bupa Care Services, and Tourism Dunedin. A minimum of 20 students are likely to take up internships in 2014.

Otago Business School Dean, Professor George Benwell, says the further development of initiatives like the internship programme is a strategic priority for the university. "These programmes link the university to industry in new ways, and play an important role in ensuring our students are 'work-ready' when they graduate."

UNDER 25-YEAR-OLD



ALL LEARNERS



→ ENGINEERING – BUILDING OUR FUTURE

Engineering will play a significant role in growing an innovative economy, and will play a central role in the rebuilding of Christchurch. With a shortage of engineering technicians and technologists, as well as professional engineers, a key focus for the TEC in 2012/13 has been working with tertiary education organisations through their Investment Plans to increase the number of engineering students.

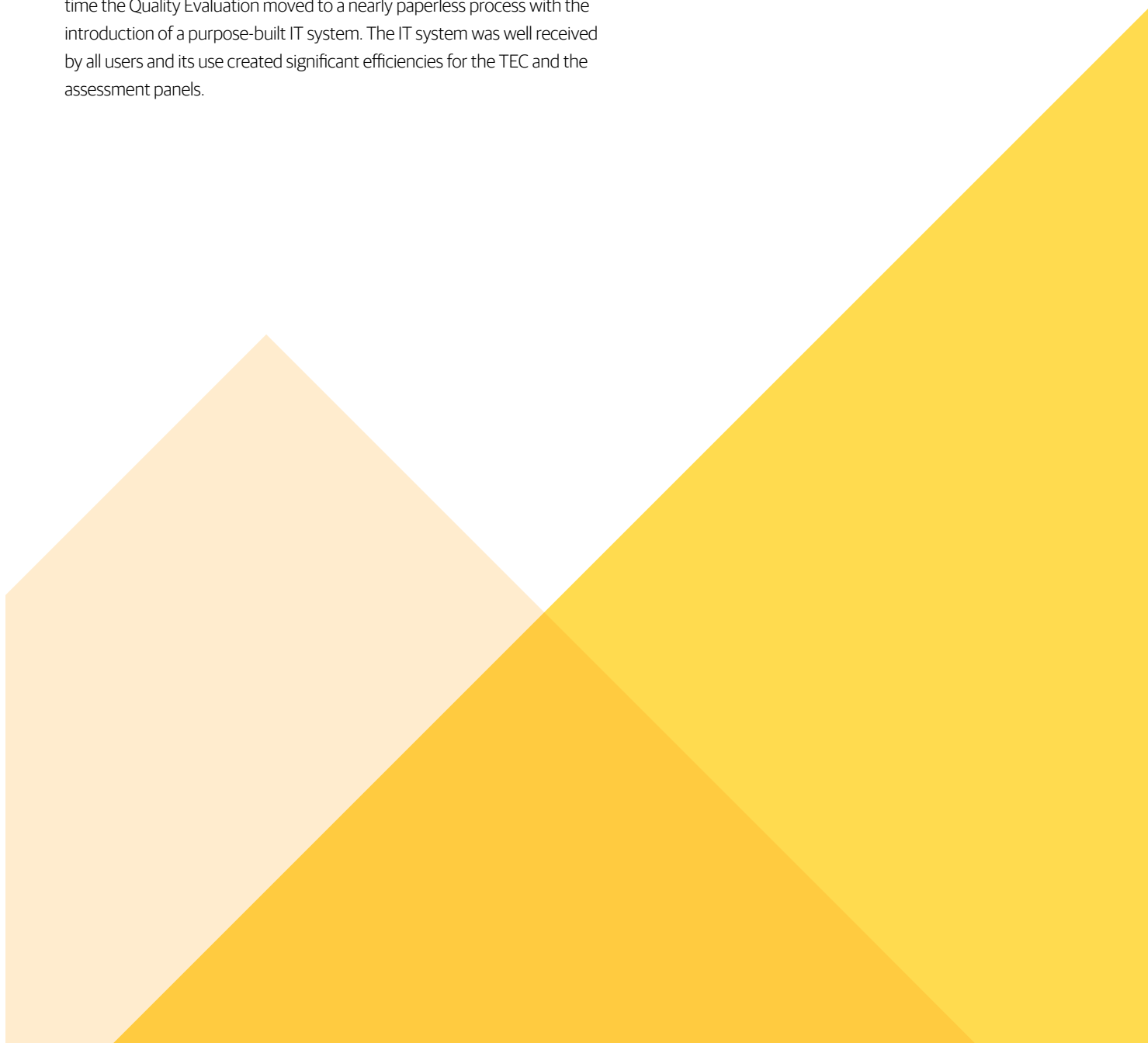
In 2013, the Institution of Professional Engineers New Zealand began developing the Techlink Pathways Project to provide a way for school leavers to move on to studying technology and engineering at ITPs. Based on the results of a needs assessment and talking with stakeholders, the project will focus on school leavers who want to achieve NCEA Levels 2 or 3 but are not currently going on to university.

Project leader Glynn McGregor says the scoping phase of the project is nearly complete and he is now working to secure funding for the rest of the project. "ITPs are keen to get the New Zealand Diploma in Engineering and Bachelor of Engineering Technology qualifications well established and recognised in schools. Employers want more practical, work-ready graduates, and the Government is committed to increasing the number of students doing Level 6 and 7 technology and engineering-related qualifications. All the drivers are there; the challenge is to set up a cohesive, collaborative structure to pull it together."



**2012 Performance-Based Research Fund (PBRF) Quality Evaluation:
improving research quality**

In 2012, the TEC completed the second full Quality Evaluation of research (the 2006 Quality Evaluation was a partial assessment round). The Performance-Based Research Fund allocates approximately \$1 billion funding (GST exclusive) over a six-year period on the basis of a comprehensive assessment of research quality, external research income and research degree completions by postgraduate students. The measured quality of the sector's research has increased, with the new average quality score result in 2012 being 4.66, compared to 4.40 in 2006 and 4.30 in 2003. For the first time the Quality Evaluation moved to a nearly paperless process with the introduction of a purpose-built IT system. The IT system was well received by all users and its use created significant efficiencies for the TEC and the assessment panels.



OUR CONTRIBUTION TO KEY IMPACTS

IMPACT 1:

IMPACT 1: An increased proportion of the population with a tertiary qualification

Developing our workforce and the skills of our graduates is critical to the country's long-term productivity and future growth. Graduates with high-level qualifications have higher incomes and improved social and cultural outcomes.

The Government has set Better Public Services targets for the next three to five years to boost skills and employment by increasing educational achievement among young New Zealanders.

- By 2017, 85% of 18-year-olds will have achieved a National Certificate of Educational Achievement (NCEA) Level 2 or an equivalent qualification.
- By 2017, 55% of 25- to 34-year olds will have a qualification at Level 4 and above on the NZQF.

Achieving these targets requires a focus on providing foundation-level education for learners who did not successfully transition from post-compulsory to tertiary education, and improving the performance of the system, particularly for priority learners groups.

What we said we would do	What we have done
<p>Increase the number of young people making successful transitions from school to tertiary education (Outcome 2):</p> <ul style="list-style-type: none"> → The Government's most significant initiative in this area is the Youth Guarantee programme, which offers vocation-focused education and improves transitions between school, tertiary education and work for targeted 16- to 17-year-olds. The Youth Guarantee programme is a priority for the Government and it expects to fund 3,000 more places over the next three years. → The TEC will work with other agencies (particularly MoE) to develop new vocational pathways (including expansion of Trades Academies) to give students who are interested in vocational learning clear linkages between what they are studying and their post-school options. This work will support student decision-making, and provide employers with simplified information about the knowledge and skills of school leavers. 	<p>In 2012, the TEC funded 7,291 places in Youth Guarantee, 950 more than estimated in 2011 for the combined Youth Training⁶ and Youth Guarantee initiatives. In 2013, the TEC allocated 8,531 places, an increase of 1,240 from the 2012 actual.</p> <p>The TEC worked with other agencies to develop and publish five Vocational Pathways for TEOs to use in both fees-free Youth Guarantee and secondary/tertiary programmes, particularly in Trades Academies. The TEC will monitor the outcomes of these pathways, particularly progression to higher education, training and sustained employment.</p>

⁶ The deliverables, methodological approach, performance standards and time-frames are agreed through a Project Plan with the team requesting the work.

IMPACT 1: An increased proportion of the population with a tertiary qualification

What we said we would do	What we have done
<p>Improve the literacy, language, numeracy and skills outcomes from NZQF Level 1-3 study (Outcome 2):</p> <p>Levels 1-3</p> <ul style="list-style-type: none"> → In line with the Government's goal of having more New Zealanders achieving NCEA Level 2 or equivalent qualifications, the TEC will support the implementation of a more effective framework for foundation-level tertiary education at Levels 1 and 2. The employment returns for Level 1 and 2 study are very low, and the proposed changes to Level 1 and 2 provision are required to address this. More effective foundation learning also provides a way to improve achievement for Māori and Pasifika learners. → In 2013 and 2014, the TEC will work with agencies to increase the value of foundation education both for students and for the Government by targeting provision to students with low or no qualifications. → Along with MoE, the TEC will also support work on fees and subsidy policies for study at Levels 1 and 2. <p>Literacy and numeracy</p> <ul style="list-style-type: none"> → The TEC will require full uptake and use of the Literacy and Numeracy for Adults Assessment Tool and expect to see significant levels of improvement in literacy and numeracy outcomes for learners at Levels 1-3. 	<p>Levels 1-3</p> <p>In April 2013, the TEC published its Youth and Transitions Framework. The Framework indicates a strengthening expectation that tertiary providers improve support for learners to progress to higher-level qualifications and to help them make decisions about their programmes of study and future employment options.</p> <p>The TEC introduced a competitive process to allocate \$40 million of Level 1 and 2 SAC funding; and also introduced Youth Guarantee to replace Youth Training and Youth Guarantee initiatives, with full implementation in 2013. The TEC worked with MoE and MSD to provide advice on the effectiveness of Foundation-Focused Training Opportunities (FFTO) funding and the possibility of future funding.</p> <p>The TEC continued to work with MoE and New Zealand Qualifications Authority (NZQA) on aligning regulatory and funding settings with the Government's objectives for foundation education. This work has now been picked up in an MoE-led review of foundation-level provision, to be completed by the end of 2013.</p> <p>Literacy and numeracy</p> <p>By the end of 2012, 73.6% of providers were using the Literacy and Numeracy Assessment Tool. The TEC is working closely with the remaining providers to increase the proportion of providers using the tool.</p>
<p>Do better for Māori and Pasifika (Outcome 1):</p> <ul style="list-style-type: none"> → The TEC will 'hard-wire' performance commitments for Māori and Pasifika achievement outcomes as part of TEOs' 2013-15 Plans. → The TEC will work closely with MoE and other agencies on revising Ka Hikitia and the Pasifika Education Plan. 	<p>As part of 2013-15 Plans, the sector committed to increasing participation and achievement for Māori and Pasifika learners (see graphs on p. 14).</p> <p>The TEC is finalising public consultation on Tū Māia e Te Ākonga, the TEC's Māori learner framework, which is aligned with the Tertiary Education Strategy, Ka Hikitia and the Better Public Services targets.</p> <p>The TEC developed the Pasifika Implementation Plan to meet the strategic outcomes of the TEC Pasifika Framework and the Pasifika Stakeholder Engagement Plan to support its relationships with Pasifika stakeholders.</p>

How do we measure progress?

Impact	Measure	Baseline	Target (2014/15)	Actual
Increasing the proportion of young people making successful transitions from school to tertiary education.	% of 18-year-olds with NCEA Level 2 or equivalent qualification.	67% (2010)	79% (2014)	77% (2012)
Increasing the proportion of young people making successful transitions from school to tertiary education.	% of 15- to 24-year-olds not in employment, education or training.	12.5% (2010/11) (OECD* average: 12.2% in June 2010)	More than OECD average (June 2015)	Not available (2012)
Increasing the proportion of young people making successful transitions from school to tertiary education.	% of young people moving from post-compulsory to tertiary education by age 19.	72% (2010/11)	Increase	Not available (2012)
Improving the literacy, language and numeracy (LLN) skills outcomes from Level 1-3 study.	% of learners with improved LLN skills as measured by the Assessment Tool.	Not available		Not available
Improving Māori completion rates at Bachelor's level.	% of Māori students starting a Bachelor's qualification who complete a qualification at the same level or higher eight years later.	42% (2010)	60%	44.8% (2012)
Improving Pasifika completion rates at Bachelor's level.	% of Pasifika students starting a Bachelor's qualification who complete a qualification at the same level or higher eight years later.	43% (2010)	60%	44.6% (2012)
Improving completion rates at Bachelor's level for all learners.	% of all students starting a Bachelor's qualification who complete a qualification at the same level, or higher, eight years later.	60% (2010)	60%	61.4% (2012)
Improving attainment for Māori learners.	% of Māori students achieving a qualification at Level 4 and above.	50% (2010/11)	64%	54.3% (2011)
Improving attainment for Pasifika learners.	% of Pasifika students achieving a qualification at Level 4 and above.	55% (2010/11)	64%	56.0% (2011)
Improving attainment for all learners.	% of all students achieving a qualification at Level 4 and above.	64% (2010/11)	64%	67.7% (2011)
Improving attainment for young learners.	% of young people (under 25) gaining Bachelor's degrees.	25% (2010/11)	28%	26% (2012)
Improving attainment of high-level qualifications for young learners.	% of 25- to 34-year-olds with advanced trades qualifications, diplomas and degrees (at Level 4 and above).	52% (2010)	53.5% (2014)	52.6% (2012)
Improving system performance.	Aggregate sector qualification completion rate for under 25-year-olds (TEC educational performance indicator measure).	64% (2011)	68%	69% (2012)

* OECD – Organisation for Economic Co-operation and Development.

IMPACT 2:

IMPACT 2: Higher-quality and more relevant research

The research undertaken in the tertiary education sector, especially at universities, is a key driver of improved social, economic and environmental outcomes for all New Zealanders.

Research-led teaching trains the next generation of researchers and equips graduates with the knowledge and skills to make a greater contribution to their communities and workplaces. Research enhances public knowledge and debate, the creation of effective public policy, and innovation and productivity. To ensure that tertiary education research maintains and increases its contribution in these areas, TEOs must be able to conduct high-quality research that advances knowledge, contributes to improved teaching practice, and responds to New Zealand's particular challenges and opportunities.

The TEC influences improvements in the quality and relevance of research and research-led teaching through its investment in the PBRF and the Centres of Research Excellence (CoREs) fund, and through the Investment Plan process.

What we said we would do	What we have done
Implement funding stream changes resulting from the review of the PBRF and the CoREs (Outcome 3).	<p>The TEC provided operational advice and information to MoE-led reviews of the PBRF and CoREs through the Governance and Working Groups. Both reviews will be completed in the second half of 2013, after which the TEC will implement any changes.</p> <p>The TEC contracted the Royal Society of New Zealand to establish the processes to provide recommendations for funding future CoREs.</p>
Work with other agencies to agree research priorities (Outcome 3).	<p>The TEC contributed to the development of National Science Challenges, led by MBIE, which were publicly released in May 2013.</p> <p>The TEC provided input to MoE's and MBIE's development of Government expectations for research and innovation for the new Tertiary Education Strategy.</p>
Ensure TEOs work closely with businesses and employers to match research and innovation needs of industry (Outcome 3).	<p>The TEC's 2013 Plan Guidance included the expectation that TEOs would describe in their Plans how they were meeting the research and innovation needs of employers and industry, including TEO involvement in government research initiatives to engage with business.</p> <p>The TEC contributed to the development of a new Tertiary Education Strategy, which includes priorities for increased contribution to innovation and stronger connections with industry.</p> <p>The TEC also continued to work intensively with CoREs as they reframed their strategic direction and delivered their research goals.</p>

How do we measure progress?

Measure	Actual (2011)	Target (2012)	Actual (2012)	Variance/comments
Percentage increase in External Research Income (ERI)	1.6%	4%	-0.09% ⁷	There has been a flat trend in ERI from 2009 to 2012. This appears to relate to changes to the phasing of capital in CoREs' contracts and changes to Vote Science and Innovation funds, such as the Marsden Fund, which reduce the funding universities can access.
Research degree completions	3,062	3,350	3,766 ⁸	

⁷ The ERI declared in 2011 and 2012 is from a different set of providers and the figures for the two years are not directly comparable. ERI declared for 2011 and 2012 from the three new entrants to the PBRF has been excluded from these figures since they did not become eligible to receive PBRF funding until 1 January 2013. The ERI for 2011 declared by those leaving the PBRF from 31 December 2012 has been retained since they were eligible for PBRF funding at the time they earned and declared this ERI. The value of ERI declared in 2011 by providers who have since left the PBRF is \$9,894.67.

⁸ This figure is based on the most recent data from the April 2013 Single Data Return (SDR) and has not yet been confirmed.

IMPACT 3:

IMPACT 3: A tertiary system that is more responsive to the needs of employers and learners

To achieve the Government's goal to grow the economy and support improved economic outcomes, the tertiary system needs to be focused on priority areas of education and training and be responsive to the needs of employers and demand signals at local and national levels.

TEOs can support improved employment and economic outcomes by increasing their role as places for educators, researchers and businesses to engage, collaborate and innovate. We want more TEOs aligning their activities with their expected role within the system and TEOs that are well managed and financially sustainable.

What we said we would do	What we have done
Ensure through the Investment Plan process that TEOs work closely with their stakeholders, and particularly industry and employers, to better match provision with labour-market demand (Outcome 3).	As part of approving 2013-15 Investment Plans, the TEC worked with TEOs to ensure that evidence (such as Infometrics reports) informed their engagement with industry and employers. The TEC has been monitoring provider commitments for these changes in delivery. The TEC is continuing to work with MoE and MBIE on skills leadership, employer voice, and engagement with the tertiary sector on developing innovation capability.
Make direct investment decisions in specific areas of provision (e.g. science, technology, engineering and mathematics) that align better with economic development goals (Outcome 3).	The TEC funded an additional 706 engineering places in 2013. Providers have forecast higher enrolment in science courses in 2013 and 2014 in their Investment Plans. TEOs committed to address economic development goals relating to skill needs, particularly in engineering and through priority trades provision, including supporting the Canterbury rebuild.
Gain a better understanding about which labour market programmes are effective; work with MBIE on research to evaluate the effectiveness of programmes and implement improvements where necessary (Outcome 2).	The TEC secured access to Statistics New Zealand's Integrated Data Infrastructure, which links tertiary education data with data about employment outcomes. This will give the TEC a better understanding of the outcomes and effectiveness of tertiary education. The TEC has been working with MoE on publishing the employment outcomes of tertiary education in order to support learner choice.
Work with other agencies (particularly Careers NZ) to support the review of the provision of career advice and guidance to strengthen students' decision making (Outcome 2).	The TEC worked with Careers NZ and MBIE to contribute to MoE's Review of Careers Information, Advice, Guidance and Education.
Collect and publish annual graduate employment outcomes to help students make the best decisions about tertiary education (Outcome 3).	The TEC initiated an Information for Learners project to collect and analyse data about how learners use information to make decisions about tertiary education.

IMPACT 3: A tertiary system that is more responsive to the needs of employers and learners – continued

What we said we would do	What we have done
Continue to work to improve the governance and operations of TEIs (Outcome 4).	<p>In 2012, the TEC worked closely with tertiary education sector bodies and TEIs to establish and implement an integrated capital asset management (CAM) Monitoring Framework. All TEIs provided information to the TEC on their long-term capital intentions to improve monitoring and inform decision making, and completed a self-assessment of their CAM capability in preparation for independent reviews.</p> <p>The TEC also:</p> <ul style="list-style-type: none"> → made recommendations to Ministers on 35 reappointments and 14 new appointments to TEI councils → gave councils advice about TEI performance, administrative and legislative matters → reviewed the financial results and forecasts of TEIs and industry training organisations (ITOs), including closely monitoring high-risk TEIs → provided specialist advice on several TEI borrowing and asset-disposal applications and the Crown Asset Transfer and Disposal policy → continued to work closely with the sector, the Treasury and the Office of the Auditor-General to improve TEIs' asset management and regulatory performance.
Proactively work with TEIs to use benchmarking analysis, efficiency measures and the New Zealand Benchmarking Tool (the Tool) (Outcome 4).	<p>Since 1 January 2013, participation in the Tool has been a condition for SAC funding for TEIs. The TEC has provided ongoing support for TEIs that are new to the Tool.</p> <p>The TEC has agreed both to extend a contract with Tribal for 2013/14 and for Tribal to produce a report on performance of ITPs from 2007-13.</p>
Work with MBIE to provide whole-of-labour-market policy advice on local and national issues with a bearing on the rebuild and wider Canterbury recovery, including consideration of how increased productivity in the construction industry might be addressed in response to increases in the demand for labour (Outcome 3).	<p>The TEC in conjunction with the inter-agency steering group (MBIE, MPI*, Treasury, DPMC*, CERA*) worked with the Canterbury TEIs (Lincoln, UC* and CPIT) to develop and assess the Programme Business Cases submitted by all three TEIs seeking capital support from the Crown to assist with their earthquake recovery efforts.</p> <p>Cabinet approved in-principle funding for all three TEIs in November 2012.</p> <p>The TEC contributed to the MBIE-led development of a National Science Challenges working group through input to policy development and initial scoping of the challenges.</p> <p>The TEC also provided input to MoE's and MBIE's development of the new Tertiary Education Strategy.</p>
Support the development and implementation of the Auckland Economic Development Strategy and help address labour market issues that arise through that work (Outcome 3).	The TEC contributed to the implementation of the Auckland Economic Development Strategy through the Central Government group, the Skills working group, and the Internationalisation and Innovation group.

* MPI – Ministry for Primary Industries.

* DPMC – Department of the Prime Minister and Cabinet.

* CERA – Canterbury Earthquake Recovery Authority.

* UC – University of Canterbury.

How do we measure progress?

Measure	Baseline	Target	2012/13 Progress
Earnings premium of Bachelor's degree or higher beyond a school qualification.	1.33 times higher (2009) [cf 2009 OECD average 1.63 times higher]	1.50 times higher (2014/15)	1.59 times higher
<p>Percentage of TEIs meeting or exceeding TEC financial benchmark indicators:</p> <ul style="list-style-type: none"> → net surplus (before abnormals) to revenue → net cash flow from operations → liquid funds → three-year average return on property, plant and equipment. 	<p>88% overall (2010/11):</p> <ul style="list-style-type: none"> → net surplus (before abnormals) to revenue: 93% → net cash flow from operations: 90% → liquid funds: 84% → three-year average return on property, plant and equipment: 93% 	95% (2014/15)	<p>Net surplus (before abnormals) to revenue: 62%.</p> <p>Net cash flow from operations: 76%.</p> <p>Liquid funds: 69%.</p> <p>Three-year average return on property, plant and equipment: 93%.</p> <p>TEIs' financial results have declined overall since 2010 and the number of TEIs meeting the TEC low-risk benchmark indicators has fallen. This is due to a number of factors, including poorer financial results reported by the three TEIs most affected by the Canterbury earthquakes; the reduction in funding for the ITP sector; and removal of regional network grants and other capability funding.</p>
Percentage of TEIs participating in the New Zealand Benchmarking Tool that show improvements in the Tool's 'Value for Money' measure.	New measure	95%	100%

ORGANISATIONAL CAPABILITY

AREA 1:

Area One: People capability

Our people are the critical component of our organisational capability. We are focused on getting the right people to achieve our aims, supporting their development, and ensuring we obtain mutual benefits. This requires an environment where people feel empowered, valued and supported, and have a shared purpose and commitment to results.

Measure	Actual 2012/13	Target 2013/14	Target 2014/15
Annual voluntary staff turnover	20.2%	19%	Core public sector average or below ⁹

The TEC launched a business transformation project in 2013/14 called Te Kahurangi: Good to Great. The project's objectives include establishing a high performance culture with a high level of staff engagement and strong senior leadership, with an expected benefit of this to be a reduction in the staff attrition rate to 19% in 2013/14 and to the core public sector average or below by 2014/15.

Objectives/actions	2012/13 Progress
Stabilise our workforce after a period of intensive change.	The TEC reviewed the Performance Development Plan and remuneration policies and processes. The TEC developed a training programme based on the analysis of individual development plans. The TEC undertook employee engagement focus groups run by an external facilitator in Wellington and Auckland offices; new Chief Executive met with nearly all staff one-on-one; information gained will identify opportunities and activities to improve the work environment over the next 12 months.
Improve the capability of our people to deliver services more efficiently.	
Strengthen the alignment of our people development with the TEC and sector direction.	
Actively grow service and process management skills, including business acumen.	
Reshape our people development programmes to align with the organisation's design and direction.	
Achieve a more consistent alignment between role requirements and people.	

⁹ This was 11.4% in 2011/12.

AREA 2:

Area Two: Technology innovation

During 2012/13 the capability improvement work of the TEC focused on core services and streamlining systems and processes to be as efficient as possible. A new initiative to develop the TEC's capability in information collection, storage, management and analysis began in February 2013.

Objectives/actions	2012/13 Progress
High-quality and timely information to help the TEC and the tertiary sector make sound investment decisions to meet the country's future needs.	Significant work was undertaken to improve data and information accuracy and consistency by improving the TEC's data warehouse capability.
Increase use of information technology to reduce manual intervention in key processes.	Educational performance indicator (EPI) information was published two months earlier than last year, and was published with definitions and calculations online to improve clarity and transparency.
Achieve savings through use of technology.	Improvements were made to ITO data submission and migration to the TEC's data warehouse to automate a previously manual intervention to collate and quality-assure ITO data.
Automate data collection and collation from education providers.	
Make user-friendly web-based reporting available to the sector.	
Implement a web-based provider/funding management system.	

AREA 3:

Area Three: Service effectiveness

Objectives/actions	2012/13 Progress
Work towards shared (corporate) services across education sector agencies.	The TEC has actively liaised with the education sector agencies (MoE, NZQA, Education Review Office, Education NZ and Careers NZ) about property, health and safety, business continuity, and procurement. Other agencies and TEIs have made use of the TEC meeting rooms.
Build strong sector collaboration across key projects.	MoE, TEC, NZQA and StudyLink are working together on the Tertiary Information Future State programme of work (TIFS) designed to improve tertiary data collection and reporting.
Outsource non-core TEC services through all-of-government procurement arrangements.	MBIE, MoE, TEC, NZQA, MSD and Accident Compensation Corporation (ACC) are working together on the Skills and Safe Workplaces (SSW) programme of work to improve the safety and skills of New Zealand's workforce and build sustained economic growth.
	The TEC participates in cross agency and sector governance groups including: the Privacy Leadership Forum, Education Sector Infrastructure and Technology Governance Group, Education Sector Privacy and Security Forum, and the State Services Commission led Top 200 Forum.

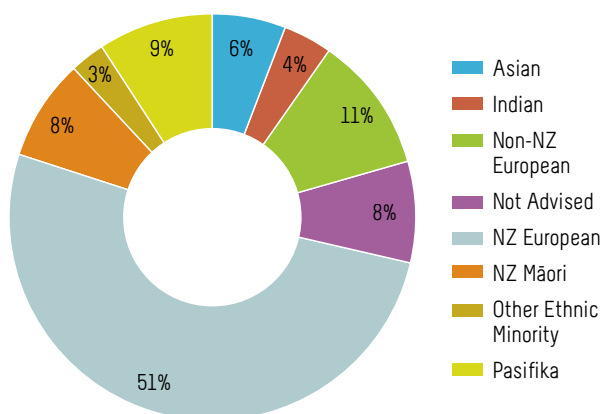
Our workforce: The TEC's people profile

As at 30 June 2013, we had a total of 198 staff comprising 193.8 full-time equivalent staff. The graphs below provide a breakdown of our workforce.

As at 30 June 2013, 44% of TEC staff were male and 56 percent were female. The gender profile over the past two years has seen a slight decrease in the proportion of females to males.

TEC TOTAL STAFF ETHNICITY AT 30 JUNE 2013

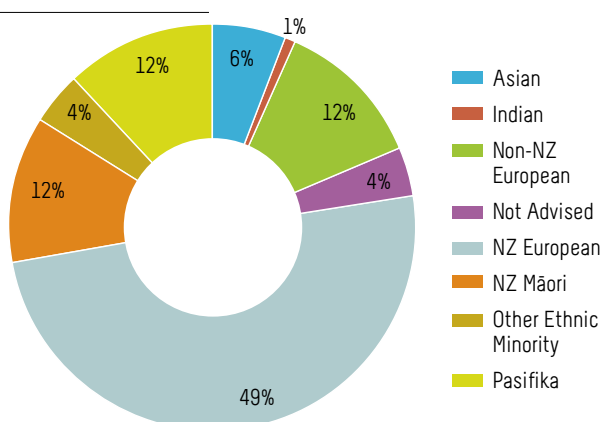
A range of ethnicities is represented in the TEC's workforce. Both Māori and Pasifika representation has remained stable over the past two years at 8% and 9% respectively.



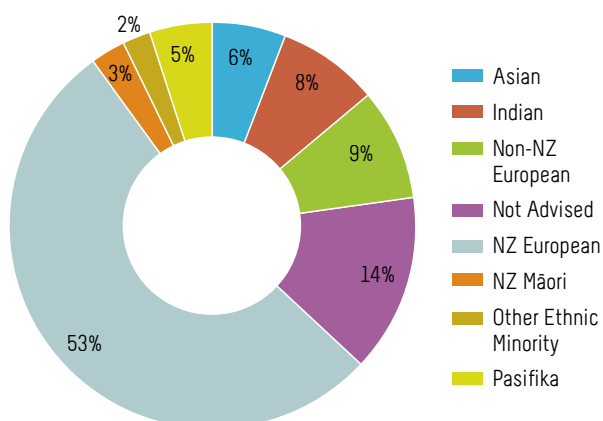
TEC FEMALE ETHNICITY AT 30 JUNE 2013

Our average age is 42.4 years. For female employees, the average age is 41.6 years, while for male employees it is 43.3 years.

Our average length of service is 5.2 years. The average length of service for female employees is 5.4 years and for male employees is 4.9 years. Of our 17 management positions, 41.2% are filled by females.



TEC MALE ETHNICITY AT 30 JUNE 2013



The TEC as a good employer

The TEC is committed to being a good employer and providing equal employment opportunities for all employees and potential employees.

Element	2012/13 Activities
Leadership, accountability and culture	<ul style="list-style-type: none"> → The Chief Executive has introduced twice weekly updates to all TEC staff, which are sent after every Executive Team meeting and at the end of each week. → Managers' delegations were reviewed to ensure the day-to-day business of the TEC can be carried out efficiently. → The Chief Executive met with 199 staff individually and an external facilitator surveyed staff on the culture of the TEC.
Recruitment, selection and induction	<ul style="list-style-type: none"> → Online recruitment management systems were used to streamline the process for our staff and applicants. → An Executive Team-led orientation session was held for all new employees on a quarterly basis. → The use of position management aided recruitment and workforce planning.
Employee development, promotion and exit	<ul style="list-style-type: none"> → Individual development plans were analysed to inform the training programme. → Key themes from exit surveys were presented to the Executive Team every six months. → The TEC collaborated with other education sector agencies to share development opportunities (e.g. the Aspiring Leaders Programme, Treaty of Waitangi training).
Flexibility and work design	<ul style="list-style-type: none"> → A private parent's room was available for employees to use.
Remuneration, recognition and employee conditions	<ul style="list-style-type: none"> → The Chief Executive acknowledges the work of staff in his weekly updates. → The TEC conducted an annual remuneration forum with the New Zealand Public Service Association (PSA).
Harassment and bullying prevention	<ul style="list-style-type: none"> → Employees receive a copy of our Code of Conduct before they join the TEC and once they are employed we ensure it is accessible, understood and reinforced. → Staff were reminded of relevant policies when completing their annual declaration. → We reviewed the Harassment Prevention Policy, which also covers bullying.
Safe and healthy environment	<ul style="list-style-type: none"> → The Health & Safety Committee is operational and representatives have been elected and trained in Stage One Health & Safety. → A new reporting and recording system captures accidents, injuries and near misses. → Six-monthly physical audits were undertaken of the Auckland and Wellington offices. → Wellness initiatives included an employee assistance programme, annual influenza vaccinations, workstation assessments, and staff-led activities such as yoga and physical exercise classes.

MANAGING OUR RISK

To be successful we must identify and manage the internal and external risks that might affect delivery of the Government's priorities. We operate an effective risk management and assurance system to identify, analyse, 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), which requires managers at all levels to identify, quantify and mitigate risks. 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.

Core organisational risks	How the TEC will mitigate this risk	Progress in 2012/13
Delivery of the Government's priorities Failure to deliver on the Government priorities as set out in the Tertiary Education Strategy and the Better Public Services.	<ul style="list-style-type: none"> → Work with other government agencies to deliver on the Tertiary Education Strategy and Better Public Services priority areas. → Engage effectively with our key stakeholders. → Provide clear expectations on Government priorities through Plan Guidance and the Investment Plan process. → Monitor use of performance targets in Investment Plans for TEOs to deliver priorities. → Publish performance information by subsector and by individual TEO. → Work with government agencies and TEOs to meet the need for the Canterbury rebuild programme. 	<ul style="list-style-type: none"> → The TEC continued to work with MoE, MBIE and MSD on Better Public Services priority areas, with close monitoring via joint governance arrangements. → The TEC analysed Plan commitments to confirm they were effectively addressing the needs of priority groups. → Plans were monitored against commitments. → The TEC supported MBIE-led work to support Canterbury recovery. → The TEC worked with MBIE on options for improving the responsiveness of TEOs to the 'employer voice'. → The TEC undertook a post-implementation review of the effectiveness of the investment round. → Advice was provided to MoE and MBIE on the development of a new Tertiary Education Strategy.
Organisational performance Not having the internal capability and capacity to deliver on the work programme.	<ul style="list-style-type: none"> → Implement and operate sound management of major cross-organisation systems and processes. → Implement the Information Process – Capability Development Plan. → Have prudent financial management policies and procedures in operation. → Use sound security and business continuity policies and procedures to maintain the integrity and resilience of the TEC's information systems. 	<ul style="list-style-type: none"> → The TEC began implementing the Information Process – Capability Development Plan early in 2013. The Plan was developed as a result of the TEC's journey to increase value for money and effectiveness through organisational capability development i.e. people, processes, systems and technology. → The TEC managed finances within appropriation baseline budgets. → The TEC responded to Government Communications Security Bureau and Government Chief Information Officer requirements and as a result implemented several processes and procedures that protect the integrity and resilience of the TEC's information systems.

Core organisational risks	How the TEC will mitigate this risk	Progress in 2012/13
Funds management Failure to properly manage the Crown funds for which the TEC is responsible.	<ul style="list-style-type: none"> → Operate an effective and efficient tertiary education organisation monitoring system to ensure that funds are being used for their intended purpose. This includes the alignment with other educational agencies' monitoring systems such as NZQA. → Take appropriate action to recover Crown funding where necessary. 	<ul style="list-style-type: none"> → The TEC made payments in accordance with agreed plan commitments and in-year plan amendments, which were calculated against available calendar-year baselines. → Commitments were monitored against calendar-year baselines; monthly variance reporting to relevant managers advising them of under-utilised funds and potential risks. → Funding was recovered on the basis of year-end delivery against Plan commitments; appropriate actions were taken where recovery was required; the TEC sought to process all recoveries by 30 June 2013.
Evidence-based decisions Inadequate evidence base to substantiate cross-organisational and agency decisions.	<ul style="list-style-type: none"> → Use good validation processes to ensure the reliability and integrity of the data that is used to inform decision-making. → Ensure the transparency of the decision-making process. → Improve the timeliness and quality of information across the tertiary sector to inform better decision making. 	<ul style="list-style-type: none"> → The TEC put in place robust data quality assurance and validation processes, both manual and automated. → The TEC published educational performance indicators online to improve clarity and transparency for TEOs and the sector. → The TEC significantly improved the timeliness, processing and reporting of Single Data Return (SDR) and EPI data; EPI information published two months earlier than last year.
Legal Our actions create legal risks.	<ul style="list-style-type: none"> → Develop a consistent and agreed investment framework. → Operate an effective legal compliance framework and process. → Seek and act on legal advice. 	<ul style="list-style-type: none"> → The TEC proactively sourced legal advice through regular clinics and specialist advice. → The annual legal compliance survey was undertaken and showed that the TEC was meeting its statutory obligations. → Administrative law workshops were provided for staff. → The TEC launched a legal wiki to increase staff access to information to support decision making.

How we work with others

We work with a wide range of TEOs, ITOs 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 the public sector – the education agencies as well as MBIE and MSD – to realise the Government's expectations of better public services.

STATEMENT OF RESPONSIBILITY

In terms of the Crown Entities Act 2004 and the Education Act 1989, the Board of the Tertiary Education Commission Te Amorangi Mātauranga Matua is responsible for the preparation of the Tertiary Education Commission's Financial Statements and the Statement of Service Performance and for the judgements made in them.

The Board of the Tertiary Education Commission has the responsibility of establishing, and has established, a system of internal controls designed to provide reasonable assurance as to the integrity and reliability of financial reporting and reporting of the Statement of Service Performance.

In the Board's opinion, these Financial Statements and Statement of Service Performance fairly reflect the financial position and operations of the Tertiary Education Commission for the year ended 30 June 2013.

Signed on behalf of the Board of Commissioners:



John Spencer, Chair

Tertiary Education Commission

22 October 2013



Nigel Gould, Chair

Audit and Risk Committee, Tertiary Education Commission

22 October 2013

INDEPENDENT AUDITOR'S REPORT

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

To the readers of the Tertiary Education Commission's financial statements and non-financial performance information for the year ended 30 June 2013

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

We have audited:

- the financial statements of the Commission on pages 53 to 78, that comprise the statement of financial position as at 30 June 2013, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and notes to the financial statements that include accounting policies and other explanatory information; and
- the non-financial performance information of the Commission that comprises the statement of service performance on pages 36 to 51 and the report about outcomes on page 10 and pages 19 to 25.

Opinion

In our opinion:

- the financial statements of the Commission on pages 53 to 78:
 - comply with generally accepted accounting practice in New Zealand; and
 - fairly reflect the Commission's:
 - financial position as at 30 June 2013; and
 - financial performance and cash flows for the year ended on that date.
- the non-financial performance information of the Commission on pages 10, 19 to 25 and 36 to 51:
 - complies with generally accepted accounting practice in New Zealand; and
 - fairly reflects the Commission's service performance and outcomes for the year ended 30 June 2013, including for each class of outputs:
 - its service performance compared with forecasts in the statement of forecast service performance at the start of the financial year; and
 - its actual revenue and output expenses compared with the forecasts in the statement of forecast service performance at the start of the financial year.

Our audit was completed on 22 October 2013. This is the date at which our opinion is expressed.

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

Basis of opinion

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

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

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

An audit also involves evaluating:

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

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and non-financial performance information. Also we did not evaluate the security and controls over the electronic publication of the financial statements and non-financial performance information.

We have obtained all the information and explanations we have required and we believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Board of Commissioners

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

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

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

The Board of Commissioners's responsibilities arise from the Crown Entities Act 2004 and the Education Act 1989.

Responsibilities of the Auditor

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

Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

Other than the audit, we have no relationship with or interests in the Commission.



Clare Helm

Audit New Zealand

On behalf of the Auditor-General, Wellington, New Zealand

STATEMENT OF SERVICE PERFORMANCE OUTPUT CLASS 1:

The TEC 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 the TEC's operational appropriation *Managing the Government's Investment in the Tertiary Education Sector*¹⁰.

Output Revenue and Expenses	2012/13 Budget \$000	2012/13 Actual \$000
Revenue from appropriation	33,203	33,203
Contract revenue – Ministry of Social Development	6,661	6,661
Contract revenue – Immigration NZ	150	81
Interest revenue	412	724
Agreed 2012/13 variations to appropriations ¹¹	-	581
Total revenue	40,426	41,250
Total expenses	40,851	42,612
Surplus/(deficit)	(425)	(1,362)

Output measure	2012/13 Target	2012/13 Actual	Variance/comments
Plans for TEOs demonstrate evidence of alignment with employer, community and learner needs. (quality)	100%	100%	Achieved All TEO Plans accounted for employer, community and learner needs.
Plans for tertiary education organisations include targets for improving achievement rates for the priority groups identified in the Tertiary Education Strategy. (quality)	100%	100%	Achieved All TEO Plans set targets to improve achievement among the priority groups.
Percentage of Plans submitted for funding approval that have a funding decision made by 1 December. (timeliness)	98%	TEIs & ITOs = 98% PTEs = 95%	Not achieved 393 Plans received funding decisions by 1 December 2012; 18 Plans received funding decisions after 1 December 2012. Of these 18 Plans, 17 were for PTEs that had complex consultation and operational processes that had to be followed before final funding decisions could be made. A TEI funding decision was also delayed because of specific funding conditions that needed to be applied to a particular provider.
Payments are made to TEOs as per the agreed contractual terms and conditions. (quality & timeliness)	98%	98.6%	Achieved 20,132 payments were made between 1 July 2012 and 30 June 2013; 98.6% of the payments were paid on time.

¹⁰ This appropriation is limited to developing, implementing and managing an investment system that aligns planning, funding and monitoring.

¹¹ The TEC received additional revenue of \$570,000 for the Skills Highway programme in October 2012. It also recognised a \$11,000 gain on the sale of an asset. This programme was transferred from MBIE, providing an opportunity to consolidate information services for employers on literacy and numeracy programmes and to provide for more industry engagement with the TEC on investment decisions in this area.

OUTPUT CLASS 1:

Output measure	2012/13 Target	2012/13 Actual	Variance/comments
Percentage of Investment Plans that are monitored. (quality/quantity)	100%	100%	Achieved
Appropriate actions are undertaken in accordance with the Performance Consequences Framework. (quality)	100%	100%	Achieved
Programme evaluations and cost-benefit studies are completed in accordance with the 2011/12 Programme Evaluation Plan. (quantity)	3-5 evaluations and studies completed	4 ¹²	Achieved
Evaluations and quantitative studies of TEC initiatives are undertaken in accordance with agreed standards ¹³ . (quality)	100%	100%	Achieved
Evaluations and quantitative studies of TEC initiatives are completed within agreed timeframes. (timeliness)	100%	100%	Achieved
Percentage of respondents to the TEC Customer Satisfaction Survey who are either "satisfied" or "very satisfied". (quality)	70%	41%	Not achieved Out of a total of 161 respondents asked 'How satisfied were you with the overall quality of service delivery?', 66 indicated they were satisfied or very satisfied (41%), with 25% indicating they had a neutral view on the question and 34% indicating they were dissatisfied.
Number of TEOs audited by the TEC. (quantity)	25-30 audits	30	Achieved
Percentage of audits completed within 70 days according to audit compliance standards. (quality & timeliness)	95%	100%	Achieved

¹² In 2012/13, two evaluations and two studies were completed: Literacy and Numeracy Professional Development, Pasifika Trades Training Initiative (final phase), Doing Better for Māori in Tertiary Settings, and Doing Better for Pasifika in Tertiary Settings.

¹³ The deliverables, methodological approach, performance standards and timeframes are agreed through a Project Plan with the team requesting the work.

OUTPUT CLASS 1:

TEC customer satisfaction

Respondents were invited to identify the top three things the TEC could do to improve its service delivery. Customers who were satisfied or very satisfied commented on such matters as the value of consistent staffing, the opportunity to engage face to face with TEC staff on sensitive topics, and having a single point of contact within the TEC and/or the Service Centre.

The TEC is currently engaged in a business transformation plan, with a key aim of the project being to place a greater focus on client relationships, which will lead to improved communications with the sector.

The TEC has also taken the following actions to address the specific issues raised through the survey:

- Improving transparency around funding decisions:
 - » In 2013, the TEC began publishing on its website all funding for all providers, which can be viewed by TEO type, individual provider, and across years.
 - » In 2013, ITPs were provided with additional information and a table comparing 2012 and 2013 SAC allocations to provide greater transparency on their funding allocations given the multiple policy changes that affected the ITPs.
- Improving timeliness of responses to questions:
 - » The TEC has changed how it processes incoming email queries through introducing a new electronic Tertiary Contact Management System, which will help reduce information search times and thereby improve response times to queries.
- Using a case-management approach and having an individual TEC staff member assigned to each organisation:
 - » The TEC has individual investment managers for all tertiary education institutions and industry training organisations. For the PTE sub-sector, the TEC operates a case-management approach, with individual advisors responsible for specific PTEs. Contact is by phone and email. Some providers would prefer frequent in-person visits (as occurred when the TEC had 12 regional offices six years ago). The TEC business model cannot support this level of servicing.
- Providing more proactive and timely communication from the TEC when changes are made:
 - » In 2013, the TEC introduced a publications calendar for internally tracking key reporting and information deadlines and when they would be available for the sector, to better plan the communications around these activities.

OUTPUT CLASS 2:

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 the TEC's operational appropriation *Tertiary Education and Training Advice*.

The key activities in this output are:

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

Output Revenue and Expenses

	2012/13 Budget \$000	2012/13 Actual \$000
Revenue from appropriation	3,837	3,837
Interest revenue	44	82
Total revenue	3,881	3,919
Total expenses	3,206	2,295
Surplus/(deficit)	675	1,624

Output measure	2012/13 Target	2012/13 Actual	Variance/comments
Number of ministerial-related items provided to the Office of the Minister for Tertiary Education, Skills and Employment. (quantity)	1,150	743	The number of ministerial-related items decreased following the removal of the policy function from the TEC in mid-2011.
Advice on tertiary sector and tertiary education in general will be delivered in accordance with agreed quality standards.	100%	See comment	This quality measure has been replaced by the more meaningful measure below.
Percentage of ministerial items provided to Ministers requiring redraft. (quality)	Less than 5%	6%	Not achieved 57 items required redraft, 31 of these in order to provide additional information.
Number of reports published. (quantity)	7	6	Not achieved One report was deferred to 2013/14 because of prioritisation of resourcing.
Publications that are produced in accordance with agreed standards and timeliness. (quality & timeliness)	100%	86%	Not achieved One report was delayed and deferred to 2013/14 because of prioritisation of resourcing.

OUTPUT CLASS 3:

OUTPUT CLASS 3: MONITORING SECTOR PERFORMANCE AND CAPABILITY

A key role of the 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 interests¹⁴ in the governance, accountability and operation of these organisations.

The 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 the TEC's operational appropriation *Ownership Monitoring of Tertiary Education Institutions*. The key activities in this output are:

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

Output Revenue and Expenses

	2012/13 Budget \$000	2012/13 Actual \$000
Revenue from appropriation	2,567	2,567
Interest revenue	34	55
Total revenue	2,601	2,622
Total expenses	2,270	3,114
Surplus/(deficit)	331	(492)

Output measure	2012/13 Target	2012/13 Actual	Variance/comments
Ownership monitoring advice will be delivered in accordance with agreed quality standards (refer Characteristics of Quality Advice. (quality))	100%	100%	Achieved
Percentage of statutory interventions approved at the appropriately delegated level. (quality)	100%	100%	Achieved
Percentage of TEIs where close monitoring and engagement are taken after having received a high-risk rating under the Financial Monitoring Framework. (quality)	100%	100%	Achieved
Recommendations on ministerial appointments to TEI councils are made and the appointment process is managed effectively two months prior to the appointment expiring. (quality & timeliness)	100%	98%	Not achieved The 2% difference is due to advice on one appointment being delayed by agreement with the Minister's office so that it could be included with advice on another vacancy.

¹⁴ 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.

FUNDING PROVIDED BY THE TEC

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

Revenue and expenses for non-operational output costs

2012/13	Revenue			Expenses	
Revenue from Appropriation: Vote Tertiary Education and Vote Education	Statement of Intent \$000	Agreed variations \$000	Total \$000	Total \$000	Surplus/ (Deficit) \$000
Tertiary Education: Student Achievement Component	2,021,907	19,353	2,041,260	2,023,431	17,829
Training for Designated Groups:					
Industry Training Fund	158,087	(31,401)	126,686	93,865	32,821
Modern Apprenticeships	49,299	-	49,299	35,668	13,631
Youth Guarantee	97,198	(90)	97,108	93,358	3,750
Gateway	19,013	-	19,013	17,935	1,078
Adult and Community Education	58,217	575	58,792	55,524	3,268
Tertiary Scholarships and Awards	11,166	216	11,382	9,900	1,482
Apprenticeships Re-Boot	-	1,600	1,600	739	861
Tertiary Education Grants and Other Funding	34,370	(4,243)	30,127	28,721	1,406
Performance-Based Research Fund	256,250	-	256,250	256,250	-
Centres of Research Excellence	31,690	-	31,690	31,690	-
Tertiary Education Institution Merger Support	1,500	(500)	1,000	1,000	-
Auckland University Starpath Project	2,450	-	2,450	2,066	384
Secondary Tertiary Interface (Vote Education)	-	6,909	6,909	6,909	-
Contract Revenue					
Foundation-Focused Training Opportunities (Ministry of Social Development)	47,974	-	47,974	46,439	1,535
English for Migrants (pre-paid by migrants through Immigration NZ)	800	-	800	896	(96)
Total	2,789,921	(7,581)	2,782,340	2,704,391	77,949

Tertiary education: Student Achievement Component (SAC)

SAC is the Government's contribution to the direct costs of teaching, learning, and other costs driven by learner numbers for enrolled students in approved courses at TEOs to achieve recognised tertiary qualifications.

SAC funding comprises two elements:

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

Output measure	2012 Actual				
	Delivered	Funded target 2012 (±3%)	Funded (estimate) ¹⁵	2012 Variance to target	Comment
Number of domestic equivalent full-time students (EFTS) by subsector					
Universities	118,491	118,638	118,715	0.1%	Achieved within tolerance
Institutes of technology and polytechnics	66,991	66,284	67,241	1.4%	Achieved within tolerance
Wānanga	24,553	24,676	24,772	0.4%	Achieved within tolerance
Private training establishments	27,346	25,241	24,124	-4.4%	Not achieved – refer to note below
Total SAC	237,381	234,839	234,852	0.0%	Achieved within tolerance

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

The 2012 delivered EFTS are based on the data submitted by the TEOs in their December 2012 Single Data Return (SDR).

The table above reports on the 2012 actual funded EFTS (estimated – refer to footnote).

While the overall SAC volume of funded EFTS was delivered on target, the proportion to be delivered through PTEs was 1.4% less than the allowed tolerance of ±3% because many PTEs under-delivered below the tolerance, while others significantly over-delivered.

This target was also increased by \$5.25 million (750 EFTS) from 2011; however, only 55% of PTE providers had sufficient demand to meet their agreed funding allocation, which has resulted in an estimated shortfall of just over 1,000 EFTS.

It appears that a number of factors have contributed to this result, including late confirmation of additional volumes; funding cessations; performance-informed funding allocations that exceeded providers' capacity to deliver; and the ongoing impact of the Canterbury earthquakes. While this shortfall relates to additional funded volumes, PTEs as a whole have continued to deliver in excess of funded levels, albeit slightly less so than was anticipated.

Embedded Literacy

Output measure	Delivered	Funded Target 2012	Funded Estimate	2012 Variance to Target	Comment
Number of EFTS at Levels 1-3 on the New Zealand Qualifications Framework with embedded literacy and numeracy (ITPs and wānanga)	27,976	26,500	27,976	5.6%	Achieved

¹⁵ Funded EFTS are always an 'estimate' as they are a proportion of the total EFTS delivered, some of which are not funded due to funding caps.

Skills for Canterbury – priority trades allocations, actuals and EFTS eligible for funding

In 2012, additional funding allocations were made to some ITPs and PTEs for priority trade programmes in the Canterbury region. This funding was dependent on the TEO delivering, by value, at least 100% of the original funding allocation, and exceeding the actual EFTS delivered in 2011 in the relevant qualifications.

1,173 EFTS were allocated for priority trades programmes; however only 1,009 was delivered over the 2011 baseline. Not all of the 1,009 EFTS met the eligibility requirements for additional funding – which meant that only 792 EFTS of this increase was funded (refer to the table below).

	2011 Actual EFTS (minimum)	Actual EFTS 2012	2012 Additional EFTS allocated	EFTS eligible for funding (excluding 100% rule)	Actual additional EFTS funded and delivered
Institutes of technology and polytechnics	9,362	10,451	974	915	702
Private training establishments	594	680	199	94	90
Total	9,956	11,131	1,173	1,009	792

Participation and achievement for SAC-funded provision

The following indicators are standard measures of educational performance and the TEC uses them to measure the overall performance of the tertiary education system (SAC-funded places only) and the sector's performance on behalf of priority learner groups:

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

Output measure		Actual 2011	Target 2012 ¹⁶	Actual 2012	Variance/comments
Delivery (%)					
Qualification level	NZQF Levels 1-3 (certificates)	17	19	17	Actual NZQF Level 7 (degree/graduate diploma) delivery in 2012 exceeded the target set for that year, accounting for why actual delivery at Levels 1-3 (certificates) and Levels 5-7 (diploma) fell slightly short of their percentage targets for that same year.
	Level 4 (certificates)	12	11	12	
	Levels 5-7 (diploma)	12	13	12	
	Level 7 (degree/graduate diploma)	47	46	48	
	Levels 8-9 (postgraduate)	9	9	9	
	Level 10 (doctorate)	2	2	2	
	Level 4 and above	83	81	83	
	Total percentage	100%	100%	100%	

¹⁶ For many of the indicators below, the 2012 target is lower than the 2011 and 2012 actuals because the 2012 target reflects commitments the sector made at the end of 2010 in their 2011-2013 Investment Plans. This dip shows that in 2011 and 2012, the sector overachieved what they expected in their 2011-13 Investment Plans.

Output measure		Actual 2011	Target 2012 ¹⁶	Actual 2012	Variance/comments
Participation (%)					
Māori	NZQF Levels 1-3	6	6	6	
	Level 4 and above	14	14	14	
Pasifika	Levels 1-3	2	2	2	
	Level 4 and above	6	6	7	
Young people	Levels 1-3	7	8	7	The 2012 participation results for young people at Levels 1-3 was lower than the target because the sector increased delivery and participation at Levels 4 and above, which are a government priority.
	Level 4 and above	51	50	52	
Educational performance indicators (%)					
Course completion	Māori learners enrolled at NZQF Level 4 and above.	77	73	78	These results show TEOs responding positively to the requirement to better meet the needs of priority learners.
	Pasifika learners enrolled at Level 4 and above.	73	69	74	
	Young people aged under 25 enrolled at Level 4 and above.	84	83	85	This result shows TEOs responding to TEC requirements and effectively focusing their effort on supporting the BPS Level 4+ target.
	All learners enrolled at Level 4 and above.	84	81	84	
Qualification completion	Māori learners enrolled at Level 4 and above.	59	56	65	These results show TEOs responding positively to the requirement to better meet the needs of learners, especially those from priority groups.
	Pasifika learners enrolled at Level 4 and above.	58	56	63	
	Young people aged under 25 enrolled at Level 4 and above.	66	65	71	
	All learners enrolled at Level 4 and above.	72	67	78	
Progression	Progression to higher-level study in the following year for all learners studying at Levels 1-3 in the stated year.	32	36	37	
Retention	Percentage of students retained or completed qualification.	64	60	71	This increase likely reflects TEOs' efforts into keeping learners engaged in learning, particularly at higher levels.

¹⁶ For many of the indicators below, the 2012 target is lower than the 2011 and 2012 actuals because the 2012 target reflects commitments the sector made at the end of 2010 in their 2011-2013 Investment Plans. This dip shows that in 2011 and 2012, the sector overachieved what they expected in their 2011-13 Investment Plans.

Output performance measures for non-SAC funding

This table includes the output performance measures for non-SAC funding allocated through Investment Plans and funding allocated through contract agreements.

Output measure	Actual 2011	Target 2012	Actual 2012	Variance/comments
Industry training				
Number of standard training measures (STMs) funded (Industry Training and Modern Apprenticeships).	41,542	55,392	39,351	<p>Not achieved</p> <p>The 2012 target represented an early estimate of total delivery (not funded delivery) and assumed a significant increase in uptake, in part based on economic forecasts. At Budget 2012, the highest the target could have been was 48,579. This represented reductions from previous funding removed for regulatory compliance, and general funding reductions due to lower volumes. Also, funding was reprioritised to Universities' SAC, and Priority Trades (Skills for Canterbury). This should have been reflected in a lower target of 48,579 STMs in the SOI.</p> <p>The remaining difference between this revised target and the 2012 actual reflects continued low volumes which resulted in further reprioritisation in October 2012 after the SOI was published. These lower volumes were the results of new funding rules designed to improve achievement and remove low-value provision that commenced in 2011, together with a lower uptake of training linked to lower employment. Given these factors the expected delivery would be around 42,000 STMs, which is similar to the 2012 actual, noting that not all delivered STMs are funded due to performance offsets.</p>
Proportion of trainees enrolled through ITOs at NZQF Level 4 and above who are Māori.	5%	8%	5%	<p>Not achieved</p> <p>The proportion of trainees enrolled through ITOs who are Māori at Level 4 and above has remained stable for the three years 2010 to 2012 at 5%, but has not achieved the target. This is likely to be a result of Māori being disproportionately affected by higher unemployment and Māori on average entering the workforce with lower-level qualifications.</p>
Proportion of trainees enrolled through ITOs at Level 4 and above who are Pasifika.	2%	2%	2%	<p>Achieved</p>

Output performance measures for non-SAC funding

Output measure	Actual 2011	Target 2012	Actual 2012	Variance/comments
Proportion of trainees enrolled through ITOs at Level 4 and above who are under 25 years old.	15%	17%	16%	Not achieved The proportion of trainees enrolled at ITOs who are under 25 years old has been increasing by one percentage point a year since 2010. This has not achieved the target, which is likely the result of younger people being more negatively affected by higher unemployment. The trend is positive in spite of comparatively high youth unemployment over recent years and demonstrates the continuing focus on the under 25-year-old age group.
Total trainees (placements).	140,056	175,900	130,679	Not achieved This figure represents a 7% decrease on the 2011 actual figure of 140,056. See comment for STMs.
Credit achievement rate (all trainees).	71%	65%	70%	Achieved
Average number of NZQF credits achieved per industry trainee.	27	20	28	Achieved
Programme completion rate (all trainees).	69%	60%	68%	Achieved
Number of STMs at NZQF Levels 1-3 with embedded literacy and numeracy.	5,914	12,000	Not available	This figure cannot be calculated because a number of Level 4+ programmes incorporate Level 1-3 programmes. The actual figure reported for 2011 was understated.
Modern Apprenticeships				
Total trainees. (Snapshot at 31 December 2012)	10,434	14,000	10,985	Not achieved This figure represents an increase of 5% on the 2011 figure of 10,434, reversing the declining numbers over recent years. As in the case of number of STMs funded ¹⁷ , this represented an early estimate of total delivery (not funded delivery) and assumed significant increase in uptake, in part based on economics forecasts. As such, the target was not achieved because of new funding rules designed to improve achievement and remove low-value provision that commenced after the SOI was published, together with a lower uptake of training linked to lower employment.
Credit weighted programme completions.	76%	66%	73%	Achieved

¹⁷ Refer to number of standard training measures (STMs) funded (Industry Training and Modern Apprenticeships)

Output performance measures for non-SAC funding

Output measure	Actual 2011	Target 2012	Actual 2012	Variance/comments
Youth Guarantee (formerly Youth Training)				
Total funded places 2011 shows the combined number of places for both Youth Training and Youth Guarantee.	6,341	7,342	7,291	Not achieved The number of funded places was less than 1% below the target. 2012 was the first year that Youth Training was subsumed within Youth Guarantee, which caused challenges for some providers.
Average number of NZQF credits achieved per Youth Guarantee trainee.	21 (Youth Training only)	40	54	Achieved
Gateway				
Total participants.	12,632	12,600	13,457	Achieved
Average number of NZQF credits achieved per Gateway participant.	17	10	15.9	Achieved
School-based adult and community education				
Participation by learners in school-based programmes.	25,418	24,000	25,499	Achieved Learners may enrol in more than one programme; 12 of 22 schools over-delivered on contracted places.
From the priority groups identified in the Tertiary Education Strategy; percentage of learners identified:				Achieved
→ as Māori or Pasifika	22%	All groups: 50%	20%	The TEC collects information about the identity of learners by each priority group. It is likely that 50% of learners have identified with any one priority group given the proportions of each group.
→ with English language needs	40%		44%	
→ as having low or no formal qualifications.	46%		46%	
Literacy and numeracy (LN)				
Intensive Literacy and Numeracy (ILN) – total number of learners.	5,742	5,100	6,843	Achieved The actual for 2012 includes the new ILN and Refugee English funds. The targets for these were originally included in the target for Workplace Literacy (below).
→ ILN number of learners.	5,742	5,100	5,583	
→ ILN English for Speakers of Other Languages (ESOL) number of learners.			650	
→ ILN Refugee English number of learners.			610	
→ ILN – percentage of learners who show an improvement in literacy and numeracy skills as measured against the Adult Literacy and Numeracy Learning Progressions.	Not applicable	80%	Not yet available	The TEC is validating the methodology for reporting learner gain through the Adult Literacy and Numeracy Assessment Tool. Data for 2012 should be available in October 2013.

Output performance measures for non-SAC funding

Output measure	Actual 2011	Target 2012	Actual 2012	Variance/comments
Workplace Literacy (WPL) Fund – total number of learners.	6,829	8,900	6,777	Not achieved The 2012 target was not achieved because it included an estimate for the numbers of learners for the new ILN and Refugee English funds, which should have been included in the ILN targets above. Taken together, the literacy and numeracy programmes achieved 97% of the target of 14,000 learners. The TEC also did not allocate all available Workplace Learning Employer-led funding in the 2012 calendar year, as two employers withdrew from the scheme. Another four employers delayed commencement of their WPL-funded programmes until 2013. The 2011/12 Annual Report included the learners for TEO-led and Employee-targeted only (6,256); the 2011 actual has been updated to include the Employer-led provision.
→ TEO-led total number of learners	4,273		3,895	
→ Employee-targeted total number of learners	1,983		1,765	
→ Employer-led total number of learners.	573		1,117	
WPL Fund – learners who complete programme.	49%	80%	55%	Not achieved The TEC reports against this output measure only for learners enrolled in WPL, TEO-led and employee-targeted courses. Achievement of individual learners enrolled in WPL programmes with employers was not collected for 2012. In 2012, the TEC allocated funding to 25 TEOs to deliver WPL courses to approximately 4,739 learners. Actual delivery was to 5,560 learners. Of these, 55% (3,113) completed their WPL courses. This compares to 49% (3,066 learners) in 2011. Both the increased percentage and the small increase in actual numbers reflect the targeting of investment to the best-performing providers.
Performance-Based Research Fund (PBRF)				
Research degree completions (measured by PBRF-eligible research degree completions).	3,604	3,350	3,766 ¹⁸	Achieved
Percentage increase in amount of ERI for PBRF-eligible providers.	1.6%	4%	-0.09% ¹⁹	Not achieved There has been a flat trend in ERI from 2009 to 2012. This appears to relate to changes to the phasing of capital in Centres of Research Excellence contracts and changes to Vote Science and Innovation funds, such as the Marsden Fund, which mean universities can no longer access as much funding.

¹⁸ This figure is based on the most recent data from the April Single Data Return and has not yet been confirmed.

¹⁹ The ERI declared in 2011 and 2012 is from a different set of providers and the figures for the two years are not directly comparable. ERI declared for 2011 and 2012 from the three new entrants to the PBRF has been excluded from these figures since they did not become eligible to receive PBRF funding until 1 January 2013. The ERI for 2011 declared by those leaving the PBRF from 31 December 2012 has been retained since they were eligible for PBRF funding at the time they earned and declared this ERI. The value of ERI declared in 2011 by providers who have since left the PBRF is \$9,894.67.

Output performance measures for non-SAC funding

Output measure	Actual 2011/12	Target 2012/13	Actual 2012/13	Variance/comments
Tertiary scholarships and awards				
Number of medical intern places funded.	345	350	363	Achieved The number of grants awarded depends on the number of sixth-year medical trainee interns at Otago and Auckland universities. This has increased over the past five years.
Number of other scholarship places funded.	224	100	54	Not achieved No new Top Achiever Doctoral Scholarships or Enterprise Scholarships were awarded in 2012. These schemes were disestablished in 2009 and existing scholarships were honoured to their conclusion in March 2013. The target was not achieved because a higher than expected number of scholarships with outstanding final reports were terminated.
Tertiary education grants and other funding				
Agreements are consistent with need and purpose of fund.	100%	100%	100%	Achieved
Clear objectives and measures for the use of funding are agreed in Plans (or other mechanisms such as funding agreements) for TEOs.	100%	100%	100%	Achieved
FFTO (Vote Social Development)				
Percentage of learners who complete their course of study (minimum 14 weeks' training).	60%	80%	54%	Not achieved The 2012/13 result is lower than the expected target because the target did not account for learners being referred by MSD throughout the year, which means that not all learners who enrol in any given year are able to complete before the year ends and they are automatically withdrawn. These learners are re-enrolled the following year and may withdraw to a positive outcome before reaching the minimum 14 weeks.

Output performance measures for non-SAC funding

Output measure	Actual 2011/12	Target 2012/13	Actual 2012/13	Variance/comments
Percentage of learners who achieve employment outcomes commensurate with their benefit type and aligned job seeking obligations, within 91 days of completion of training.	34%	38%	29%	Not achieved The 2012 result is lower than in 2011 because the TEC now measures employment and further training outcomes against benefit type and MSD jobseeker obligations. Prior to this, data analysis could consider employment and further training as outcomes, but not whether the outcome was commensurate with the learner's benefit and status with MSD. The 2012 result reflects the sector's achievement against this target more accurately than in 2011, which was a transition year. In addition, FFTO policy settings include higher performance expectations of providers than was the case with the previous Training Opportunities scheme: the target learner pool became beneficiaries at highest risk of long-term benefit dependency; providers are given a 26-week (rather than unlimited) eligibility period for each learner; and the outcome achieved is required to be commensurate with the learner's benefit type. Under these policy settings, providers have found the FFTO targets difficult to achieve, and this is why the 2012 result is less than the target set.
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.	33%	26%	17%	Not achieved As above.
English for Migrants (Vote Immigration)				
Effective management of contracts with training providers to deliver ESOL training for migrants who have pre-purchased their tuition through Immigration New Zealand.	100%	100%	100%	Achieved
Tertiary education institution merger support				
Merger milestones are met according to funding agreements.	100%	100%	100%	Achieved
University of Auckland Starpath Project				
Project milestones are met according to funding agreement.	100%	100%	100%	Achieved
Funding agreement is monitored and action taken as required.	100%	100%	100%	Achieved

Output performance measures for non-SAC funding

Output measure	Actual 2011/12	Target 2012/13	Actual 2012/13	Variance/comments
Centres of Research Excellence (CoREs)				
The Annual Reports of each CoRE covering agreed reporting areas are approved by the TEC by March of each year.	100%	100%	100%	Achieved The TEC has revised this output measure given that CoREs' Annual Reports are only due to the TEC at the end of March. The output measure has been reworded to "Centres of Research Excellence Annual Reports" are reviewed against research plans and meet assessment criteria. By the end of June 2013, all Annual Reports had been received and reviewed by the TEC and, where appropriate, additional information was requested from CoREs to enable the TEC to complete its assessment.
CoREs demonstrate collaborative research creating significant levels of knowledge transfer (as measured by qualitative review of CoREs Annual Reports).	100%	100%	100%	Achieved This output measure is redundant given that the revised output measure above captures the review and assessment of annual reports. The TEC has introduced a new measure, "Centres of Research Excellence Annual Plans" are assessed against assessment criteria and have been revised, where appropriate, by end of March. This was achieved by the end of March 2013.

STATEMENT OF FINANCIAL PERFORMANCE

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2013

		2013 Actual \$000	2013 Budget \$000	2012 Actual \$000
	Notes			
Revenue				
Operating Revenue:				
Vote Tertiary Education - Ministry of Education (MoE)		40,177	39,607	42,207
Contract Revenue - Ministry of Social Development (MSD)		6,661	6,661	6,661
Contract Revenue - Immigration New Zealand (INZ)		81	150	308
Gain on Sale of Property, Plant and Equipment		11	-	-
Total Operating Revenue		46,930	46,418	49,176
Grants Revenue:				
Vote Education/Tertiary Education - MoE*		2,661,955	2,741,147	3,062,163
Contract Revenue - MSD		47,974	47,974	47,854
Contract Revenue - INZ		896	800	933
Total Grants Revenue		2,710,825	2,789,921	3,110,950
Finance Revenue:				
Interest Income on Bank Deposits - Operating		861	490	774
Total Finance Revenue		861	490	774
Total Revenue		2,758,616	2,836,829	3,160,900
Expenses				
Operating Expenses:				
Personnel	2	24,197	23,800	25,101
Operating	3	18,567	16,490	18,240
Depreciation	4	1,099	1,375	1,374
Amortisation	5	4,157	4,662	3,866
Total Operating Expenses		48,020	46,327	48,581
Grants Expenses:				
Grants Expenses - MoE*		2,657,056	2,741,147	3,027,592
Contract Expenses - MSD		46,439	47,974	46,515
Contract Expenses - INZ		896	800	933
Total Grants Expenses		2,704,391	2,789,921	3,075,040
Total Expenses		2,752,411	2,836,248	3,123,621
Operating Surplus/(Deficit)				
Operating Surplus/(Deficit)		(1,090)	91	595
Grants Surplus		6,434	-	35,910
Finance Income Surplus		861	490	774
Total Operating Surplus		6,205	581	37,279
Total Comprehensive Income for the Year		6,205	581	37,279

* The TEC is not required to account for GST on its Vote Tertiary Education grants revenue and expense. The 2011/12 comparative information for grants revenue and expense is retained as per the published 2011/12 annual report GST inclusive amount. The 2011/12 GST exclusive amounts are \$2,664,322 for Vote Tertiary Education grants revenue and \$2,634,164 for Vote Tertiary Education grants expense.

Explanations of major variances against budget are provided in Note 16.

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2013

		2013 Actual \$000	2013 Budget \$000	2012 Actual \$000
	Note			
Balance at 1 July		21,685	21,166	20,316
Capital Contribution		250	-	-
Total Comprehensive Income		6,205	581	37,279
Repayment of Grant Surplus	6	(6,434)	-	(35,910)
Other Movements		294	-	-
Balance at 30 June		22,000	21,747	21,685

Explanation of major variances against budget are provided in Note 16.

STATEMENT OF FINANCIAL POSITION

As at 30 June 2013

		2013 Actual \$000	2013 Budget \$000	2012 Actual \$000
	Notes			
Current Assets				
Cash and Cash Equivalents	7	35,386	45,665	43,961
GST Receivable		434	-	569
Prepayments		547	650	444
Debtors and Other Receivables	8	2,819	9,750	26,540
Total Current Assets		39,186	56,065	71,514
Non-Current Assets				
Property, Plant and Equipment	9	2,164	3,803	2,438
Intangible Assets (Software)	10	9,631	9,820	8,753
Work in Progress	11	756	7,756	3,905
Total Non-Current Assets		12,551	21,379	15,096
Total Assets		51,737	77,444	86,610
Current Liabilities				
Creditors and Other Payables	12	10,017	43,177	17,492
GST Payable		-	320	-
Employee Entitlements	13	1,663	1,400	1,897
English for Migrants - Revenue in Advance		3,265	1,500	1,020
Provision for Lease Make-Good	14	204	-	265
Repayment of Grants Surplus	6	7,489	3,500	37,189
Total Current Liabilities		22,638	49,897	57,863
Non-Current Liabilities				
English for Migrants - Revenue in Advance		6,501	5,000	6,501
Employee Entitlements	13	598	800	561
Total Non-Current Liabilities		7,099	5,800	7,062
Total Liabilities		29,737	55,697	64,925
Net Assets		22,000	21,747	21,685
Equity				
General Funds		22,000	21,747	21,685
Total Equity		22,000	21,747	21,685

Explanation of major variances against budget are provided in Note 16.

STATEMENT OF CASH FLOWS

For the year ended 30 June 2013

	Notes	2013 Actual \$000	2013 Budget \$000	2012 Actual \$000
Cash Flows from Operating Activities				
<i>Cash was provided from:</i>				
Operating MoE		40,177	39,607	42,207
Operating MSD		6,661	6,661	6,661
Operating INZ		305	150	308
Grants MoE		2,661,955	2,741,147	3,062,163
Grants MSD		47,974	47,974	47,854
Grants INZ		2,917	800	933
		2,759,989	2,836,339	3,160,126
<i>Cash was applied to:</i>				
Grants Payments		(2,688,167)	(2,789,921)	(3,108,924)
Payments to Employees		(24,382)	(19,400)	(24,478)
Other Operating Payments		(15,610)	(13,821)	(13,461)
Capital Charge		(1,686)	(1,700)	(1,679)
GST – Net		135	-	(4,955)
		(2,729,710)	(2,824,842)	(3,153,497)
Net Cash flows from Operating Activities	15	30,279	11,497	6,629
Cash Flows from Investing Activities				
<i>Cash was provided from:</i>				
Sale of Property, Plant and Equipment		30	-	-
Interest Income on Bank Deposits - Grant		1,064	3,500	1,026
Interest Income on Bank Deposits - Operating		861	490	774
		1,955	3,990	1,800
<i>Cash was applied to:</i>				
Purchase of Property, Plant and Equipment		(657)	(1,875)	(1,195)
Purchase of Intangible Assets (Software)		(3,248)	(8,335)	(3,875)
		(3,905)	(10,210)	(5,070)
Net Cash flows from Investing Activities		(1,950)	(6,220)	(3,270)
Cash Flows from Financing Activities				
<i>Cash was applied to:</i>				
Repayment to Crown		-	-	(2,453)
Repayment of Grants Surplus		(36,904)	(3,500)	(12,174)
Net Cash flows from Financing Activities		(36,904)	(3,500)	(14,627)
Net Decrease in Cash and Cash Equivalents		(8,575)	1,777	(11,268)
Cash and Cash Equivalents at the Start of the Year		43,961	43,888	55,229
Cash and Cash Equivalents at the End of the Year	7	35,386	45,665	43,961

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: STATEMENT OF ACCOUNTING POLICIES

Reporting Entity

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

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

The financial statements for the TEC are for the year ended 30 June 2013, and were approved by the Board on 22 October 2013.

Basis of preparation

Statement of compliance

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

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

Basis of measurement

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

Functional and presentation currency

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

Changes in accounting policies

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

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

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

NZ IFRS 9 Financial Instruments will eventually replace NZ IAS 39 Financial Instruments: Recognition and Measurement

NZ IAS 39 is being replaced through the following three main phases: Phase 1 Classification and Measurement, Phase 2 Impairment Methodology, and Phase 3 Hedge Accounting. Phase 1 has been completed and has been published in the new financial instrument standard NZ IFRS 9. NZ IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in NZ IAS 39. The approach in NZ IFRS 9 is based on how an entity manages its financial assets (its business model) and the contractual cash flow characteristics of the financial assets. The financial liability requirements are the same as those of NZ IAS 39, except for when an entity elects to designate a financial liability at fair value through the surplus/deficit. The new standard is required to be adopted for the year ended 30 June 2016. However, as a new Accounting Standards Framework will apply before this date, there is no certainty when an equivalent standard to NZ IFRS 9 will be applied by public benefit entities.

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

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

Significant accounting policies

Revenue

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

Revenue from the Crown

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

Interest income on bank deposits – operating

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

Interest income on bank deposits – grants

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

Capital charge

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

Grant expenditure

Non-discretionary grants are those grants awarded if the grant application meets the specified criteria and are recognised as expenditure when an application that meets the specified criteria for the grant has been received.

Discretionary grants are those grants where the TEC has no obligation to award on receipt of the grant application and are recognised as expenditure when approved by the Board of Commissioners and the approval has been communicated to the applicant.

Leases

Operating leases

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

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

Cash and cash equivalents

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

Debtors and other receivables

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

Impairment of a receivable is established when there is objective evidence that the TEC will not be able to collect amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy, receivership or liquidation, and default in payments are considered indicators that the debt is impaired. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the surplus or deficit. When the receivable is uncollectible, it is written off against the allowance account for receivables. Overdue receivables that have been renegotiated are reclassified as current (that is, not past due).

Bank deposits

Investments in bank deposits are initially measured at fair value plus transaction costs.

After initial recognition investments in bank deposits are measured at amortised cost using the effective interest method, less any provision for impairment.

Property, plant and equipment

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

Additions

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

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

Disposals

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are reported net in the surplus or deficit.

Subsequent costs

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

The costs of day-to-day servicing of property, plant and equipment are recognised in the surplus or deficit as they are incurred.

Depreciation

Depreciation is provided on a straight-line basis on all plant and equipment other than land, at rates that will write-off the cost (or valuation) of the assets to their estimated residual values over their useful lives. Leasehold improvements are depreciated over the unexpired period of the lease or the estimated remaining useful lives of the improvements, whichever is the shorter.

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

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

Intangible assets consist of items of acquired and developed software. These are capitalised on the basis of the costs incurred to acquire and to bring them to use. Costs that are directly associated with the development of software for internal use by the TEC are recognised as an intangible asset.

Direct costs include the software development and employee costs directly related to enabling the item of software. Other staff training costs are recognised as an expense when incurred.

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

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

Amortisation

The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is derecognised. The amortisation charge for each financial year is recognised in the surplus or deficit.

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

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 for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. If an asset's carrying amount exceeds its recoverable amount, the asset is impaired and the carrying amount is written down to the recoverable amount.

The TEC currently has no assets carried at a revalued amount. For assets not carried at a revalued amount, the total impairment loss or the amount of any reversal of impairment loss is recognised in the Statement of Comprehensive Income.

Creditors and other payables

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

Employee entitlements

Short-term employee entitlements

Employee benefits that are due to be settled within 12 months after the end of the period in which the employee renders the related service are measured based on accrued entitlements at current rates of pay.

These include salaries and wages accrued up to balance date, annual leave earned to 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 bonuses where there is a contractual obligation or where there is a past practice that has created a constructive obligation.

Long-term employee entitlements

Employee benefits that are due to be settled beyond 12 months after the end of period in which the employee renders the related service, such as long service leave and retirement gratuities, have been calculated on an actuarial basis. The calculations are based on:

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

Presentation of employee entitlements

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

Superannuation schemes

Defined contribution schemes

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

Provisions

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

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

Goods and Service Tax (GST)

The financial statements are stated exclusive of GST with the exception of debtors, other receivables, creditors and other payables which are stated with GST included. Where GST is irrecoverable as an input tax, then it is recognised as part of the related asset or expense. The TEC is not required to account for GST on its Vote Tertiary Education grants revenue and expense. The grant revenue and expense in 2012/13 is stated exclusive of GST for reporting purposes. The comparative information in 2011/12 for Vote Tertiary Education grants revenue and expense is retained at the GST inclusive amount.

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, classified as a net operating cash flow in the statement of cash flows.

Commitments and contingencies are disclosed exclusive of GST.

Income tax

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

Budget figures

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

Cost allocation

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

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

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

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

For the year ended 30 June 2013, indirect costs accounted for 60% (2012: 47%) of the TEC's total costs.

Critical accounting estimates and assumptions

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

Estimating useful lives and residual values of property, plant and equipment

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

An incorrect estimate of the useful life or residual value will affect the depreciation expense recognised in the surplus or deficit, and carrying amount of the asset in the statement of financial position. The TEC minimises the risk of this estimation uncertainty by:

- physical inspection of assets
- asset replacement programmes
- review of second hand market prices for similar assets
- analysis of prior asset sales.

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

Retirement and long service leave

Note 13 provides an analysis of the exposure in relation to estimates and uncertainties surrounding retirement and long service leave liabilities.

Critical judgements in applying accounting policies

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

Leases classification

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

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

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

Comparative information

When presentation or classification of items in the financial statements is amended or accounting policies are changed voluntarily, comparative figures are restated to ensure consistency with the current period unless it is impracticable to do so.

NOTE 2: PERSONNEL EXPENSES

	2013	2012
	Actual	Actual
	\$000	\$000
Salaries	19,258	18,792
Contributions to Defined Benefit and Contribution Plans*	417	101
Increase/(Decrease) in Employee Entitlements	228	70
Training and Development	93	231
Other Personnel Expenses	4,201	5,907
Total Personnel Expenses	24,197	25,101

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

NOTE 3: OPERATING EXPENSES

	2013	2012
	Actual	Actual
	\$000	\$000
Note		
Property Rental	1,707	1,558
Motor Vehicles	13	25
Computer Operations	3,865	3,979
Consultants	1,159	2,443
Audit Fees for Financial Statements Audit	159	179
Other Fees Paid - Assurance Services*	130	16
Restructuring	-	66
Travel	877	789
Insurance	180	140
Legal Fees	293	130
Capital Charge	1,686	1,679
Managing Third Party Contracts	4,743	4,737
Bank Fees	5	14
Telephone, Tolls and Postage	256	280
Other Supplies and Services	1,199	1,509
Commissioners Fees	142	162
PBRF Panel Members Fees	723	532
Loss on Disposal of Property, Plant and Equipment/Software and Write-Off	1,430	2
Total Operating Expenses	18,567	18,240

* Fees paid to PricewaterhouseCoopers for an investigation of an Industry Training Organisation.

NOTE 4: DEPRECIATION

	2013 Actual \$000	2012 Actual \$000
Leasehold Improvements	210	390
Computer Equipment	719	796
Office Equipment	56	60
Furniture and Fittings	111	124
Motor Vehicles	3	4
Total Depreciation	1,099	1,374

NOTE 5: AMORTISATION

	2013 Actual \$000	2012 Actual \$000
Intangible Amortisation (Software)	4,157	3,866
Total Amortisation	4,157	3,866

NOTE 6: REPAYMENT OF GRANTS SURPLUS

	Grants MoE Surplus \$000	Grants MSD Surplus \$000	Operating INZ Surplus \$000	Total \$000
Balance at 30 June 2012	35,476	1,418	295	37,189
Surplus Repaid During the Period	(35,476)	(1,418)	-	(36,894)
Grants Surplus for the Year	4,899	1,535	-	6,434
Interest Earned for Grants	869	195	-	1,064
GST Adjustment	(617)	-	-	(617)
Transfer to Equity	-	-	(295)	(295)
2011/12 Net Recoveries	598	10	-	608
Balance at 30 June 2013	5,749	1,740	-	7,489

NOTE 7: CASH AND CASH EQUIVALENTS

	2013 Actual \$000	2012 Actual \$000
Cash on Hand	1	1
Cash at Bank	12,385	29,960
Term Deposits with Maturities Less than 3 Months	23,000	14,000
Total Cash and Cash Equivalents	35,386	43,961

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

NOTE 8: DEBTORS AND OTHER RECEIVABLES

		2013	2012
	Note	Actual	Actual
		\$000	\$000
Tertiary Grants Receivables		5,045	30,428
Other Accounts Receivable		43	71
Provision for Impairment (Doubtful Debts)		(2,269)	(3,959)
Total Debtors and Other Receivables	16	2,819	26,540

The overall decrease in the provision for doubtful debts is as a result of recovery payments from providers affected by the Canterbury earthquakes, and approval by the Board of Commissioners to write off uncollectable debts.

The carrying value of receivables approximates their fair value.

As at 30 June 2013 and 2012, all overdue receivables have been assessed for impairment and appropriate provisions applied as detailed below:

As at 30 June 2013	Gross	Impairment	Net
	\$000	\$000	\$000
Not Past Due	43	-	43
Past Due 1-30 days	731	(358)	373
Past Due 31-60 days	2,357	-	2,357
Past Due 61-90 days	80	(69)	11
Past Due > 91 days	1,877	(1,842)	35
Total	5,088	(2,269)	2,819

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

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

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

	2013	2012
	Actual	Actual
	\$000	\$000
Balance at 1 July	3,959	1,083
Increase/(Decrease) in Provision	(771)	2,876
Receivables Written Off During the Year	(919)	-
Balance at 30 June	2,269	3,959

NOTE 9: PROPERTY, PLANT AND EQUIPMENT

	Leasehold Improvements \$000	Computer Equipment \$000	Office Equipment \$000	Furniture and Fittings \$000	Motor Vehicles \$000	Total \$000
Cost						
Balance at 1 July 2011	3,298	6,833	718	1,610	62	12,521
Additions	144	746	4	-	28	922
Disposals	-	(213)	(19)	-	-	(232)
Balance at 30 June 2012	3,442	7,366	703	1,610	90	13,211
Balance at 1 July 2012	3,442	7,366	703	1,610	90	13,211
Additions	38	771	6	23	-	838
Disposals/Transfers	-	(36)	-	-	(69)	(105)
Balance at 30 June 2013	3,480	8,101	709	1,633	21	13,944
Accumulated Depreciation						
Balance at 1 July 2011	2,414	5,487	546	1,120	62	9,629
Depreciation Expenses	390	796	60	124	4	1,374
Disposals	-	(211)	(19)	-	-	(230)
Balance at 30 June 2012	2,804	6,072	587	1,244	66	10,773
Balance at 1 July 2012	2,804	6,072	587	1,244	66	10,773
Depreciation Expenses	210	719	56	111	3	1,099
Disposals	-	(44)	-	-	(48)	(92)
Balance at 30 June 2013	3,014	6,747	643	1,355	21	11,780
Carrying Amounts						
At 1 July 2011	884	1,346	172	490	-	2,892
At 30 June and 1 July 2012	638	1,294	116	366	24	2,438
At 30 June 2013	466	1,354	66	278	-	2,164

NOTE 10: INTANGIBLE ASSETS (SOFTWARE)

	\$000
Cost	
Balance at 1 July 2011	18,112
Additions	5,901
Disposals	-
Balance at 30 June 2012	24,013
Balance at 1 July 2012	24,013
Additions	5,045
Disposals	(138)
Balance at 30 June 2013	28,920
Accumulated Depreciation	
Balance at 1 July 2011	11,394
Depreciation Expenses	3,866
Impairment	-
Balance at 30 June 2012	15,260
Balance at 1 July 2012	15,260
Depreciation Expenses	4,157
Disposal	(128)
Balance at 30 June 2013	19,289
Carrying Amounts	
At 1 July 2011	6,718
At 30 June and 1 July 2012	8,753
At 30 June 2013	9,631

NOTE 11: WORK IN PROGRESS

	Software \$000	Property, Plant and Equipment \$000	Total \$000
Cost			
Balance at 1 July 2011	5,659	318	5,977
Additions	3,749	859	4,608
Transfer to Software / Property, Plant and Equipment	(5,901)	(779)	(6,680)
Balance at 30 June 2012	3,507	398	3,905
Balance at 1 July 2012	3,507	398	3,905
Additions	3,307	853	4,160
Transfer to Software / Property, Plant and Equipment	(5,045)	(838)	(5,883)
Written Off	(1,426)	-	(1,426)
Balance at 30 June 2013	343	413	756

Work In Progress cost comprises software projects that are in progress pending capitalisation on completion.

NOTE 12: CREDITORS AND OTHER PAYABLES

		2013	2012
	Note	Actual	Actual
		\$000	\$000
Grants			
Creditors		2,731	1,644
Accrued Expenses		4,876	13,432
		7,607	15,076
Operations			
Creditors		349	245
Accrued Expenses		2,061	2,169
Withholding Tax Payable		-	2
		2,410	2,416
Total Creditors and Other Payables	16	10,017	17,492

Maturity Grouping

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

NOTE 13: EMPLOYEE ENTITLEMENTS

	2013	2012
	Actual	Actual
	\$000	\$000
Current portion		
Salaries and Wages	509	555
Annual Leave	963	1,143
Severance Provision	40	-
Sick Leave	42	50
Retirement and Long Service Leave	109	149
Total Current Portion	1,663	1,897
Non-Current Portion		
Retirement and Long Service Leave	598	561
Total Non-Current Portion	598	561
Total Employee Entitlements	2,261	2,458

The TEC has engaged the service of an external actuary to calculate long service leave and retirement leave liabilities. The valuation result is most sensitive to the difference between the assumed rates of interest and salary escalation, and assumed resignation rates.

The table below shows the impact on the valuation result of varying the assumed rates of salary growth and resignation rates, leaving all other assumptions unaltered:

Changes in Assumptions	Long	Retiring	Total
	Service Leave	Leave	
	\$000	\$000	\$000
No Change	355	352	707
Salary Growth: 2% per year	333	334	667
Salary Growth: 4% per year	379	372	751
Resignation rates: 150% of Assumed	351	335	686
Resignation rates: 50% of Assumed	359	370	729

NOTE 14: PROVISION FOR LEASE MADE GOOD

	2013 Actual \$000	2012 Actual \$000
Balance at 1 July	265	135
Increase/(Decrease) in provision	(61)	130
Balance at 30 June	204	265

The balance represents the Provision for Lease Make Good on Auckland and Wellington offices. In respect of its leased premises, the Commission is required at the expiry of the leased term to make good any damage caused to the premises and to remove any fixtures and fittings installed by the Commission.

The cost is based on the market value of replacement of items as specified in the lease agreement.

NOTE 15: RECONCILIATION OF TOTAL COMPREHENSIVE INCOME WITH THE NET CASH FLOWS FROM OPERATING ACTIVITIES

	2013 Actual \$000	2012 Actual \$000
Total Comprehensive Income	6,205	37,279
Add Non-Cash Items:		
Depreciation of Property, Plant and Equipment	1,099	1,374
Amortisation of Intangibles	4,157	3,866
(Gain)/Loss on disposal of Property, Plant and Equipment	(11)	2
Loss on Disposal/Write off of Software	1,430	-
Total of Non-Cash Items	6,675	5,242
Add/(Deduct) Movement in Working Capital Items		
(Increase) / Decrease in Debtors and Other Receivables	23,721	22,319
GST Payable/(Receivable)	135	(2,095)
Increase / (Decrease) in Creditors and Other Payables	(7,480)	(55,509)
Increase / (Decrease) in Redirects Payable	-	2
Increase / (Decrease) in Accrued Salaries and Wages	(197)	180
Increase / (Decrease) in Received in Advance from English for Migrants	2,245	(161)
(Increase) / Decrease in Prepayment	(103)	16
Increase / (Decrease) Provisions	(61)	130
Net Movement in Working Capital	18,260	(35,118)
Add /Deduct Items Classified as Investing Activities		
Interest Income - Operating	(861)	(774)
Total of Investing Activities	(861)	(774)
Net Cash Flows from Operating Activities	30,279	6,629

NOTE 16: EXPLANATION OF MAJOR VARIANCES AGAINST BUDGET

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

Statement of Comprehensive Income

Grants revenue

Grants revenue was less than budgeted by \$79 million to reflect the reduced need for cash drawdown.

Grants expenses

Grants expenses were less than budgeted by \$85 million. The majority of this variance relates to Training for Designated Groups as a result of changes made to improve the efficiency of industry training and lower demand.

Operating expenses

Operating expenses are \$2m over budget due to additional expenditure on consultants and professional services arising from the Canterbury recovery quality assurance reviews and other independent assurance reviews. In addition the board approved a write off of the initial costs associated with the Tertiary Learner Event Collection (TLEC) Project.

Statement of Financial Position

Cash and cash equivalents

Cash is under budget through tighter forecasting of our drawdown requirements

Debtors and other receivables

Debtors are under budget by \$7 million mainly due to improved and streamlined processes in relation to the 2011/12 performance based funding recoveries.

Creditors and other payables

The level of creditors and other payables were less than budgeted by \$33 million. This reduction has been possible due to efficiencies in the payment process.

NOTE 17: RELATED-PARTY DISCLOSURE

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

The TEC is a wholly owned entity of the Crown.

Significant transactions with government-related entities

- The TEC has been provided with funding from the Crown of \$2.8 billion (2012 \$3.2 billion) for specific purposes as set out in its founding legislation and the scope of the relevant government appropriations.
- MoE sets policy for the tertiary education sector and is the monitoring ministry for the TEC. The previous Commission Chair (July 2012) Sir Harawira Gardiner is married to the Minister of Education, Hon. Hekia Parata. There are no related-party transactions for the year ended 30 June 2013. However, his role as Commission Chair required Sir Harawira Gardiner to participate in decisionmaking and policy discussions regarding the tertiary education sector.

Collectively, but not individually, significant transactions with government-related entities

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

The TEC purchases goods and services from entities controlled, significantly influenced, or jointly controlled by the Crown. Purchases from these government-related entities for the year ended 30 June 2013 totalled \$0.7 million (2012; \$0.8 million). These purchases include the purchase of electricity from Genesis, air travel from Air New Zealand, and postal services from New Zealand Post.

The following transactions were entered into during the year:

Current:

- The TEC contracted with the Seafood Industry Training Organisation, an organisation in which Commissioner Robin Hapi is a member of the Governance Committee, for the provision of education, training and other services of \$16,982 (2012: \$2,243,119). The variance is due to Seafood Industry Training Organisation funding ceasing in 2012/13. There were no amounts outstanding at year end (2012: \$nil).

- The TEC contracted with Te Wānanga O Raukawa, an organisation in which Commissioner Robin Hapi is Council Chair and Chair of the Paihere Tangata subcommittee, for the provision of education, training and other services of \$10,495,922 (2012: Full year funding was \$10,969,565. Funding for the period for which Commissioner Robin Hapi was appointed was \$3,088,717). Commissioner Robin Hapi was appointed to Te Wānanga O Raukawa in March 2012. The 2012 comparative information is only for the four months to June 2012. There were no amounts outstanding at year end (2012: \$nil).
- The TEC contracted with Te Aute College Trust Board, an organisation in which Commissioner Robin Hapi is Co-Chair, for the provision of education, training and other services of \$22,888 (2012: \$9,584). There were no amounts outstanding at year end (2012: \$nil).

Past:

- The TEC has purchased memberships subscriptions of \$1,500 (2012: \$1,725) from the Institute of Public Administration New Zealand (IPANZ), an organisation in which Commissioner Judith Johnston was the Chair of Public Sector Excellence Awards judging panel. There were no amounts outstanding at year end (2012: \$nil).
- The TEC purchased membership subscriptions and training of \$4,007 (2012: \$4,725) from the Institute of Directors, an organisation in which Commissioner Jim Donovan is a National Council Member. There were no amounts outstanding at year end (2012: \$nil).
- The TEC contracted with Victoria University of Wellington, an organisation in which the past Chief Executive Belinda Clark's sister is a Council Member, for the provision of education, training and other services of \$161,779,900 (2012: \$159,648,837). There were no amounts outstanding at year end (2012: \$nil).
- The TEC contracted with Ngati Awa Tertiary Training Organisation, an organisation in which past Commission Chair Sir Harawira Gardiner has a connection as the Chairman of Ngati Awa Group Holdings Limited, for the provision of education, training and other services of \$502,389 (2012: \$579,294). There were no amounts outstanding at year end (2012: \$nil).
- The TEC contracted with Healthcare of New Zealand Limited, an organisation in which past Commission Chair Sir Harawira Gardiner is a Director, for the provision of education, training and other services of \$125,646 (2012: \$45,354). There were no amounts outstanding at year end (2012: \$nil).
- The TEC contracted with Forest Industries Training and Education Council (FITEC), an organisation in which past Commissioner Ian Boyd was the Chief Executive, for the provision of education, training and other services of \$6,821,423 (2012: \$12,304,101). FITEC merged with Competenz on 1 May 2013. There were no amounts outstanding at year end (2012: \$42,421).
- The TEC contracted with Christchurch Polytechnic Institute of Technology, an organisation in which Commissioner Jim Donovan has private partnership opportunities, for the provision of education, training and other services of \$54,881,558 (2012: Full year funding was \$51,920,870. Funding for the period for which Commissioner Jim Donovan had private partnership opportunities was \$11,818,909). The comparative information is for the period May-June 2012, being period commissioner Jim Donovan had private partnership opportunities during 2011/12. There were no amounts outstanding at year end (2012: \$nil).
- The TEC contracted with Community Colleges New Zealand Limited, an organisation in which Commissioner Anthony Hall is the Council Chair, for the provision of education, training and other services of \$3,717,355 (2012: \$3,839,703). There were no amounts outstanding at year end (2012: \$nil).
- The TEC contracted with Lincoln University, an organisation in which Commissioner Anthony Hall is a Pro Chancellor, for the provision of education, training and other services of \$46,501,515 (2012: \$49,150,576). There were no amounts outstanding at year end (2012: nil).
- The TEC contracted with Auckland University of Technology, an organisation in which Commissioner Pauline Winter is the Director of the Office of Pasifika Advancement, for the provision of education, training and other services of \$141,824,424 (2012: \$159,562,151). There were no amounts outstanding at year end (2012: nil).

Total Grants Expenses Relating to Tertiary Education Institutions

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

	Year ended 30 June 13 \$000	Year ended 30 June 12 \$000
Universities		
Auckland University of Technology	141,824	158,572
Lincoln University	46,502	47,744
Massey University	191,324	221,161
The University of Auckland	390,177	435,001
University of Canterbury	145,286	167,835
University of Otago	274,319	310,144
University of Waikato	88,019	99,390
Victoria University of Wellington	161,780	182,852
	1,439,231	1,622,699
Polytechnics		
Aoraki Polytechnic	14,515	19,858
Bay of Plenty Polytechnic	23,617	27,378
Christchurch Polytechnic Institute of Technology	54,882	59,709
Eastern Institute of Technology	36,897	40,616
Manukau Institute of Technology	61,927	71,135
Nelson Marlborough Institute of Technology	19,575	24,601
Northland Polytechnic	26,123	30,461
Otago Polytechnic	33,065	35,810
Southern Institute of Technology	29,296	33,235
Tai Poutini Polytechnic	18,398	20,537
Tairāwhiti Polytechnic	-	258
The Open Polytechnic of New Zealand	39,187	46,734
Unitec Institute of Technology	80,692	91,903
Universal College of Learning	29,181	34,785
Waiariki Institute of Technology	26,432	29,818
Waikato Institute of Technology	47,021	53,318
Wellington Institute of Technology	29,280	35,096
Western Institute of Technology Taranaki	15,396	17,494
Whitireia Community Polytechnic	26,575	29,816
	612,059	702,562

*Continued overpage**Continued*

	Year ended 30 June 13 \$000	Year ended 30 June 12 \$000
Wānanga		
Te Wānanga O Aotearoa	134,579	154,284
Te Wānanga O Raukawa	10,496	12,615
Te Whare Wānanga O Awanuiarangi	24,659	27,858
	169,734	194,757
Total Grants Expenses Relating to Tertiary Education Institutions	2,221,024	2,520,018
Grants Expenses for Other Tertiary Education Organisations	483,367	555,022
Total Grants Expenses*	2,704,391	3,075,040

Ministerial Disclosures

The Treasury advises that responsible Ministers Hon. Steven Joyce and Hon. Hekia Parata have certified that they have no related party transactions for the year ended 30 June 2013.

Key Management Personnel Compensation

	2013 Actual \$000	2012 Actual \$000
Salaries and Other Short Term Benefits	1,815	1,687
Other Long Term Benefits	16	-
Termination Benefits	40	(40)
Total Key Management Personnel Compensation	1,871	1,647

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

* The TEC is not required to account for GST on its Vote Tertiary Education grants revenue and expense. The 2011/12 comparative information for grants revenue and expense is retained as per the published 2011/12 annual report GST inclusive amount. The 2011/12 GST exclusive amounts are \$2,664,322 for Vote Tertiary Education grants revenue and \$2,634,164 for Vote Tertiary Education grants expense.

NOTE 18: BOARD OF COMMISSIONERS' REMUNERATION

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

		2013 Actual \$	2012 Actual \$
Current Commission members			
John Spencer (Chairman)	appointed August 12	38,500	-
Nigel Gould	appointed May 13	3,333	-
Robin Hapi	appointed December 07	20,000	20,000
Judith Johnston	appointed August 11	20,000	15,000
Christopher Mace	appointed May 13	3,333	-
John Morris	appointed November 12	13,333	-
Past Commission Members			
Sir Harawira Gardiner (Chairman)	retired July 12	3,500	42,000
Ian Boyd	retired December 12	10,000	20,000
Jim Donovan	retired April 13	16,667	20,000
Tony Hall	retired October 12	6,667	20,000
Pauline Winter	retired October 12	6,667	20,000
Deirdre Dale		-	5,000
Total Commission Member Fees		142,000	162,000

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

The TEC has provided a deed of indemnity to Commissioners for certain activities undertaken in the performance of the TEC's function.

The TEC has effected Commissioners' and Officers' Liability and Professional Indemnity insurance cover during the financial year in respect of the liability or costs of Board members and employees.

No commission member received compensation or other benefits in relation to cessation (2012: Nil).

NOTE 19: EMPLOYEE REMUNERATION

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

	2013	Number of Employees 2012
Remunerations		
550,000 to 560,000	-	1
440,001 to 450,000	1	-
300,001 to 310,000	1	-
290,001 to 300,000	-	1
280,001 to 290,000	2	1
270,001 to 280,000	-	1
260,001 to 270,000	1	-
230,001 to 240,000	1	-
210,001 to 220,000	-	1
190,001 to 200,000	1	-
180,001 to 190,000	1	-
170,001 to 180,000	4	6
160,001 to 170,000	4	4
150,001 to 160,000	2	4
140,001 to 150,000	3	5
130,001 to 140,000	4	2
120,001 to 130,000	9	8
110,001 to 120,000	10	9
100,000 to 110,000	12	5
Total Employees	56	48

During the year ended 30 June 2013, 9 employees (2012:8) received compensation and other benefits in relation to cessation totalling \$264,576 (2012: \$246,598).

NOTE 20: FINANCIAL INSTRUMENTS

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

Categories of Financial Assets and Liabilities

	2013 Actual \$000	2012 Actual \$000
Financial Assets		
Cash and Cash Equivalents	35,386	43,961
Debtors and Other Receivables	2,819	26,540
Total Financial Assets	38,205	70,501
Financial Liabilities Measured at Amortised Cost		
Creditors and Other Payables	10,017	17,492
Total Financial Liabilities Measured at Amortised Cost	10,017	17,492

Credit Risk

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

Market Risk

Fair Value Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. There were no interest rate options or interest rate swap options in place as at 30 June 2013. TEC bank deposits are on call and on term deposits with less than or equal to three months' maturities.

Currency Risk

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

Liquidity Risk

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

Contractual Maturity Analysis of Financial Liabilities

The table below analyses the TEC's financial liabilities that will be settled, based on the remaining period at the balance sheet date to contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows, based on liabilities in Note 12.

As at 30 June 2013

	Carrying amount \$000	Contractual cash flows \$000	Less than 6 months \$000
Creditors and Other Payables	10,017	10,017	10,017
Total	10,017	10,017	10,017

As at 30 June 2012

	Carrying amount \$000	Contractual cash flows \$000	Less than 6 months \$000
Creditors and Other Payables	17,492	17,492	17,492
Total	17,492	17,492	17,492

NOTE 21: OPERATING LEASES

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

	2013 Actual \$000	2012 Actual \$000
Non Cancellable Operating Leases (Rental Agreements)		
Not Later Than One Year	1,576	1,576
Later Than One Year and Not Later Than Two Years	1,253	1,576
Later Than Two Years and Not Later Than Five Years	71	1,323
Total Operating Leases	2,900	4,475

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

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

The leases for the Wellington office have expiry dates of 15 March 2015 with three yearly rights of renewal.

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

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

For the year ended 30 June 2013 \$1,707k (2012: \$1,558k) was recognised as an expense in the income statement in respect of operating leases.

NOTE 22: CAPITAL COMMITMENTS

Capital expenditure contracted for at balance date but not yet incurred:

	2013 Actual \$000	2012 Actual \$000
Intangible Assets	674	1,337
Total Capital Commitments	674	1,337

NOTE 23: NON-CANCELLABLE AGREEMENTS AND INVESTMENT PLANS

Commitments under these agreements and plans are:

	2013 Actual \$000	2012 Actual \$000
Not Later Than One Year	2,437,497	1,364,387
Later Than One Year and Not Later Than Two Years	1,052,631	31,791
Later Than Two Years and Not Later Than Five Years	-	1,731
Total Non-Cancellable Contracts	3,490,128	1,397,909

At 30 June 2013, the TEC had entered into funding agreements for the provision of training services. 2013 Investment Plans contain indicative funding levels. 2014 Investment Plans have not been finalised as at balance date.

NOTE 24: CONTINGENCIES**Contingent Liabilities**

The TEC has no contingent liabilities (2012: nil).

Contingent Assets

The TEC has no contingent assets (2012: \$20.984 million).

NOTE 25: EVENTS AFTER THE BALANCE DATE

No event has occurred since the end of financial period (not otherwise dealt within the financial statements) that has affected or may significantly affect, the Commission's operations or state of affairs for the year ended 30 June 2013.

NOTE 26: PROFESSIONAL INDEMNITY INSURANCE

The TEC has effected the following indemnity and other insurance policies in respect of its commissioners and employees:

- Professional Indemnity
- Directors and Officers Liability

NOTE 27: CAPITAL MANAGEMENT

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

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

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

GLOSSARY

ACC	Accident Compensation Corporation
CAM	capital asset management
CERA	Canterbury Earthquake Recovery Authority
CoRES	Centres of Research Excellence
CPIT	Christchurch Polytechnic Institute of Technology
DPMC	Department of the Prime Minister and Cabinet
EFTS	Equivalent full-time students
EPI	Educational Performance Indicator
ESOL	English for Speakers of Other Languages
FFTO	Foundation-Focused Training Opportunities
FITEC	Forest Industries Training and Education Council
GST	Goods and Service Tax
ILN	Intensive Literacy and Numeracy
IPANZ	Institution of Public Administration New Zealand
IRD	Inland Revenue Department
ITOs	industry training organisations
ITPs	institutes of technology and polytechnics
LLN	Literacy, Language and Numeracy
MBIE	Ministry of Business, Innovation and Employment
MoE	Ministry of Education
MPI	Ministry for Primary Industries
MSD	Ministry of Social Development
NZ GAAP	New Zealand Generally Accepted Accounting Practice
NZ IFRS	New Zealand International Financial Reporting Standard
NZQA	New Zealand Qualifications Authority
NZQF	New Zealand Qualifications Framework
OECD	Organisation for Economic Co-operation and Development
PAS	Public Benefit Entity Accounting Standards
PBRF	Performance-Based Research Fund
PSA	Public Service Association
PTEs	private training establishments
SAC	Student Achievement Component
SDR	Single Data Return
SOI	Statement of Intent
SSW	Skills and Safe Workplaces
STMs	standard training measure
TEC	Tertiary Education Commission
TEIs	Tertiary Education Institutions
TEOs	Tertiary Education Organisations
TIFS	Tertiary Information Future State
TLEC	Tertiary Learner Event Collection
UC	University of Canterbury
WPL	Workplace Literacy Fund
XRB	External Reporting Board

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