



**Tertiary
Education
Commission**

Te Amorangi
Mātauranga Matua



Annual Report

for the year ended 30 June 2017

Our year in numbers



542,000

learners enrolled in formal qualifications

405,000

learners enrolled with tertiary
education providers

335,000

Student Achievement Component
funded learners

137,000

industry trainees

9,628

engineering equivalent
full-time students in 2016
(up from 8,615 in 2014)

5,036

learners used the Pathways Awarua
online road code pathway between
1 July 2016 to 30 June 2017



2,360

learners in Māori and Pasifika
Trades Training initiative
(up from 1,189 in 2014)

1,812

employer-led Workplace Literacy
and Numeracy funded learners
(up from 720 in 2015)

3

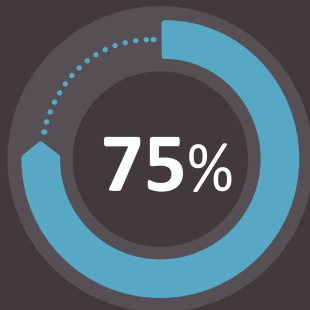
new cross-
institutional
Centres of
Asia-Pacific
Excellence

3

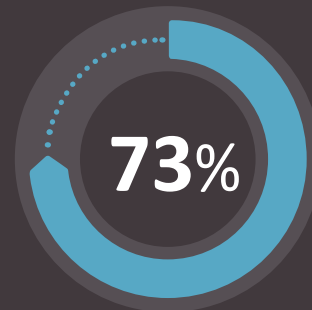
new ICT
Graduate Schools
in Auckland,
Wellington and
the South Island

85

audits of tertiary
education
organisations
(up from 30 in
2015/16)



staff engagement –
seven percentage points above
the state sector average



of our customers agreed
that we are committed to improving
the way we engage with them
(up 29 percentage points since 2015)

OUR



Mission

is to ensure
New Zealand's
future success.



Vision

is to ensure that all
New Zealanders are
equipped with the
knowledge and skills
they need for
lifelong success.

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Part one
Introduction

Board Chair's foreword

This Annual Report provides an overview of what the Tertiary Education Commission Te Amorangi Mātauranga Matua (TEC) achieved for the year ended 30 June 2017.

The TEC is a Crown agency under the Crown Entities Act 2004. We are the Government's key agency for investment in tertiary education and training, and we safeguard the Crown's interests in tertiary education institutions. We are guided by the six priorities in the *Tertiary Education Strategy 2014-2019*, and we contribute to Government's wider goals, including the Business Growth Agenda and the Better Public Services targets.

This year, we invested approximately \$2.9 billion into the tertiary education system. This supported more than 700 tertiary education organisations across New Zealand to provide all forms of post-secondary school education – from foundation education to vocational education and higher education, including research in universities.

Through our strategy, we are working to improve the performance of the tertiary system. Our investment programme is helping us get better value from the tertiary spend. Our evolving work analysing the outcomes of tertiary education is shifting our focus beyond inputs and outputs to end outcomes for learners, society and the economy.

Enhanced databases and the analytical insights they provide are increasingly powerful tools to lift educational performance at all levels. We are using these tools to enable improved learner choice, enhance our own investment decisions and those made by others in the system, target interventions to lift retention and completion rates, and fund more efficient learner pathways.

We cannot deliver our strategy on our own. Strong partnerships have been developed with tertiary education organisations and our colleague agencies across government, including the Ministry of Education and the New Zealand Qualifications Authority. We continue to build our relationships with employers, who are integral to the tertiary system.

There is a great opportunity to improve connections between tertiary education organisations, employers and schools following the transfer of Careers New Zealand's functions to the TEC on 1 July 2017. In the trusted Careers New Zealand brand and online presence, and Careers New Zealand's existing networks, we have acquired valuable assets. We will continue to develop these in the coming years.

Achieving parity of participation and achievement for Māori and Pasifika with other learners is critical to New Zealand's social, cultural and economic success. We made modest progress during the year, and we know we still have work to do. Through more targeted information, advice and investments our focus will be on achieving parity in coming years.

The Productivity Commission report *New models of tertiary education* presented us, our partners and our colleague agencies with challenges and opportunities to refine the tertiary system. Government's response to this in July 2017 represents an ambitious and exciting policy agenda for the coming years.

Finally, I would like to pay tribute to our outgoing Board members John Spencer and Dale Karauria. The achievements presented in this report reflect positively on their hard work. I would like to particularly acknowledge John's term as Board chair between 2012 and 2017.



Nigel Gould

Board Chair, Tertiary Education Commission



“We are the Government's key agency for investment in tertiary education and training, and we safeguard the Crown's interests in tertiary education institutions.”



Chief Executive's message

The Tertiary Education Commission Te Amorangi Mātauranga Matua (TEC) equips New Zealanders with the knowledge and skills needed for lifelong success.

Our investment in tertiary education and training continues to deliver increased value for New Zealanders. Greater numbers of learners are studying towards higher level qualifications, with more tertiary learners studying full time. The quality of research continues to increase.

It was a busy year preparing for change, with the transfer of Careers New Zealand into the TEC on 1 July 2017. I am proud of the progress we made during the year, alongside our focus on the practicalities of the transfer. Our successes included:

- › advancing our investment programme through projects that re-enforce our role as an effective investor in, and steward of, the tertiary education system
- › implementing our Key Information for Students initiative that makes quality information available to prospective tertiary learners, helping them make better tertiary education decisions
- › launching our new suite of information products to give tertiary education organisations access to information about their own organisation, the sector, and the tertiary environment that was not readily available before
- › responding to the opportunities of growing internationalisation of New Zealand's economy and society through the new Centres of Asia-Pacific Excellence and Entrepreneurial Universities
- › improving connections between tertiary education organisations and employers in priority industries through the Engineering Education to Employment programme and the three Information and Communication Technology (ICT) Graduate Schools.

We have high expectations of the tertiary education organisations we invest in. During 2016/17, we continued to increase our capability in, and visibility of, our monitoring programme. We increased the frequency and scope of audits of tertiary education organisations and improved our monitoring framework.

I am delighted to see our employee engagement continues to rise year on year. At 75 percent, we now sit seven percentage points above the state sector average. The survey result reflects the commitment and passion we have about the work we do and the people we work with.

Our customers have continued to experience the positive business-friendly changes we have made over recent years. I am pleased 73 percent of our customers agreed we are committed to improving the way we engage with them. This is up 29 percentage points since 2015, and demonstrates our focus on continuously improving our customer experience.

The transfer of Careers New Zealand into the TEC marked an important point in the development of a more integrated, coordinated and effective careers system for New Zealand. I would like to acknowledge the hard work and professionalism of the TEC staff throughout the transfer process.

As I look ahead, I am confident the combined capability within the TEC will ensure that we continue to champion for learners on the education to employment journey, and invest in high-quality tertiary education skills to enable economic prosperity for all New Zealand.



“Our investment in tertiary education and training continues to deliver increased value for New Zealanders.”

A handwritten signature in dark ink, appearing to read 'Tim Fowler', with a stylized flourish at the end.

Tim Fowler
Chief Executive, Tertiary Education Commission

Who we are and what we do



We invest in tertiary education so that New Zealanders are equipped with the knowledge and skills needed for lifelong success.

 **2.9b**

In 2016/17, we invested approximately \$2.9 billion into the tertiary education system:

8

universities

16

institutes of
technology and
polytechnics

3

wānanga

11

industry training
organisations

216

TEC-funded
private training
establishments

400

over 400 other
organisations*

* includes other tertiary education providers, adult and community education providers, government training establishments and secondary schools.

Our role is to:



INVEST GOVERNMENT FUNDING

— THROUGH —
**Investment
Plans & Contracts**
with tertiary education organisations



PROVIDE LEARNERS

— WITH THE —
**INFORMATION,
SKILLS & TOOLS**
they need to move from
education to employment

PROVIDE INFORMATION & ADVICE

to the Government (including
ownership monitoring advice)

ABOUT TERTIARY EDUCATION

organisations and the
tertiary education sector



MONITOR

— AND MANAGE THE —
**PERFORMANCE
OF TERTIARY EDUCATION
ORGANISATIONS**

From 1 July 2017, we are responsible
for the provision of high-quality

**CAREER INFORMATION AND
STRENGTHENING
THE LINKS BETWEEN
EDUCATION TO EMPLOYMENT**



Our strategic context

We give effect to the Tertiary Education Strategy, and work towards wider government commitments.

Our strategy is underpinned by the *Tertiary Education Strategy 2014-2019* (the Tertiary Education Strategy). The Tertiary Education Strategy sets out six priorities that shape what we do:

1. Delivering skills for industry.
2. Getting at-risk young people into a career.
3. Boosting achievement of Māori and Pasifika.
4. Improving adult literacy and numeracy.
5. Strengthening research-based institutions.
6. Growing international linkages.

We also work towards implementing wider government commitments that complement the priorities set out in the Tertiary Education Strategy. We contribute to the:

- › Ministry of Business, Innovation and Employment's Business Growth Agenda focus on matching skills training to industry demand by investing in tertiary knowledge and skills that meet employers' needs
- › Better Public Services targets to boost skills and employment by lifting tertiary education achievement
- › Ministry of Education's *Māori Education Strategy: Ka Hikitia – Accelerating Success 2013-2017*, *Tau Mai Te Reo the Māori language in Education Strategy 2013-2017* and *Pasifika Education Plan 2013-2017* by supporting Māori and Pasifika learners to participate and achieve at all levels of tertiary education, on par with their peers
- › *Leadership Statement for International Education* by encouraging tertiary education organisations to grow their international revenue.

Our strategy

The TEC's strategy is to ensure the tertiary education system can respond to change and continue to improve outcomes for learners and industry.

OUR STRATEGY HAS TWO PILLARS:



Champion

We champion aspiration by providing the opportunity for all New Zealanders to engage in lifelong education to develop and enhance skills as they are needed.



Invest

We continuously refocus how we invest across the sector to get a better return for the tertiary education spend.

THESE TWO PILLARS STAND ON THREE FOUNDATIONS:



Capability

We are developing our internal capability to ensure the TEC is a great place to work so we can attract and retain high-quality staff.



Knowledge

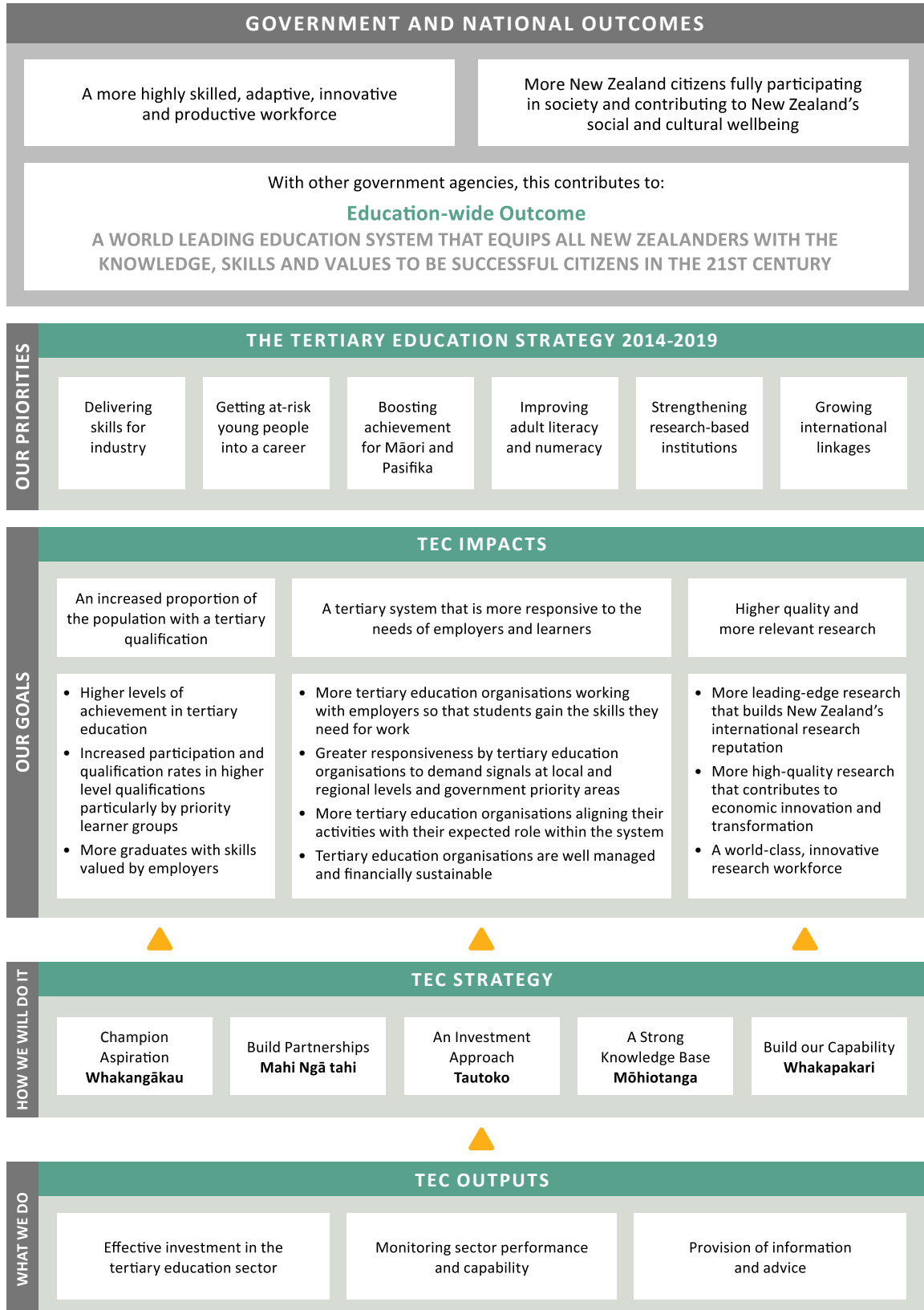
We are developing a strong knowledge base to equip us with the right tools and information to support good decisions on where and how to invest.



Partnership

We are striving to build effective partnerships that help us to achieve better outcomes for New Zealanders.

Our performance framework





Part two
Our impacts and achievements

Setting the scene

Our performance in this Annual Report is assessed against our *Statement of Intent 2015/16–2018/19 (SOI)* and *Statement of Performance Expectations 2016/17 (SPE)*.

We assess our performance against both operational measures and sector measures. We can directly influence our operational measures, but as we operate in a dynamic environment where there are a number of external factors outside of our control, we do not have as much influence over our sector measures. For example, unemployment is currently low due to the strong economic environment and learners staying at school for longer. This has led to reduced demand for tertiary education, affecting a number of our sector performance measures.

We are committed to continually improving and refreshing our performance measures. To achieve this, we have established a medium-term work programme to improve our organisational performance measurement framework. This will be informed by the refresh of the Tertiary Education Strategy, the development and implementation of a new operating model and the development of a new SOI.

This work programme is particularly focused on better measuring how well we operate as a business. The more effective our core business is, the more effectively we can influence change across the sector. This will enable us to tell a more comprehensive performance story about how we are equipping New Zealanders with the knowledge and skills needed for lifelong success.

Although we put in extensive effort over the past year, we know there is still much work to be done as we look ahead.

An increased proportion of the population with a tertiary qualification

Tertiary education drives better economic, social, cultural and environmental outcomes for all New Zealanders. Increasing the proportion of the population with a tertiary qualification is vital to ensuring future prosperity for all.

“We want Māori and Pasifika to participate and achieve at all levels of tertiary education on par with other learners.”

Targeting Tertiary Education Strategy priority learners

Boosting achievement of Māori and Pasifika

We continued to see modest improvement in the educational attainment of Māori and Pasifika learners. We acknowledge there is a lot to do – collectively, with our partner education sector agencies and tertiary education organisations – to improve outcomes for these learners.

A system level shift in performance is required.

We want Māori and Pasifika to participate and achieve at all levels of tertiary education on par with other learners. Higher participation and achievement rates – especially in areas like engineering and ICT – will equip Māori and Pasifika with the qualifications to participate and achieve at all levels of the workforce.

During the year, we highlighted to the tertiary sector we would be taking a stronger focus on parity of tertiary education outcomes for Māori and Pasifika learners. We are working in partnership with the tertiary sector to agree to reasonable and achievable targets to reach parity. We want to ensure that a parity focus is embedded as an integral part of the entire investment process.

Looking ahead, we expect tertiary education organisations to deliver provision that enables greater participation, retention and completions at higher New Zealand Qualifications Framework levels, and in fields of study or learning that deliver better employment outcomes. This also means tertiary education organisations need to have deep linkages with Māori and Pasifika learners at school level, so these learners understand the relationship between their subject choices and future tertiary education opportunities.

We are continuing to increase our focus on improving tertiary education outcomes for Māori and Pasifika learners through our two strategies: Tū Māia e te Akonga and the Pasifika Operational Strategy. These strategies include developing a shared understanding of issues and opportunities through new data products, professional development for tertiary education organisation staff, and innovative ways of supporting better results for Māori and Pasifika. These initiatives set the scene for future significant change through both improved learner choice and TEC funding shifts.

Tū Māia

Tū Māia e te Akonga (Tū Māia) is our strategy to achieve parity for Māori learners. Tū Māia has four key focus areas:

- › The Collective Action on Pathways. This influences the sector to ensure Māori learners get the right support at the right time.
- › Our Kura to Career pilot. This strengthens regional tertiary provision and vocational pathways through to long-term careers by establishing a new approach to contracting for support services.
- › The Quality Educators Initiative. Through this we are working with the sector to develop a blueprint and action plan to embed elements of effective teaching practice into teacher education and professional development.
- › Our business as usual. By strengthening our focus on Māori learners we are bringing together work within the TEC under the Tū Māia banner to contribute to Māori learner success.

Kura to Career – developing better pathways for Māori learners

The two-year Kura to Career mentoring pilot is an initiative of Tū Maia. In March 2017, we contracted Waikato-Tainui and Ngāi Tahu to deliver the pilot. The two iwi are working with 200 Māori secondary school students in their regions to develop better career pathways.

Waikato-Tainui identified Tai Wānanga, a special character school in Hamilton, as its key partner for the pilot. Tai Wānanga's mission is to empower taiohi (young people) to lead the advancement of Māori. Waikato-Tainui has developed a series of wānanga (workshops) for taiohi to strengthen students' awareness of career choices with input from industry and the tertiary sector.

As part of the pilot, Waikato-Tainui has developed a passport for taiohi. It records their academic record alongside their hauora (health and wellbeing) plan, interests, strengths and potential tertiary pathways.

An independent evaluation will measure outcomes of the pilot's success. Our intention is to scale up Kura to Career nationwide.

“

Waikato-Tainui are invested in working collaboratively with the TEC to support our students to participate in culturally rich and pathway-relevant mentoring”

The passport has three priorities – recording tribal connectedness, te reo and tikanga, and meaningful pathways based on taiohi interests and passions. It will travel with the taiohi as they leave school and pursue their next phase in life.”

(Raewyn Mahara,
Waikato-Tainui Education Advisor)



Pasifika Operational Strategy

In January 2017, we launched our new Pasifika Operational Strategy 2017–2020. The strategy was developed in consultation with the tertiary sector. It has clear actions with measurable outcomes based on what works for Pasifika learners.

The strategy sets out three critical focus areas that will have the greatest impact for Pasifika learners:

- › Using information to increase transitions into higher levels of education and into employment. Through providing more targeted information and support to Pasifika learners they will be better prepared to transition, participate and succeed at the right levels in tertiary study.
- › Changing the way tertiary education organisations support Pasifika learners. We will work with tertiary education organisations to strengthen their focus on improving participation and achievement outcomes for Pasifika learners, ensuring that more learners will embark on successful careers that deliver better outcomes.
- › Strengthening the role of the community to increase system capability. We will provide leadership to improve the contribution and role of the broader community ('āiga (families), churches and other key influencers, employers and government) to improve the tertiary system for Pasifika.

Using new information and better data to boost achievement for Pasifika learners

We are continuing to develop new information products that better illustrate Pasifika tertiary education performance. This will enable us to have much more informed discussions with the sector about how to better prepare Pasifika learners to transition, participate and succeed in tertiary study.

In 2016/17, we used our suite of information products to present data to nine Achievement in multicultural high schools (AIMHI) schools in South Auckland about secondary-to-tertiary transition rates, enrolment destinations, fields of study and under-matching enrolment patterns for their Pasifika learners. Our presentations enabled the schools to see a clear view of the tertiary (and non-tertiary) destinations of their Pasifika students.

As a result, McAuley High School is investigating curriculum changes to better support their students' transition to tertiary education. Other feedback from the presentations was positive. We will continue to support South Auckland secondary schools so Pasifika learners make better informed decisions and transitions into higher levels of tertiary education.

“

There was much discussion and some valuable brainstorming by our staff ... to look at what we can do to help our students transition.”

This is extremely useful.”

This is fantastic information I can share with my Board.”

(Comments from workshop participants)



Getting at-risk young people into a career

The suite of Youth Guarantee initiatives (including the Youth Guarantee fees-free places) addresses different parts of the secondary-to-tertiary system to improve the transition from school to further study, work or training. They provide a wider range of learning opportunities, make better use of the education network, and clarify pathways from school.

Learners enrolled in Youth Guarantee fees-free courses have often not achieved in a formal school setting. They tend to be our most 'hard to reach' young people – they can be difficult to engage and retain in the tertiary environment. In 2016, our providers delivered 8,853 equivalent full-time students under the Youth Guarantee fees-free fund.

Many young people are staying at school for longer. To help them successfully transition into work and/or higher level education, we have launched the new DualPathways Pilot. The aim of the pilot is to support learners to gain NCEA levels 2 and 3 or equivalent, and we have allocated 1,200 learner places for 2017. The pilot is a partnership between schools, tertiary education organisations and employers. Learners on the pilot will be enrolled part time in secondary school and part time in either tertiary education or industry training.

Improving adult literacy and numeracy

We continued to support employers to improve their workplace literacy and numeracy. Over the year, the employer-led Workplace Literacy and Numeracy fund helped 1,812 employees. Research showed the fund leads to gains in productivity and skills, and personal and whānau, 'āiga and family wellbeing.

We have started working with the Commission for Financial Capability. By boosting financial capability we can also improve adult literacy and numeracy, as learning about finances also improves literacy and numeracy skills. We are developing financial capability learning modules within our Pathways Awarua online tool. The modules will be finished by December 2017.

We are supporting Tū Māia and the Pasifika Operational Strategy by developing cultural competency pathways for teachers. Once completed, the pathways will enable teachers to achieve literacy and numeracy gains for their Māori and Pasifika learners in culturally relevant and appropriate ways.

Pathways Awarua – a fun learning tool for everyday life

Pathways Awarua is an online tool with learning modules that help learners strengthen their numeracy, reading, writing and listening skills. It also has modules that apply literacy and numeracy skills to specific contexts such as preparing to sit a learner driver licence. The modules are used by tertiary education organisations and employers that provide foundation-level tertiary education and develop literacy and numeracy skills.

Between 1 July 2016 and 30 June 2017, 5,036 learners used the Pathways Awarua online road code pathway to prepare for their learner driver licence. The pathway makes learning the road code fun, and strengthens literacy and numeracy skills at the same time. It was developed in partnership with the New Zealand Transport Agency.

Darfield High School in Canterbury is using the road code pathway. The school's Literacy Coordinator Jan Stark built a unit of work around the idea of becoming a responsible driver, and the Pathways Awarua modules form the reading component of the unit.

“

The road code is great for helping students work on their reading skills as it's at the appropriate level and of high interest and relevance to most of them ... any work that is linked to real life is a winner.”

(Jan Stark, Darfield High School)



Supporting informed learner decisions

We are committed to using our high-quality information to enable learners to make better tertiary investment decisions. Having information that is easily accessible and consistent about available qualifications, as well as post-study feedback from graduates, supports young people to choose the qualification that is right for them.

To achieve this goal, we partnered with learners and tertiary education organisations in the development of new information tools. During the year, we launched the Key Information for Students (KIS) tool and Rate My Qualification (MyQ).

The KIS tool provides a consistent set of information for every TEC-funded, level 5 and above qualification. Once deployment is complete, the KIS will be displayed on all eligible tertiary education organisations' websites. It is also available on the careers.govt.nz website.

As at 30 June 2017, around half of all eligible tertiary education organisations had published the KIS on their websites. Deployment of the tool will continue across the remaining eligible tertiary education organisations throughout 2017.

Learners' feedback on the tool has been positive:

- › "I'd give it a 10/10 for usefulness."
- › "It prompts me to think about the things I should be thinking about."
- › "It's like a one-stop-shop."

Measures of progress

Measures	Actual 2016	Target 2016	Actual 2015	Actual 2014	Actual 2013
Proportion of 18-year-olds with National Certificate of Educational Achievement level 2 or an equivalent qualification (Better Public Services Target)	84.6%	83.6%	83.3%	81.2%	78.6%
Proportion of 25- to 34-year-olds with a qualification at level 4 and above on the New Zealand Qualifications Framework (NZQF) (Better Public Services Target)	57.2% (annual average to December 2016)	57.4%	54.7% (annual average to December 2015)	54.6% (annual average to December 2014)	53.4%
Proportion of students with NZQF levels 1-3 progressing to study at higher levels within 2 years)	32.9%	37.7%	31.7%	33.1%	36.7%
Percentage of equivalent full-time students funded through Student Achievement Component fund that were Māori at NZQF level 4 and above	19%	Increase	18%	18%	18%
Percentage of Student Achievement Component funded equivalent full-time students that were Pasifika at NZQF level 4 and above	9%	Increase	9%	9%	9%
Percentage of equivalent full-time students under the age of 25 funded through Student Achievement Component fund at NZQF level 4 and above	63%	Increase	64%	64%	63%
Proportion of graduates who are employed two years after completing a qualification at NZQF level 4 or above	Information not available until 2018 – (Note 1)	Increase	61% (2012 graduates) (Note 1)	60% (2011 graduates)	57% (2010 graduates)
Earnings of graduates who are employed two years after completing a qualification at level 4 or above	Information not available until 2018 – (Note 1)	Maintain or increase	\$42,223 (2012 graduates) (Note 1)	\$41,534 (2011 graduates)	\$40,955 (2010 graduates)

Note 1 – There is a lag in graduate earnings data being available. The data is obtained through the Statistics New Zealand Integrated Data Infrastructure, which means there are also lag times for loading and extracting the data. The 2015 data (relating to 2012 graduates) was released in 2017 and is the latest graduate earnings data available. 2016 graduate data is not available until 2018 and will be reported in our 2017/18 Annual Report.

Access to the anonymised data used for the calculation of the graduate employment rates and earnings was provided by Statistics New Zealand in accordance with security and confidentiality provisions of the Statistics Act 1975, and secrecy provisions of the Tax Administration Act 1994.

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

For the tertiary education system to meet the skills and research needs of the economy, it needs to be flexible and responsive. Tertiary education organisations also need to be well managed and financially sustainable to ensure high-quality and relevant provision meets the needs of learners and employers.

Investing in outcomes

Our Investment programme is enhancing our role as a smart investor across the tertiary system.

We put the learner at the centre of our decision making by focusing on enhanced outcomes from tertiary education. Our investment in tertiary education will lead to better returns for the learner and government.

Our Investment has three overall goals:

1. Better results for learners.
2. Better social and economic results for New Zealand.
3. More effective system stewardship.

We have progressed the Investment programme through projects that re-enforce our role as an effective investor in, and steward of, the tertiary education system. Through more sophisticated data and information products, these projects are making important long-term changes to the way we invest in the tertiary system.

During the year, our Investment programme focused on:

- › developing an investment framework to define the desired outcomes of tertiary education and how the system contributes to New Zealand's productivity and innovation
- › enabling access to enhanced information so we can better articulate what is and is not working for learners. This includes tracking learners from school through tertiary education and into work using employment and earnings data to highlight post-tertiary outcomes
- › raising expectations for the tertiary sector to have high-performing, learner-centred organisations. This includes expectations for tertiary education organisations to demonstrate capability in governance, stakeholder engagement and infrastructure, and support for learners progressing through the system and teachers.

Helping the tertiary sector make smarter investment decisions

Through our Investment programme we are enabling the tertiary sector to make better use of our extensive data and information. To support this, we launched our secure portal, Ngā Kete, and our suite of new information products in November 2016. Ngā Kete provides access to information about tertiary education organisations, the sector and wider tertiary environment not readily available before.

The data in our information apps is updated regularly from a variety of sources, including Ministry of Education school leaver data, the Single Data Return and the Industry Training Register. The apps are helping tertiary education organisations explore their own and wider sector data in useful ways. Unitec Institute of Technology (Unitec) in Auckland has identified the schools they recruit their students from, and other tertiary education organisations local students are studying at. This lets Unitec tailor their approach to schools so they can support learners to make better transitions.

“

We love the apps, they are really useful and very easy to use. The data allows us to see trends much sooner, and from that prepare our marketing approach and strategic plans earlier than before.”

(Zhivan Alach, Planning and Performance Manager, Unitec)



Delivering skills for industry

The *Tertiary Education Strategy 2014-2019* set a target to prioritise getting industries the skills they need. We continued to increase our investment in areas where there is real industry demand such as engineering, ICT and science.

Employers are an integral part of the tertiary education system. Employer engagement ensures programme design and delivery is informed by the needs of industry, ensuring tertiary education provides industry with the skilled people they need to prosper.

Some of our key current work advancing employer engagement includes the three ICT Graduate Schools, our Engineering Education to Employment programme, and the Māori and Pasifika Trades Training initiative.

Information and Communication Technology (ICT) Graduate Schools

We have invested in three ICT Graduate Schools to respond to the increasing demand for skilled ICT graduates. Our objective is to bridge the gap between the ICT industry and educational provision by bringing employers into the design and delivery of education.

The three ICT Graduate Schools are located in Auckland, Wellington and the South Island. By the end of 2019, the three schools are expected to deliver over 400 domestic ICT equivalent full-time students between them. Although the three schools have currently delivered fewer equivalent full-time students than anticipated, they are expected to make up the shortfall in subsequent years.

How Māori and Pasifika Trades Training can change lives

The Māori and Pasifika Trades Training initiative provides fees-free training to Māori and Pasifika learners to acquire the skills needed for trades-based employment, New Zealand apprenticeships or other higher level training programmes. It includes assistance with the transition into employment.

In 2016, the Māori and Pasifika Trades Training initiative supported 2,360 learners. This was an increase from 1,189 learners in 2014 and 1,787 learners in 2015. Our goal is to increase learner numbers purchased each year to a total of 5,000 in 2019.

Azaria Felagai (pictured below with colleagues from Hawkins) has had her life transformed by this training scheme. A Māori and Pasifika Trades Training scholarship allowed Azaria to study the pre-trade Certificate in Carpentry qualification at Whitireia Polytechnic. Azaria went from carpentry training at Whitireia to working on projects for construction firm Hawkins.

Matt Wilton, Hawkins Wellington Regional Manager, endorses the Māori and Pasifika Trades Training initiative. "It's providing a significant and much needed pipeline of talented women and men into our industry. Getting more women in careers like trades is very good for women, but it is also good for the New Zealand construction industry where there is high growth and high demand," he says.

“

I've learned so much right from my first day. When my colleagues mention certain timbers or parts of the building, we covered that on the course so I have a good idea of what they're talking about.”

We learned the basics of carpentry. It got us used to using the tools that I use now on the job.”

(Azaria Felagai)



“The Engineering Education to Employment programme contributes to the Government’s Business Growth Agenda priority to build a more productive and competitive economy.”

Engineering education to employment

Our Engineering Education to Employment programme addresses New Zealand’s shortage of engineers. A key goal is to increase engineering graduate numbers by 500 or more per year by 2017.

The Engineering Education to Employment programme contributes to the Government’s Business Growth Agenda priority to build a more productive and competitive economy. It also contributes to the achievement of Tertiary Education Strategy priorities for delivering skills for industry, and for boosting achievement of Māori and Pasifika.

A steering group oversees and guides the programme. It comprises key stakeholders from employment and education.

Our key successes in 2016/17 included:

- › achieving the programme’s goal of an additional 500 or more engineering graduates by 2017 one year earlier than planned. There were 511 graduates from priority engineering courses in 2016
- › increasing the number of enrolments in engineering through the Investment Plan process. This will continue the positive trend in the numbers of future engineering graduates, with a focus on achieving more graduates at levels 6 and 7
- › raising awareness and interest in engineering through our highly successful Make the World campaign. Two project evaluations showed a strong connection with Māori, Pasifika and women, our target audiences for the campaign
- › supporting the Secondary-Tertiary Pathways Projects. Through the project, six tertiary education organisations are working with secondary schools to smooth transitions between secondary school and tertiary education in engineering
- › researching the potential of several approaches to work-integrated learning, including a degree apprenticeship and micro-credentials. These approaches explore a partnership between the student, employer and tertiary education organisation, which aims to merge academic studies and workplace experiences
- › exploring the development of an employer resource portal. This will give employers a single access point for the latest tools to recruit, retain and grow employees in engineering.

Supporting Canterbury tertiary education institutions

We have continued to support the University of Canterbury, Lincoln University and Ara Institute of Canterbury (formerly the Christchurch Polytechnic Institute of Technology and Aoraki Polytechnic) to recover from the 2010 and 2011 earthquakes. Over the past year:

- › the University of Canterbury and Lincoln University saw an increase in their enrolments in 2016
- › the University of Canterbury continued to make good progress on its rebuild programme, and work on the modernisation and expansion of its engineering facilities is nearing completion
- › Cabinet agreed to provide up to \$85 million in capital funding to Lincoln University to support the construction of new shared education and research facilities with AgResearch
- › Ara Institute of Canterbury has focused on developing its brand and programme offerings to meet labour market and learner needs across the Canterbury region.

Centres of Asia-Pacific Excellence

We are facilitating the development of new Centres of Asia-Pacific Excellence in New Zealand universities. The Centres of Asia-Pacific Excellence are cross-institutional and will develop New Zealand's Asia-Pacific-rim knowledge and language skills, furthering collaboration between tertiary education institutes and stakeholders to enhance our partnerships with the Asia-Pacific region. They will add value to the work of other organisations by providing leadership and coordination of activities and programmes.

During the year, we selected the preferred suppliers to establish the Centres of Asia-Pacific Excellence:

- › The University of Auckland will lead one centre – in partnership with the University of Otago, University of Waikato and Victoria University of Wellington – that specialises in the North Asia region.
- › Victoria University of Wellington will lead two centres – in partnership with the University of Otago, University of Auckland and University of Waikato – that focus on South East Asia and Latin America.

Working with agencies as steward of the tertiary education system

One of our core functions is to monitor the performance of the tertiary education organisations we fund. Our monitoring focuses on the financial performance, educational delivery, governance and management capability of tertiary education organisations. We also assess risk to the sustainability of provision.

We have continued to increase our capability in, and visibility of, our monitoring. The frequency and scope of tertiary education organisation audits has lifted from 30 to 85 a year.

Over the past year, we implemented a number of initiatives to enhance our monitoring functions, including:

- › introducing a new tertiary education organisation risk framework that coordinates information from across the TEC to enable more centralised oversight
- › strengthening our internal capability, including realigning our internal audit function with wider monitoring activities
- › adopting a more flexible approach to working with at-risk tertiary education organisations.

We will continue to improve our monitoring capability over the next year. A focus will be ramping up our intelligence-based approach to anticipate potential issues and risks, through making better use of existing data.

Measures of progress

Measures	Actual 2016	Target 2016	Actual 2015	Actual 2014	Actual 2013
More learners with relevant skills for industry					
Proportion of 20- to 24 -year-olds who are not in employment, education or training	15.5%	Decrease	15.1%	14.6%	15.6%
Number of engineering equivalent full-time students	9,628	Increase	9,049	8,615	8,228
A financially sustainable and well-managed tertiary education system					
Proportion of investment in tertiary education organisations with Category 1 and 2 NZQA external evaluation and review (EER) rating	96%	Increase	95%	95%	92.9%

Higher quality and more relevant research

Building tertiary education's contribution to economic growth requires us to have strong, internationally respected and competitive universities and other research-based institutions. Research enhances public knowledge and debate, creation of effective public policy, and innovation and productivity.

Investing in research capability and rewarding research excellence

Centres of Research Excellence

The Centres of Research Excellence facilitate excellent tertiary education-based research that benefits New Zealand. There are currently 10 Centres of Research Excellence funded through to 2020.

In May 2017, the Centres of Research Excellence had a mid-term review and were assessed by a panel of leading experts. The review incorporated information from research advisory groups and annual reporting to assess research excellence and progress to date.

The review confirmed the Centres of Research Excellence are delivering against their outcomes. The panel noted all 10 Centres of Research Excellence are conducting excellent-quality research likely to deliver significant benefits to New Zealand and the tertiary education sector.

The panel considered the Centres of Research Excellence could deliver even better collective benefits for New Zealand if further consideration was given to:

- › ensuring governance boards have the correct mix of skills and are fully involved in setting the strategy and direction for the Centres of Research Excellence
- › planning the long-term future of the Centres of Research Excellence, and their options for sustaining their capabilities, network and value creation beyond the current term of TEC investment
- › sharing best practice processes and learnings across the Centres of Research Excellence for mutual benefit.

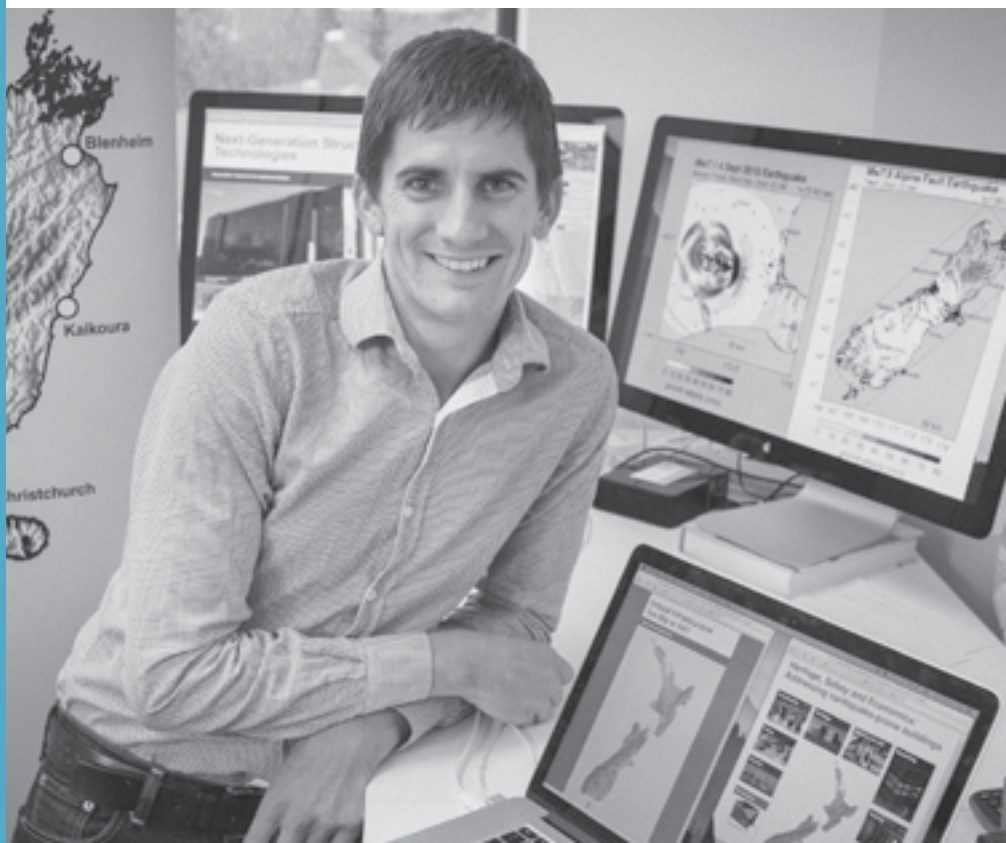
“All 10 Centres of Research Excellence are conducting excellent-quality research likely to deliver significant benefits to New Zealand and to the tertiary education sector.”

QuakeCoRE: Transforming New Zealand's earthquake resilience

QuakeCoRE was established as a new Centre of Research Excellence in 2016. The centre brings together a multi-disciplinary team of leading researchers to work collectively to transform New Zealand's earthquake resilience.

Highlights from the past year included:

- › Professor Brendon Bradley (pictured below) being awarded the Prime Minister's MacDiarmid Emerging Scientist Prize. Brendon's research is enabling the most accurate simulations of ground shaking for future earthquake scenarios. The availability of these simulations is changing the way New Zealand prepares for earthquakes
- › Professor David Johnston being presented with the 2016 Ministerial Civil Defence Emergency Management Silver Award. David's research focuses on human responses to earthquakes, decision making and the role of public education and participation in supporting community resilience and recovery
- › QuakeCoRE enabling a unified response to the 14 November 2016 Kaikoura earthquake through reconnaissance, critical input to key organisations during recovery efforts and helping researchers share information. QuakeCoRE researchers played a key role in identifying approaches to address the risk of unreinforced masonry buildings in Wellington during aftershocks.



Performance-Based Research Fund

The Performance-Based Research Fund encourages and rewards excellent research in New Zealand’s degree-granting organisations. The Quality Evaluation is the major component of the Performance-Based Research Fund and is an assessment of the research performance of staff at participating tertiary education organisations.

During the year, we updated and improved the information technology solution used to administer the 2018 Quality Evaluation submission and assessment process. We introduced the system during the 2012 Quality Evaluation to ensure more efficient and less labour-intensive submission and assessment processes. We have updated the system to reflect changes in the 2018 Quality Evaluation and improve functionality.

Over the next 12 months, we will ensure tertiary education organisations are able to carry out the tasks required to submit individual researcher Evidence Portfolios, supporting documentation and the Staff Data file.

Measures of progress

Measures	Dimension	Actual 2016	Target 2016	Actual 2015	Actual 2014
Research degree completions (measured by Performance-Based Research Fund (PBRF) – eligible research degree completions)	Quantity	3,934	3,900 ±5%	3,858	3,946
Percentage increase in amount of external income for PBRF – eligible providers	Quantity	7.4%	2-4%	3.3%	3.4%

Growing international linkages

Entrepreneurial Universities

In 2016/17, we commenced the Entrepreneurial Universities initiative. The initiative will lift New Zealand universities' leadership roles in innovative research and entrepreneurship. An increasingly innovation-led economy creates more opportunities to partner with commercial-sector research.

The initiative will help our universities recruit world-leading entrepreneurial researchers and build stronger links with existing and emerging industries. Overseas researchers will grow New Zealand's research expertise in key areas where we are poised to become a world leader. They will also bring with them international networks to inform future directions of research in New Zealand university departments.

During the year, we conducted a recruitment process via a Request for Funding Application process. All New Zealand universities were eligible to submit applications for the funding. Successful applications will be announced in 2017. We will then assist successful universities to implement their entrepreneurial academic activity, and monitor progress towards their milestones.



Part three
Our capability

Developing our capability

To achieve our impacts we need talented, diverse and capable staff. We need great people, processes and ways of doing things.

To support our strategy, we are developing our internal capability to ensure the TEC is a great place to work so we can attract and retain high-quality staff. We are also developing a strong knowledge base to equip us with the right tools and information to support good decisions on where and how to invest.

We are striving to build effective partnerships. Through building great relationships with our partners we can achieve better outcomes for New Zealanders.

Our values

Our TEC values show how we work to equip New Zealanders with the knowledge and skills to be successful.

Our values are also about our own people – making sure they are equipped with the capabilities needed for success.



Our people

We are developing our internal capability to ensure the TEC is a great place to work so we can attract and retain high-quality staff.

We have highly committed and talented people engaged in the work of the organisation. We had a busy year preparing for change, with Careers New Zealand joining us on 1 July 2017. The investment in our workforce under our Mā Tātou, Mō Tātou people plan continued to make a positive difference.

With low staff turnover and excellent staff survey results, we are clearly heading in the right direction. Our employee engagement index score now sits at 75 percent – up from 67 percent in 2014 – and seven percentage points above the 2017 state sector average. We significantly outperform the state sector in a number of areas.

The staff survey results told us our people saw improvements in health and safety, career development and feedback, and communication. The results also showed us we have a strong sense of commitment to the TEC – we are committed and passionate about the work we do and the people and organisations we work with. One staff member said what makes the TEC a great place to work is:

“...a real commitment by everyone to make New Zealand a better place to live and work through tertiary education”.

Measures of progress

Measures	Actual 2016/17	Target 2016/17	Actual 2015/16	Actual 2014/15
Core unplanned turnover	10.7%	14%	13.3%	13.3%
Level of staff engagement (note 1)	74.9% (above State sector average of 68%)	State sector benchmark or above	74% (above the State sector average of 67%)	73% (above the State sector average of 70%)

Note 1 – These results will differ from those reported in previous annual reports and *Statement of Intent 2015/16-2018/19*. In previous years the results have been reported with a weighted mean score. The standard measurement is now level of agreement, and scores for all years have been adjusted accordingly.

Our people profile



Tiers 1-3 gender distribution



Age



FEMALE
AVERAGE

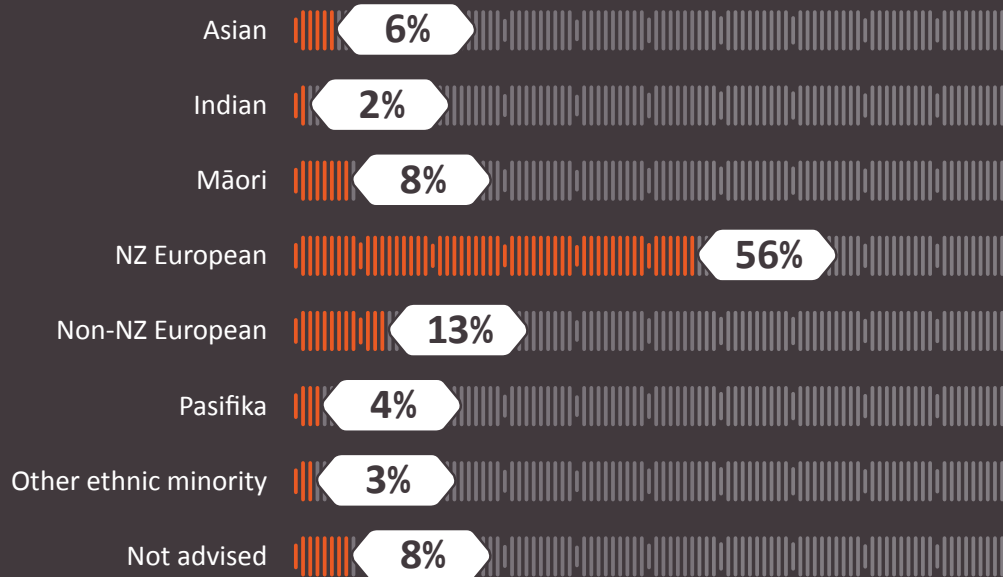


MALE
AVERAGE

44 yrs

AVERAGE
ACROSS ALL STAFF

Ethnicity



Length of service



FEMALE AVERAGE



MALE AVERAGE

5 yrs

AVERAGE
ACROSS ALL STAFF

Injury, illness or disability



DO YOU LIVE WITH THE EFFECTS
OF AN INJURY, A LONG STANDING
ILLNESS, CONDITION OR
DISABILITY?



9.7%

YES



79.1%

NO



11.2%

NOT SELECTED

An engaged workforce focused on delivering excellent customer service

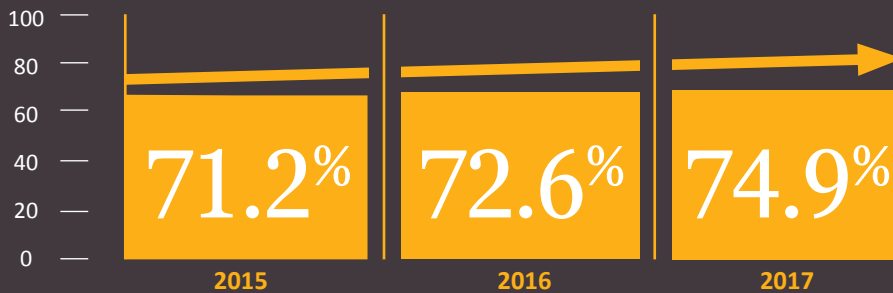


When our employees are successful, the people and organisations we work with are too. Stronger employee engagement leads to a better customer experience and we can see continuous improvement since 2015.

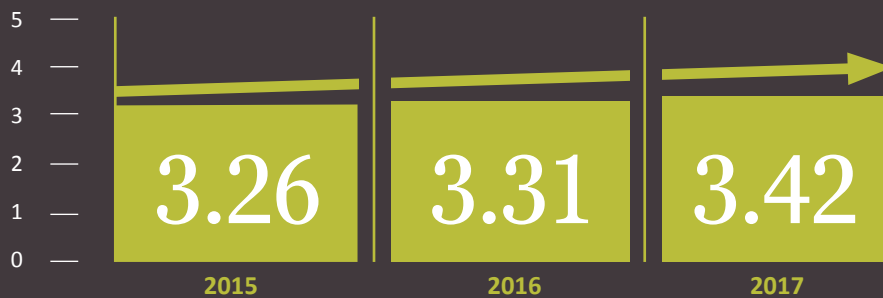


Survey Results

STAFF ENGAGEMENT SURVEY



PARTNER AND PROVIDER SURVEY



**FOCUS ON
THE SUCCESS
OF
OUR PEOPLE
AND
OUR CUSTOMERS
IS ONGOING**



Over the next 12 months, we will continue to bring together our staff survey results and customer survey results to form a cohesive view of where we are at and what we need to improve. The next phase of Mā Tātou, Mō Tātou will centre on priority themes informed by feedback from our people and our customers.

Good employer requirements

We are committed to being a good employer. We strive to provide an environment with equal employment opportunities for all current and potential employees.

Mā Tātou, Mō Tātou sets our priorities so we focus on the key issues.

Over the past year we have:

- › delivered specific training support to further build our skills in tertiary education investment
- › continued our focus on leadership and management skills, developing managers so they can be successful and enable others' success
- › reviewed our key roles in the organisation and planned their development and succession
- › improved safety and wellbeing systems to create a positive environment for our people and our visitors
- › maintained our turnover and engagement rates
- › refreshed recruitment and induction processes and resources for a better employee experience.

The next phase of Mā Tātou, Mō Tātou will build on the work we have done. New work will centre on three priority themes informed by feedback from our people and our customers, and in recognition of our changing organisation in 2017/18. These themes are:

- › diversity and inclusion
- › development and workforce planning
- › organisational culture.

We recognise the importance and value of a diverse workforce. We have initiated a range of safety and wellbeing initiatives to reduce barriers that can cause inequity. A focus for the year ahead is making sure we are doing what we can to make our environment inclusive for all people regardless of age, gender, ethnicity and disability.

With the transition of Careers New Zealand into the TEC, we worked collaboratively with the Public Service Association (PSA) for one collective agreement that reflects both organisations' terms and conditions of employment. We will bargain again in February 2018 for a collective agreement that reflects the new TEC. This will include a review of the gender pay gap, job evaluation, hours of work and flexible working arrangements. This work will be scoped up as part of our focus on diversity and inclusion.

Appendix A provides full details of our commitment to being a good employer.

Our knowledge and processes

“Over the year, we continued to improve how we collect, collate and provide information.”

We are developing a strong knowledge base to equip us with the right tools and information to support good decisions on where and how to invest.

Developing a strong knowledge base

We are continually improving our information systems and processes so we can achieve our impacts and deliver on our strategy.

Our knowledge base enables learners, tertiary education organisations, employers and our government partners to make well-informed decisions through better:

- › processing, analysis and management of information to enhance performance monitoring and funding decisions
- › timeliness, quality and reporting of information
- › capability to translate data into reliable, consistent performance information
- › information to accurately measure education outcomes.

Over the year, we continued to improve how we collect, collate and provide information. A key highlight was making our suite of business intelligence tools and a secure portal available to tertiary education organisations and high schools to improve access to our information. Other highlights over the past 12 months included:

- › implementing a Data Hub to manage master data
- › redeveloping our website to better meet the needs of tertiary education organisations
- › facilitating the Careers New Zealand transfer of services on 1 July 2017, including significant data centre and networking improvements.

We refreshed our information and technology development plan ahead of the Careers New Zealand transfer of services. We will continue to regularly review this plan to ensure it meets our information and technology needs. Over the next two years, our major areas of work include:

- › extending the learner-focused Key Information for Students data set to industry training and level 1-4 qualifications
- › planning for the next evolution of our data collection systems
- › consolidating the financial aspects of our funds management activities into our core financial system
- › ongoing improvements to our data warehouse and information products to ensure they continue to support the growing information needs of staff, partner agencies and providers
- › implementing a customer relationship management system to support Te Kiritaki – Our Customer Way.

New Zealand Business Number

The New Zealand Business Number is a key initiative of the Government’s Better for Business programme. New Zealand Business Numbers are new unique identifiers assigned to businesses in New Zealand. The New Zealand Business Number will reduce the time and energy businesses spend providing government the same information in different ways.

We will have accepted a New Zealand Business Number by December 2018. The implementation of a New Zealand Business Number will affect several ICT systems that use a separate education sector reference as the unique identifier for a tertiary provider. We will work with the Ministry of Education to determine how to treat the New Zealand Business Number alongside this identifier, and have allocated funding to undertake New Zealand Business Number-related work in 2017/18.

Measures of progress

Measures	Actual 2016/17	Target 2016/17	Actual 2015/16	Actual 2014/15
Availability of core ICT services and applications (excluding planned outages)	99.8%	98.5%	99.9%	New measure
Availability of core ICT services and applications we provide for tertiary education organisations (excluding planned outages)	99.7%	98.5%	99.7%	New measure

“

It's about reuse, rather than re-inventing the wheel. We aim to provide quality web development services which lower overall costs for our sector agencies.”

(Jason Bell, Manager Web Services,
Ministry of Education)

Our refreshed website built on a solid partnership

The launch of our refreshed website in November 2016 was achieved through a successful partnership between the TEC and the Ministry of Education.

We were responsible for managing the project, carrying out user research, rewriting the content and overseeing the design. It was the Ministry of Education's job as the web developer to bring our ideas to life.

Feedback shows our users are happy with it. “It's looking really good and is very easy to use,” says Kathleen Rabel, Manager Institutional Analysis at Victoria University of Wellington. “I now find it much easier to do what I need to, when I need to.”

Our service level agreement with the Ministry of Education means their web services team will continue to make enhancements. They will take any new features and functions created for our website and refine them for other education sector agencies, creating further cost savings.

This partnership demonstrates the commitment of both organisations to building relationships that help us to achieve better outcomes for New Zealanders.



Improving our processes

A flexible and responsive tertiary education system means we need effective and efficient processes. A particular focus during the year was mapping our key business processes to optimise how we work.

As we look ahead, we will continue to make it easier to do business with us. In becoming a lean organisation we are focused on delivering higher quality customer service and an enhanced investment process, leading to better outcomes for learners.

Financial management

We consider the Investment Approach and the Government's Tertiary Education Strategy when investing in tertiary education organisations. Specifically, we focus on outcomes for graduates and New Zealand, and began a project to further improve the way we monitor and process our investments.

We also made progress on our operational strategic financial plan this year. This splits our operating costs into "core" and "project" costs over the next five years. This allows us to monitor and manage our core costs, so our spending provides the best value for money. We are then able to complete projects to move the organisation forward.

We manage our balance sheet as a by-product of the above, but also with general prudent management of revenues, expenses, assets, liabilities, investments and general financial dealing to ensure we effectively achieve our objectives and purposes, on a going concern basis.

Managing risk

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

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

Our focus through to 2018 will be to continue to build the organisation's risk-management capability. We will align risk management with our core business and embed an organisational mindset and culture that recognises risks and takes appropriate, timely action.

Our partnerships

We strive to build effective partnerships that help us to achieve better outcomes for New Zealanders.

Every day we work with a wide range of tertiary education organisations, industry training organisations and employers. We work with the Ministry of Education and our partner education sector agencies to support tertiary education organisations and create a world-leading tertiary education system through the Tertiary Education Strategy.

We also work closely with the Ministry of Business, Innovation and Employment and Ministry of Social Development to deliver the Business Growth Agenda and achieve the Government's expectations of better public services. Together we ensure the tertiary education system meets industry demand and delivers the skills and knowledge that contribute to social and economic development.

Continuously improving engagement with our customers

The results of our annual customer satisfaction survey continue to improve year on year. Our average score across all 11 questions has increased to 3.42 out of five in 2017, from 3.26 in 2015.

The survey results showed our customers agreed we are committed to, and are improving, our engagement with them.

73%

73 percent of customers agreed or strongly agreed the TEC is committed to improving the way we engage with them.

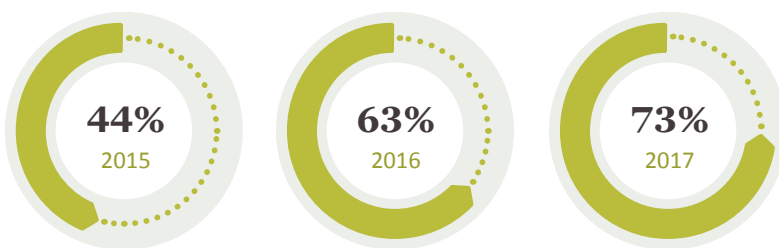
63%

63 percent of customers agreed or strongly agreed their interactions with the TEC improved over the past year.

Te Kiritaki – Our Customer Way

We are committed to improving the way we work with our customers. This is reflected in the results of our annual customer satisfaction survey, which is up 29 percentage points since 2015.

I feel the TEC is committed to improving the way it engages with my organisation.



■ Strongly agree/agree

As part of our commitment to delivering higher quality customer service, we have started the new Te Kiritaki – Our Customer Way programme. Over the coming year, this programme will deliver our new customer strategy, proposition and model. Through Te Kiritaki – Our Customer Way, we will coordinate activities across the organisation to improve the experience and service we provide to our customers.

One of the major projects we started under Te Kiritaki – Our Customer Way is the implementation of our new customer relationship management tool. Once implemented in 2018, it will enable us to have a shared and consistent experience when accessing information and engaging with our customers. All our customer-related data will be accessible from a single tool containing our customer information and interactions. We made solid progress during the year, including defining the organisational culture and behaviours to successfully implement the new tool.

“

As part of our commitment to delivering higher quality customer service, we have started the new Te Kiritaki – Our Customer Way programme.”

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 Performance and for the judgements made in them.

The Board of the Tertiary Education Commission is responsible for any end-of-year performance information provided by the Tertiary Education Commission under section 19A of the Public Finance Act 1989.

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

In the Board's opinion, these Financial Statements and Statement of Performance fairly reflect the financial position and operations of the Tertiary Education Commission for the year ended 30 June 2017.

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



Nigel Gould
Chair
Tertiary Education Commission

2 October 2017



Dr Alastair MacCormick
Chair
Audit, Risk and Compliance Committee
Tertiary Education Commission

2 October 2017

Independent Auditor's Report



To the readers of the Tertiary Education Commission's financial statements and performance information for the year ended 30 June 2017

The Auditor-General is the auditor of the Tertiary Education Commission (TEC). The Auditor-General has appointed me, Stephen Lucy, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and the performance information, including the performance information for appropriations, of TEC on his behalf.

Opinion

We have audited:

- » the financial statements of TEC on pages 73 to 101, that comprise the statement of financial position as at 30 June 2017, the statement of comprehensive revenue and expense, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements including a summary of significant accounting policies and other explanatory information; and
- » the performance information of TEC on pages 13 to 34 and 52 to 72.

In our opinion:

- » the financial statements of TEC on pages 73 to 101:
 - › present fairly, in all material respects:
 - its financial position as at 30 June 2017; and
 - its financial performance and cash flows for the year then ended; and
 - › comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Standards.
- » the performance information on pages 13 to 34 and 52 to 72:
 - › presents fairly, in all material respects, TEC's performance for the year ended 30 June 2017, including:
 - for each class of reportable outputs:
 - its standards of delivery performance achieved as compared with forecasts included in the statement of performance expectations for the financial year; and
 - its actual revenue and output expenses as compared with the forecasts included in the statement of performance expectations for the financial year; and
 - what has been achieved with the appropriations; and
 - the actual expenses or capital expenditure incurred compared with the appropriated or forecast expenses or capital expenditure.
 - › complies with generally accepted accounting practice in New Zealand.

Our audit was completed on 2 October 2017. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board of Commissioners and our responsibilities relating to the financial statements and the performance information, we comment on other information, and we explain our independence.

Basis for our opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of the Board of Commissioners for the financial statements and the performance information

The Board of Commissioners is responsible on behalf of TEC for preparing financial statements and performance information that are fairly presented and comply with generally accepted accounting practice in New Zealand. The Board of Commissioners is responsible for such internal control as it determines is necessary to enable it to prepare financial statements and performance information that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the performance information, the Board of Commissioners is responsible on behalf of TEC for assessing TEC's ability to continue as a going concern. The Board of Commissioners is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to merge or to terminate the activities of TEC, or there is no realistic alternative but to do so.

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

Responsibilities of the auditor for the audit of the financial statements and the performance information

Our objectives are to obtain reasonable assurance about whether the financial statements and the performance information, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers, taken on the basis of these financial statements and the performance information.

For the budget information reported in the financial statements and the performance information, our procedures were limited to checking that the information agreed to the Statement of Intent 2015/16 to 2018/19, Statement of Performance Expectations 2016/17, and relevant Estimates and Supplementary Estimates of Appropriations 2016/17.

We did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- » We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- » We obtain an understanding of internal control relevant to the audit 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 TEC's internal control.

- » We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Commissioners.
- » We evaluate the appropriateness of the reported performance information within TEC's framework for reporting its performance.
- » We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Commissioners and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on TEC's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause TEC to cease to continue as a going concern.
- » We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Commissioners regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

Other information

The Board of Commissioners is responsible for the other information. The other information comprises the information included on pages 1 to 12, 35 to 48 and 102 to 106, but does not include the financial statements and the performance information, and our auditor's report thereon.

Our opinion on the financial statements and the performance information does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements and the performance information, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements and the performance information or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independence

We are independent of TEC in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

In addition to the audit we have carried out five engagements in the areas of procurement processes relating to grant funding, which are compatible with those independence requirements. Other than the audit and these engagements, we have no relationship with or interests in TEC.



S B Lucy
Audit New Zealand
On behalf of the Auditor-General
Wellington, New Zealand



Part four

Statement of performance

Our operational outputs

Funding the activities of the Tertiary Education Commission

Administration of and Support for the Tertiary Sector

- › This appropriation is intended to achieve effective investment in tertiary education and the protection of the Crown's ownership in tertiary education institutions.
- › Investing in tertiary education links to the Tertiary Education Strategy Priorities 1-6:

Delivering skills for industry	Getting at-risk young people into a career	Boosting achievement of Māori and Pasifika	Improving adult literacy and numeracy	Strengthening research-based institutions	Growing international linkages
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	Actual 2016/17 \$000	Budget 2016/17 \$000	Actual 2015/16 \$000
Administration of and Support for the Tertiary Sector			
REVENUE			
Crown revenue			
– Tertiary Education Commission	46,809	47,168	46,657
– Māori Education Trust	109	109	109
Contract – Pre-purchased English Language Tuition	397	173	322
Interest	1,346	1,254	1,370
Other	2,234	74	256
Total revenue	50,895	48,778	48,714
EXPENSES			
Tertiary Education Commission	52,427	49,781	49,262
Māori Education Trust	109	109	109
Total expenses	52,536	49,890	49,371
Surplus/(deficit)	(1,641)	(1,112)	(657)

Our operational output class, administration of and support for the tertiary sector, has three components: managing the Government's investment in the tertiary education sector, ownership monitoring of tertiary education institutions, and tertiary education and training advice. Actual figures for 2015/16 combine all three operational outputs reported for that year.

Managing the Government's investment in the Tertiary Education Sector

- › We do this by managing the investment system, monitoring investment in tertiary education organisations and providing information and advice to government.

Ownership Monitoring of Tertiary Education Institutions

- › We protect the Crown's ownership interest in tertiary education institutions through monitoring risks and financial viability and providing advice on tertiary education institution council appointments.

Tertiary Education and Training Advice

- › We deliver timely and high-quality advice and support to ministers on the tertiary sector and tertiary education and training issues.

Measures	Dimension	Actual 2016/17	Target 2016/17	Actual 2015/16
MANAGING THE INVESTMENT SYSTEM				
The overall satisfaction rating given by the Minister for Tertiary Education, Skills and Employment on the Tertiary Education Commission (as per the Common Satisfaction Survey) (Note 1)	Quality	7.5 out of 10	Baseline year	New measure
MANAGING THE GOVERNMENT'S INVESTMENT IN THE TERTIARY EDUCATION SECTOR				
Plans for tertiary education organisations demonstrate evidence of alignment with employer, community and learner needs	Quality	100%	100%	100%
Plans for tertiary education organisations include targets for improving achievement rates for priority groups in the Tertiary Education Strategy	Quality	100%	100%	100%
Payments are made to tertiary education organisations as per the agreed contractual terms and conditions	Quality Quantity Timeliness	100%	100%	100%
Number of tertiary education organisations audited by the Tertiary Education Commission	Quantity	85 audits	60-70 audits	31 audits
Percentage of audits completed within 70 days according to audit compliance standards	Timeliness	96.5%	95%	95%
Percentage of TEOs where an appropriate action plan is initiated (as per the TEC performance consequences framework) on the basis of an identified material breach of TEC's rules or requirements	Quality	100%	100%	100%
Percentage of Investment Plans that are monitored	Quantity	100%	100%	100%
Number of tertiary education organisations that are the subject of a review and/or investigation	Quantity	23	10-15	7
Percentage of independently assessed externally focused publications that meet 6 or more elements of the TEC Plain English Standard	Quality	8.3%	Maintain or increase	29%
OWNERSHIP MONITORING OF TERTIARY EDUCATION INSTITUTIONS				
Ownership risks are assessed and appropriate mitigation strategies are put in place (Note 2)	Quality	100%	100%	100%
Ownership risks are reported and advice is provided to the Minister	Quality	100%	100%	100%
Recommendations on ministerial appointments to tertiary education institution councils are made and the appointment process is managed effectively and in a timely way	Timeliness	100%	100%	100%
TERTIARY EDUCATION TRAINING AND ADVICE				
Percentage of ministerial items provided to ministers that do not require redraft due to avoidable factual, spelling, grammatical or formatting errors	Quality	100%	95%	100%
Percentage of ministerial items provided to ministers within agreed timeframes	Timeliness	99%	95%	96%

Note 1 – The Common Satisfaction Survey rating measures Ministers' satisfaction with the quality, timeliness and value for money of advice on a scale from 1-10, where 1 means unsatisfied and 10 means extremely satisfied.

Note 2 – Risks are assessed against the gazetted risk criteria which is available on our website: <http://www.tec.govt.nz/funding/funding-and-performance/monitoring-tertiary-education-sector/financial/interventions/>

Tertiary education sector outputs

Teaching and Learning

Tertiary Tuition and Training (multi-category appropriation)

- › The overarching intention of this appropriation is to contribute to improved lifetime outcomes of New Zealanders through the provision of skills from tertiary education, training, foundation learning programmes and community education.
- › Funding teaching and learning links to the Tertiary Education Strategy Priorities 1-5:

Delivering skills for industry	Getting at-risk young people into a career	Boosting achievement of Māori and Pasifika	Improving adult literacy and numeracy	Strengthening research-based institutions
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	Actual 2016/17 \$000	Budget 2016/17 \$000	Actual 2015/16 \$000
Tertiary Tuition and Training (MCA)			
REVENUE			
Crown revenue			
Community Education	72,751	73,651	75,133
Tertiary Education: Student Achievement Component	2,085,205	2,100,205	2,069,092
Training for Designated Groups	307,716	317,146	312,325
Total revenue	2,465,672	2,491,002	2,456,550
EXPENSES			
Community Education	70,619	73,651	70,917
Tertiary Education: Student Achievement Component	2,040,279	2,100,205	2,029,985
Training for Designated Groups	296,342	317,146	298,895
Total expenses	2,407,240	2,491,002	2,399,797
Surplus/(deficit)	58,432	-	56,753

Overarching measure

Measure	Dimension	Actual 2016	Target 2016	Actual 2015
Proportion of 25-34-year-olds with advanced trade qualifications, diplomas and degrees (at level 4 or above). (Better Public Services target)	Quantity	57.2%	57.4%	54.7%

This multi-category appropriation consists of three categories:

- › Community Education
- › Tertiary Education: Student Achievement Component
- › Training for Designated Groups.

Community Education

- › This category is intended to achieve improvement in literacy and numeracy skills for learners who have low skills in these areas by funding foundational learning programmes.
- › Funding foundational learning links to the Tertiary Education Strategy Priorities 2 and 4:



Community Education	Actual 2016/17 \$000	Budget 2016/17 \$000	Actual 2015/16 \$000
REVENUE			
Crown revenue			
Adult and Community Education	22,290	22,890	22,890
Literacy and Numeracy Provision	33,748	34,048	36,048
English for Speakers of Other Languages	14,058	14,058	13,540
Migrant Levy	426	426	426
Emergency Management Pool	2,229	2,229	2,229
Total revenue	72,751	73,651	75,133
EXPENSES			
Adult and Community Education	21,095	22,890	21,984
Literacy and Numeracy Provision	34,429	34,048	33,783
English for Speakers of Other Languages	13,306	14,058	13,053
Migrant Levy	426	426	426
Emergency Management Pool	1,363	2,229	1,671
Total expenses	70,619	73,651	70,917
Surplus/(deficit)	2,132	-	4,216

Measures	2016				2015		
	Actual Funded (Note 1)	Forecast	Variance (Actual Funded to Forecast)	Plan Commitments (Note 2)	Delivered	Actual Funded (Note 1)	Delivered
ADULT AND COMMUNITY EDUCATION							
Total number of school-based adult and community education hours funded	387,488	388,000 ±5%	-0.13%	408,371	412,334	380,383	416,615
In school-based adult and community education – among the priority groups identified in the Tertiary Education Strategy, percentage of learners identified:							
– as Māori or Pasifika	n/a	50%	n/a	50%	34%	n/a	41%
– with English-language needs	n/a	50%	n/a	50%	32%	n/a	26%
– as having low or no formal qualifications.	n/a	50%	n/a	50%	51%	n/a	57%
Number of funded domestic equivalent full-time students in Tertiary Education Institutions-based programmes (including Search and Rescue and Emergency Management short courses) per calendar year	1,724	2,000 ±5%	-13.80% (Note 3)	2,150	1,742	1,731	1,884
LITERACY AND NUMERACY							
Literacy and numeracy – total number of funded learners per calendar year	14,567	15,100 ±5%	-3.53%	15,305	15,054	13,565	14,233
Intensive Literacy and Numeracy – funded number of learners	4,879	4,900 ±5%	-0.43%	5,074	5,010	4,961	5,182
English for Speakers of Other Languages (ESOL) – funded number of learners per calendar year, including:	3,544	3,800	-6.74%	3,789	3,833	3,514	3,794
– ESOL funded number of learners	3,013	2,900 ±5%	3.90%	3,066	3,322	2,939	3,236
– Refugee English funded number of learners	531	700 ±5%	-24% (Note 4)	723	511	575	558
Workplace Literacy and Numeracy Fund – funded number of learners, including:	6,144	6,600	-6.91%	6,442	6,211	5,090	5,257
– Tertiary education organisations led	4,332	4,300 ±5%	0.74%	4,485	4,399	4,370	4,537
– Employer led	1,812	1,700 ±20%	6.57%	1,957	1,812	720	720

Note 1 – Funded volume data represents a proportion of total delivery. Some of the equivalent full-time students are not funded owing to funding caps.

Note 2 – Commitments may differ from those reported in our *Statement of Performance Expectations 2016/17* owing to in-year plan changes to commitments.

Note 3 – Due to the late signing of contracts for recommended Emergency Management training providers, training did not begin until late in 2016. This has meant full delivery of the allocation was not achieved in 2016.

Note 4 – Demand is variable due to relatively small refugee numbers, resettlement pattern changes and the different pathways learners take before accessing Refugee English Fund places. Some refugee groups may also be more focused on gaining employment. The number of refugee places required in some regions has declined. We have reduced allocations to providers operating in these regions in 2017 to avoid large recoveries at year end. Overall 2017 allocations were increased from \$2,234,519 to \$2,914,500. The TEC is monitoring delivery and will seek to move funds where appropriate to support regional demand.

Tertiary Education: Student Achievement Component

- › This category is intended to achieve learners' attainment of recognised tertiary qualifications by funding education and training opportunities.
- › Funding education and training links to the Tertiary Education Strategy Priorities 1-5:

Delivering skills for industry	Getting at-risk young people into a career	Boosting achievement of Māori and Pasifika	Improving adult literacy and numeracy	Strengthening research-based institutions
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Tertiary Education: Student Achievement Component	Actual 2016/17 \$000	Budget 2016/17 \$000	Actual 2015/16 \$000
REVENUE			
Crown revenue			
Provision at levels 1 and 2	90,299	101,299	101,299
Provision at levels 3 and above	1,988,603	1,992,603	1,963,020
– Universities	1,215,887	1,202,000	1,217,676
– Institutes of Technology and Polytechnics	471,488	478,809	468,767
– Wānanga	122,834	130,291	114,391
– Private Training Establishments	178,394	181,503	162,186
Information and Communication Technology Graduate Programmes	4,039	4,039	2,509
Section 321 Grants for School of Dance and School of Drama	2,264	2,264	2,264
Total revenue	2,085,205	2,100,205	2,069,092
EXPENSES			
Provision at levels 1 and 2	90,364	101,299	82,787
Provision at levels 3 and above	1,943,406	1,992,603	1,941,587
– Universities	1,212,594	1,202,000	1,188,463
– Institutes of Technology and Polytechnics	472,947	478,809	473,212
– Wānanga	122,823	130,291	118,379
– Private Training Establishments	135,042	181,503	161,533
Information and Communication Technology Graduate Programmes	4,289	4,039	3,391
Section 321 Grants for School of Dance and School of Drama	2,220	2,264	2,220
Total expenses	2,040,279	2,100,205	2,029,985
Surplus/(deficit)	44,926	-	39,107

Measures	2016				2015		
	Actual Funded (Note 1)	Forecast	Variance (Actual Funded to Forecast)	Plan Commitments (Note 2)	Delivered	Actual Funded (Note 1)	Delivered
Number of domestic equivalent full-time students at levels 1 and 2	11,510	12,500 ±3%	-7.92% (Note 3)	12,286	11,374	12,098	12,252
Number of domestic equivalent full-time students New Zealand Qualifications Framework level 3 and above by sub-sector (Note 2)							
– Universities	116,977	110,500 ±5%	5.86% (Note 4)	116,121	115,303	117,528	114,859
– Institutes of Technology and Polytechnics	54,139	52,800 ±5%	2.54%	54,594	53,665	54,733	54,561
– Wānanga	18,668	17,600 ±5%	6.07% (Note 4)	18,391	18,645	17,423	17,245
– Private Training Establishments	20,538	21,300 ±5%	-3.58%	20,671	21,778	20,780	22,955
Total domestic equivalent full-time students at New Zealand Qualifications Framework level 3 and above	210,322	212,900	-1.21%	209,777	209,391	210,465	209,620
Total domestic equivalent full-time students	221,832	225,400	-1.58%	222,063	220,766	222,563	221,872

Note 1 – Funded volume data represents a proportion of total delivery. Some of the equivalent full-time students are not funded owing to funding caps.

Note 2 – Commitments may differ from those reported in our *Statement of Performance Expectations 2016/17* owing to in-year plan changes to commitments.

Note 3 – Difficulties in recruitment were experienced by providers during 2016. One large Private Training Establishment ceased to operate in the 2016 calendar year.

Note 4 –The TEC has used its ability to allocate 10 percent of funding in each sub-sector pot to other sub-sectors and has allocated more funding to the universities and wānanga than is reflected in Budget baselines. Therefore delivery above forecast was expected.

Student Achievement Component (SAC) Funding	2016 Actual	2016 Target	2015 Actual	2014 Actual	2013 Actual	2012 Actual
Proportion of SAC-funded Māori enrolments at New Zealand Qualifications Framework levels 4 and above	19%	Increase	18%	18%	18%	17%
Proportion of SAC-funded Pasifika enrolments at New Zealand Qualifications Framework levels 4 and above	9%	Increase	9%	9%	9%	8%
Proportion of SAC-funded under-25-year-old enrolments at New Zealand Qualifications Framework levels 4 and above	63%	Increase	64%	64%	63%	62%

Sector Performance Commitment Shifts Linked to Funding		2016	2016	2015	2014	2013	2012
		Actual	Investment Plan Commitment	Actual	Actual	Actual	Actual
Course completion	All learners	83%	85%	83%	83%	83%	83%
	Māori learners at New Zealand Qualifications Framework levels 4 and above	77%	82%	77%	78%	78%	78%
	Pasifika learners at New Zealand Qualifications Framework levels 4 and above	73%	78%	73%	74%	73%	74%
	Under-25-year-old learners at New Zealand Qualifications Framework levels 4 and above	85%	86%	85%	85%	85%	85%
Qualification completion	All learners	77%	77%	77%	78%	78%	76%
	Māori learners at New Zealand Qualifications Framework levels 4 and above	68%	72%	67%	67%	71%	65%
	Pasifika learners at New Zealand Qualifications Framework levels 4 and above	63%	68%	60%	62%	63%	63%
	Under-25-year-old learners at New Zealand Qualifications Framework levels 4 and above	73%	71%	72%	73%	71%	71%
Progression	From New Zealand Qualifications Framework levels 1-3 to levels 4 and above for all learners	38%	41%	37%	39%	39%	35%
Retention	For all learners across all New Zealand Qualifications Framework all levels and all learners	73%	77%	74%	74%	73%	71%

Training for Designated Groups

- › This category is intended to achieve an increase in the number of young people and employees with qualifications valued by employers through investing in training.
- › Funding qualifications valued by employers links to the Tertiary Education Strategy Priorities 1 and 2:

Delivering skills
for industry

Getting at-risk
young people
into a career

Training for Designated Groups	Actual 2016/17 \$000	Budget 2016/17 \$000	Actual 2015/16 \$000
REVENUE			
Crown revenue			
Industry Training Fund	173,451	168,351	169,951
Industry Training Fund – Direct Access Scheme	4,900	10,000	7,500
Industry Training Fund – Ring-fenced amounts	1,600	1,600	2,450
Youth Guarantee	108,752	118,182	113,411
Gateway	19,013	19,013	19,013
Total revenue	307,716	317,146	312,325
EXPENSES			
Industry Training Fund	173,538	168,351	166,665
Industry Training Fund – Direct Access Scheme	1,559	10,000	4,470
Industry Training Fund – Ring-fenced amounts	944	1,600	1,276
Youth Guarantee	101,755	118,182	107,951
Gateway	18,546	19,013	18,533
Total expenses	296,342	317,146	298,895
Surplus/(deficit)	11,374	-	13,430

Measures	2016				2015		
	Actual Funded (Note 1)	Forecast	Variance (Actual Funded to Forecast)	Plan Commitments (Note 2)	Delivered	Actual Funded (Note 1)	Delivered
Gateway – total participants and number of schools	13,662 in 367 schools	13,200 ±5% in up to 375 schools	3.50%	13,864 in 369 schools	14,939 in 367 schools	13,956 in 374 schools	14,821 in 374 schools
Industry Training – funded standard training measures (Note 3)	27,533	27,100 ±5%	1.60%	28,024	28,154	27,883	27,979
Apprentices – funded standard training measures (Note 3)	16,170	15,500 ±5%	4.32%	16,495	16,040	15,375	15,503
Youth Guarantee – total funded equivalent full-time students	8,853	9,200 ±5%	-3.77%	9,524	8,905	9,258	9,376

Note 1 – Funded volume data represents a proportion of total delivery. Some of the total volume delivered is not funded owing to funding caps.

Note 2 – Commitments may differ from those reported in our *Statement of Performance Expectations 2016/17* owing to in-year plan changes to commitments.

Note 3 – Standard training measure is the amount of training required for a trainee to achieve 120 New Zealand Qualifications Framework credits. Funding is based on the number of standard training measures arranged by an industry training organisation in a calendar year.

Youth Guarantee

- › The Youth Guarantee fees-free initiative is designed to provide young people under 20 years old with an opportunity to study towards National Certificate of Educational Achievement level 2 aligned with the Vocational pathways, or equivalent, at tertiary education providers fees-free.

Measures		2016 Actual	2015 Actual	2014 Actual	2013 Actual
Course completion	All learners	66%	67%	66%	61%
	Māori learners	60%	62%	61%	57%
	Pasifika learners	65%	65%	68%	66%
Qualification completion	All learners	62%	64%	60%	52%
	Māori learners	55%	59%	55%	48%
	Pasifika learners	61%	63%	62%	56%
Progression	All learners	40%	39%	39%	N/A
Retention	All learners	58%	59%	59%	N/A

No targets were set for these measures in our *Statement of Performance Expectations 2016/17*.

Education performance for all learners in Youth Guarantee programmes slightly declined from 2015 to 2016. Results can be influenced by many factors, including the teaching and learning environment, subject area, part-time or full-time study and, socio-economic backgrounds and demographics of students.

Industry training educational performance

- › Industry training is a partnership between government and industry and is delivered to people in employment. It is training in skills that will be useful to industry.
- › The information in the table below reflects performance through industry training organisations.

Educational Performance		Actual 2016	Actual 2015	Actual 2014	Actual 2013
Credit completion	All learners	80%	80%	76%	72%
	Māori learners at New Zealand Qualifications Framework level 4 and above	78%	75%	78%	67%
	Pasifika learners at New Zealand Qualifications Framework level 4 and above	74%	76%	76%	66%
	Under-25-year-old learners at New Zealand Qualifications Framework level 4 and above	80%	80%	80%	65%
Programme completion	All learners	77%	75%	72%	74%
	Māori learners at New Zealand Qualifications Framework level 4 and above	62%	55%	64%	70%
	Pasifika learners at New Zealand Qualifications Framework level 4 and above	53%	59%	52%	66%
	Under-25-year-old learners at New Zealand Qualifications Framework level 4 and above	63%	59%	59%	60%

No targets were set for these measures in our *Statement of Performance Expectations 2016/17*.

Overall educational performance for all learners in industry training showed some improvement from 2015 to 2016, with the programme completion rate up 2 percentage points, while the credit completion rate stayed the same.

Access to Tertiary Education

- › This appropriation is intended to improve access to tertiary education and training for Tertiary Education Strategy priority learners.
- › Investing in priority learner group activities links to the Tertiary Education Strategy Priorities 2 and 3:

Getting at-risk young people into a career

Boosting achievement of Māori and Pasifika

Access to Tertiary Education	Actual 2016/17 \$000	Budget 2016/17 \$000	Actual 2015/16 \$000
REVENUE			
Crown revenue			
Equity Loading	16,011	16,716	15,709
Māori and Pasifika Trades Training (Top-ups)	7,632	8,400	5,844
Total revenue	23,643	25,116	21,553
EXPENSES			
Equity Loading	15,839	16,716	15,880
Māori and Pasifika Trades Training (Top-ups)	7,424	8,400	6,052
Total expenses	23,263	25,116	21,932
Surplus/(deficit)	380	-	(379)

Measure	Actual Funded 2016	Forecast 2016	Variance (Actual Funded to Forecast)	Actual Funded 2015
Māori and Pasifika Trades Training – number of learners per calendar year	2,360	2,300 ±5%	2.61%	1,787

Tertiary Sector/Industry Collaboration Projects

- › This appropriation is intended to support the development of knowledge and skills that are required by learners and employers.
- › Investing in the development of knowledge and skill links to the Tertiary Education Strategy Priorities 1 and 3:

Delivering skills
for industry

Boosting
achievement
of Māori and
Pasifika

Tertiary Sector/Industry Collaboration Projects	Actual 2016/17 \$000	Budget 2016/17 \$000	Actual 2015/16 \$000
REVENUE			
Crown revenue			
National Centre for Tertiary Teaching Excellence	3,556	3,556	3,556
Industry Training Organisation Strategic Leadership Fund	1,000	1,000	1,000
Information and Communication Technology Graduate Schools (Development)	4,924	5,000	2,810
Engineering (Building the Pipeline)	1,800	2,000	1,030
Māori and Pasifika Trades Training (Brokerage)	1,505	3,009	1,908
Māori and Pasifika Trades Training (Consortia)	4,082	2,318	900
Section 321 Taranaki Futures Trust	250	125	63
International Connections for New Zealanders	5,884	3,750	-
Quality Teaching Agenda	1,531	3,089	1,357
Total revenue	24,532	23,847	12,624
EXPENSES			
National Centre for Tertiary Teaching Excellence	3,556	3,556	3,556
Industry Training Organisation Strategic Leadership Fund	1,000	1,000	1,000
Information and Communication Technology Graduate Schools (Development)	4,923	5,000	2,810
Engineering (Building the Pipeline)	1,800	2,000	1,030
Māori and Pasifika Trades Training (Brokerage)	1,532	3,009	1,881
Māori and Pasifika Trades Training (Consortia)	4,011	2,318	972
Section 321 Taranaki Futures Trust	125	125	188
International Connections for New Zealanders	10,000	3,750	-
Quality Teaching Agenda	1,375	3,089	1,357
Total expenses	28,322	23,847	12,794
Surplus/(deficit)	(3,790)	-	(170)

Measures	Actual Funded 2016	Forecast 2016	Variance (Actual Funded to Forecast)	Actual Funded 2015
Number of domestic equivalent full-time students in Information and Communications Technology (ICT) Graduate Schools per calendar year	60	170 ±5%	-64.71% (Note 1)	New measure
Māori and Pasifika Trades Training – number of learners per calendar year	2,360	2,300 ±5%	2.61%	1,787

Note 1 – All three ICT Graduate Schools have reported lower than anticipated enrolments. Providers have reported:

- › this is largely due to the schools being launched later than anticipated due to establishment delays
- › they expect cumulative targets will be on track over the medium term.

We are working closely with the schools to ensure they have strategies to attract students and promote their programmes of study.

We have asked the schools to provide regular updates on their progress towards meeting their equivalent full-time student targets, and progress in developing links with industry.

University-led Innovation

- › This appropriation is intended to help New Zealand universities recruit world-leading entrepreneurial academics with a track record of working with industry to turn research into commercial innovation, with a focus on Tertiary Education Strategy priorities.
- › University-led Innovation is linked to the Tertiary Education Strategy Priorities 5 and 6:

Strengthening research-based institutions	Growing international linkages
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University-led Innovation	Actual 2016/17 \$000	Budget 2016/17 \$000	Actual 2015/16 \$000
REVENUE			
Crown revenue	1,600	-	-
Total revenue	1,600	-	-
Total expenses	1,600	-	-
Surplus/(deficit)	-	-	-

Measure	Dimension	Actual 2016/17	Target 2016/17	Actual 2015/16
Competitive selection round completed and first tranche of funding released before 30 June 2017	Quality	Achieved	Achieved	New measure

This appropriation was approved and created after the *Statement of Performance Expectations 2016/17* was published. The above measure is part of the *Vote Tertiary Education supplementary estimates 2016/17*.

Secondary-Tertiary Interface (Vote Education)

The Ministry of Education provides funding to us from this appropriation to fund Trades Academies in the tertiary setting. The Ministry of Education is responsible for reporting the performance of this appropriation.

Secondary-Tertiary Interface (Vote Education)	Actual 2016/17 \$000	Budget 2016/17 \$000	Actual 2015/16 \$000
REVENUE			
Crown revenue	17,764	18,225	17,215
Total revenue	17,764	18,225	17,215
Total expenses	17,778	18,225	17,201
Surplus/(deficit)	(14)	-	14

Research

Centres of Research Excellence

- › This appropriation is intended to achieve delivery of high quality research by purchasing cooperative and collaborative research in areas of research strength in the tertiary education sector.
- › Purchasing research is linked to the Tertiary Education Strategy Priorities 5 and 6:

Strengthening research-based institutions	Growing international linkages
---	--------------------------------

Centres of Research Excellence	Actual 2016/17 \$000	Budget 2016/17 \$000	Actual 2015/16 \$000
REVENUE			
Crown revenue	49,800	49,800	50,705
Total revenue	49,800	49,800	50,705
Total expenses	49,800	49,800	59,760
Surplus/(deficit)	-	-	(9,055)

Measure	Dimension	Actual 2016/17	Target 2016/17	Actual 2015/16	Actual 2014/15
Centres of Research Excellence Annual Reports are reviewed against research plans and meet assessment criteria	Quality	Achieved	Achieved	Achieved	Achieved

Tertiary Education Research and Research-Based Teaching

- › This appropriation is intended to achieve an increase in, or maintain the quality of, research and research-based teaching and learning, and to improve investment in research within the tertiary sector.
- › Funding research and research-based teaching is linked to the Tertiary Education Strategy Priorities 5 and 6:



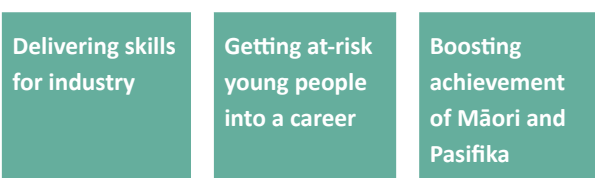
	Actual 2016/17 \$000	Budget 2016/17 \$000	Actual 2015/16 \$000
Research and Research-Based Teaching			
REVENUE			
Crown revenue			
Priorities for Focus	1,500	1,500	1,500
Performance-Based Research Fund	300,000	300,000	293,750
– Quality Evaluation element	165,000	165,000	168,750
– Research Degree Completions element	75,000	75,000	73,438
– External Research Income element	60,000	60,000	51,562
Total revenue	301,500	301,500	295,250
EXPENSES			
Priorities for Focus	1,500	1,500	1,500
Performance-Based Research Fund	300,000	300,000	299,547
– Quality Evaluation element	165,000	165,000	172,080
– Research Degree Completions element	75,000	75,000	74,887
– External Research Income element	60,000	60,000	52,580
Total expenses	301,500	301,500	301,047
Surplus/(deficit)	-	-	(5,797)

Measures	Dimension	Actual 2016	Target 2016	Actual 2015	Actual 2014
Research degree completions (measured by Performance-Based Research Fund (PBRF) – eligible research degree completions)	Quantity	3,934	3,900 ±5%	3,858	3,946
Percentage increase in amount of external income for PBRF – eligible providers	Quantity	7.4%	2-4%	3.3%	3.4%

Benefits and Unrequited Expenses

Support to Apprentices

- › This appropriation is intended to assist people establishing a career in industry by providing financial assistance.
- › In 2016/17, this appropriation relates to funding Māori and Pasifika Trades Training tools for employees and is linked to the Tertiary Education Strategy Priorities 1, 2 and 3:



	Actual 2016/17 \$000	Budget 2016/17 \$000	Actual 2015/16 \$000
Support to Apprentices			
REVENUE			
Crown revenue			
Māori and Pasifika Trades Training (Tools)	159	2,190	31
Total revenue	159	2,190	31
Total expenses	159	2,190	31
Surplus/(deficit)	-	-	-

An exemption was granted under section 15D(2)(b)(ii) of the Public Finance Act 1989, as additional performance information is unlikely to be informative because this appropriation is solely for payments to Māori and Pasifika Trades trainees towards the cost of tools and other training-related costs under the Education Act 1989.

Tertiary Scholarships and Awards

- › This appropriation is intended to provide a stipend for domestic sixth-year medical trainee interns and other scholarships.
- › We are only responsible for two components of this appropriation. The Ministry of Education is responsible for the other components. We are responsible for:
 - › Medical Trainee Intern Grant
 - › Tertiary Teaching Excellence Awards.

Tertiary Scholarships and Awards	Actual 2016/17 \$000	Budget 2016/17 \$000	Actual 2015/16 \$000
REVENUE			
Crown revenue			
Trainee Medical Intern Grant	10,953	13,167	13,950
Tertiary Teaching Awards	200	200	200
Ministry of Education administered awards	1,080	1,080	1,470
Total revenue	12,233	14,447	15,620
EXPENSES			
Trainee Medical Intern Grant	12,107	13,167	12,796
Tertiary Teaching Awards	200	200	200
Ministry of Education administered awards	1,034	1,080	1,470
Total expenses	13,341	14,447	14,466
Surplus/(deficit)	(1,108)	-	1,154

An exemption was granted under section 15D(2)(b)(ii) of the Public Finance Act 1989, as additional performance information is unlikely to be informative because this appropriation is solely for payments of Tertiary Scholarships and Awards under the Education Act 1989.

Non-departmental Capital Expenditure

Literacy and Numeracy Assessment Tool

- › This appropriation is intended to achieve the delivery of online assessment tools for adult and youth literacy and numeracy to improve literacy and numeracy skills.
- › Development of the online assessment tool links to the Tertiary Education Strategy Priority 4:

Improving
adult literacy
and numeracy

Literacy and Numeracy Assessment Tool	Actual 2016/17 \$000	Budget 2016/17 \$000	Actual 2015/16 \$000
REVENUE			
Crown revenue	500	500	825
Total revenue	500	500	825
Total expenses	703	533	623
Surplus/(deficit)	(203)	(33)	202

Measure	Dimension	Actual 2016/17	Target 2016/17	Actual 2015/16	Actual 2014/15
Online assessment tools for literacy and numeracy are developed on time and are fit for purpose	Quality Timeliness	Achieved	Achieved	Achieved	Achieved



Part five
**Financial
statements**

Statement of Comprehensive Revenue and Expense

For the year ended 30 June 2017

	Notes	2017 Actual \$000	2017 Budget \$000	2016 Actual \$000
REVENUE				
Operating revenue:				
Vote Tertiary Education – Ministry of Education (MoE)	1	46,809	47,168	46,657
Contract – Pre-purchased English Language Tuition	1	397	173	322
Other revenue		2,234	74	256
Total operating revenue		49,440	47,415	47,235
Grants revenue:				
Vote Education/Tertiary Education – MoE	1	2,894,292	2,921,958	2,866,721
Prior year recoveries		6,643	4,000	6,628
Total grants revenue		2,900,935	2,925,958	2,873,349
Finance revenue:				
Interest – operating	1	1,346	1,254	1,370
Interest – grants	1	350	250	348
Total finance revenue		1,696	1,504	1,718
Total revenue		2,952,071	2,974,877	2,922,302
EXPENSE				
Operating expense:				
Personnel costs	5	30,514	27,850	27,040
Other expenses	6	15,792	14,818	15,519
Capital charge	1	1,806	2,260	2,267
Depreciation	9	964	820	767
Amortisation	8	3,351	4,033	3,669
Total operating expense		52,427	49,781	49,262
Grants expense:				
Grants expense		2,836,400	2,921,958	2,811,118
Bad and doubtful debts	2	9,170	-	13,141
Total grants expense	2	2,845,570	2,921,958	2,824,259
Total expense		2,897,997	2,971,739	2,873,521
SURPLUS/(DEFICIT)				
Operating surplus/(deficit)		(1,641)	(1,112)	(657)
Grants surplus/(deficit)		55,715	4,250	49,438
Total comprehensive revenue and expense		54,074	3,138	48,781

Explanations of major variances against budget are provided in note 19.

The accompanying notes form part of these financial statements.

Statement of Financial Position

As at 30 June 2017

	Notes	2017 Actual \$000	2017 Budget \$000	2016 Actual \$000
CURRENT ASSETS				
Cash and cash equivalents	7,16	63,411	47,568	51,269
Prepayments		699	187	526
Receivables	4,16	600,621	1,053	575,528
Total current assets		664,731	48,808	627,323
NON-CURRENT ASSETS				
Intangible assets	8	10,143	10,884	9,879
Property, plant and equipment	9	5,564	6,433	5,309
Total non-current assets		15,707	17,317	15,188
Total assets		680,438	66,125	642,511
CURRENT LIABILITIES				
Payables	3,16	521,078	6,846	535,080
GST payable		1,097	1,593	1,315
Employee entitlements	10	1,973	1,822	1,696
Pre-purchased English Language Tuition – fees in advance	11	26,547	23,963	23,705
Provision for lease	12	112	1,221	112
Repayment of grants surplus – MoE	13	2,830	4,250	7,903
Total current liabilities		553,637	39,695	569,811
NON-CURRENT LIABILITIES				
Employee entitlements	10	573	322	584
Provision for lease	12	1,113	-	1,225
Total non-current liabilities		1,686	322	1,809
Total liabilities		555,323	40,017	571,620
Net assets		125,115	26,108	70,891
EQUITY				
General funds	14	125,115	26,108	70,891
Total equity		125,115	26,108	70,891

Explanations of major variances against budget are provided in note 19.

The accompanying notes form part of these financial statements.

Statement of Changes in Equity

For the year ended 30 June 2017

	Notes	2017 Actual \$000	2017 Budget \$000	2016 Actual \$000
Balance at 1 July		70,891	26,720	28,204
Capital contribution		500	500	825
Total comprehensive revenue and expense for the year		54,074	3,138	48,781
Provision for repayment of grants interest – MoE		(350)	(4,250)	(6,919)
Balance at 30 June	14	125,115	26,108	70,891

We have changed the way we treat our repayments to the Ministry of Education. The Statement of Changes in Equity now only includes grants interest.

The accompanying notes form part of these financial statements.

Statement of Cash Flows

For the year ended 30 June 2017

	Notes	2017 Actual \$000	2017 Budget \$000	2016 Actual \$000
CASH FLOWS FROM OPERATING ACTIVITIES				
<i>Cash was provided from:</i>				
Operating – MoE		46,809	47,168	46,657
Operating – Pre-purchased English Language Tuition		497	300	726
Operating other		1,952	74	130
Grants – MoE		2,868,261	2,921,958	2,806,672
Grants – Pre-purchased English Language Tuition		6,415	3,000	6,191
Grant recoveries – prior year		1,981	4,000	6,628
		2,925,915	2,976,500	2,867,004
<i>Cash was applied to:</i>				
Grants payments		(2,858,389)	(2,923,458)	(2,806,785)
Payments to employees		(30,308)	(26,866)	(26,667)
Other operating payments		(14,935)	(16,550)	(14,665)
Capital charge		(1,806)	(2,260)	(2,267)
GST – net		(1,043)	276	261
		(2,906,481)	(2,968,858)	(2,850,123)
Net cash flows from operating activities		19,434	7,642	16,881
CASH FLOWS FROM INVESTING ACTIVITIES				
<i>Cash was provided from:</i>				
Sale of property, plant and equipment		6	-	1
Interest – operating		1,392	1,254	1,410
Interest – grants		350	250	348
		1,748	1,504	1,759
<i>Cash was applied to:</i>				
Purchase of property, plant and equipment		(1,012)	(345)	(4,444)
Purchase of intangible assets		(3,106)	(4,834)	(3,967)
		(4,118)	(5,179)	(8,411)
Net cash flows from investing activities		(2,370)	(3,675)	(6,652)
CASH FLOWS FROM FINANCING ACTIVITIES				
<i>Cash was provided from:</i>				
Capital contribution – MoE		500	500	825
<i>Cash was applied to:</i>				
Repayment of grants surplus – MoE		(5,422)	(3,521)	(5,768)
Net cash flows from financing activities		(4,922)	(3,021)	(4,943)
Net increase/(decrease) in cash and cash equivalents		12,142	946	5,286
Cash and cash equivalents at 1 July		51,269	46,622	45,983
Cash and cash equivalents at 30 June	7	63,411	47,568	51,269

The accompanying notes form part of these financial statements.

Statement of Cash Flows (continued)

For the year ended 30 June 2017

	2017 Actual \$000	2017 Budget \$000	2016 Actual \$000
Total comprehensive revenue and expense	54,074	3,138	48,781
Add non-cash items			
Depreciation and amortisation expense	4,315	4,853	4,436
Loss on disposal of property, plant and equipment and intangible assets	1	-	38
Total non-cash items	4,316	4,853	4,474
Add interest income classified as investing activities	(1,742)	(1,504)	(1,718)
Add/(less) movements in statement of financial position items			
(Increase)/decrease in receivables – operating activities portion	(25,616)	(115)	(53,565)
(Increase)/decrease in prepayments	(173)	-	(75)
Increase/(decrease) in payables – operating activities portion	(14,203)	(301)	12,695
Increase/(decrease) in provisions for lease	(112)	(112)	1,220
Increase/(decrease) in employee entitlements	266	56	370
Increase/(decrease) in Pre-purchased English Language Tuition – fees in advance	2,842	1,627	4,438
Increase/(decrease) in GST payable	(218)	-	261
Total movements in statement of financial position items	(37,214)	1,155	(34,656)
Net cash flows from operating activities	19,434	7,642	16,881

The accompanying notes form part of these financial statements.

Notes to the financial statements

1. Statement of accounting policies

Reporting entity

We are a Crown entity as defined by the Crown Entities Act 2004, established on 1 January 2003 pursuant to section 159C of the Education Act 1989. We are based in New Zealand and our ultimate parent is the New Zealand Crown.

Our primary objective is to provide services to the New Zealand public, rather than make a financial return. Accordingly, we have designated ourselves as a public benefit entity (PBE) for financial reporting purposes.

Our financial statements are for the year ended 30 June 2017 and were approved by our Board of Commissioners on 9 October 2017.

Basis of preparation

Statement of compliance

The financial statements have been prepared in accordance with 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).

The financial statements have been prepared in accordance with NZ GAAP as appropriate for public benefit entities and they comply with Tier 1 PBE standards.

The financial statements have been prepared on a going concern basis and the accounting policies have been applied consistently throughout the period.

Presentation currency and rounding

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

Summary of significant accounting policies

Significant accounting policies are included in the related notes.

Significant accounting policies that do not relate to a specific note are outlined below.

Revenue

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

Revenue from Crown

We are primarily funded from the Crown. This funding is restricted in its use for the purpose of us meeting our performance measures as specified in the *Statement of Intent 2015/16-2018/19* and *Statement of Performance Expectations 2016/17*. Revenue from the Crown is recognised as revenue when earned and is reported in the financial period it relates to.

The fair value of revenue from the Crown has been determined to be equivalent to the amounts due in the funding arrangements.

Contract – Pre-purchased English Language Tuition

As a part of their residency requirements, some migrants are required to pay English language tuition fees. The migrants pay the Ministry of Business, Innovation and Employment (MBIE). MBIE deducts an administration fee and pays the remaining balance to us for us to administer. A migrant can then enrol in an English language course at an approved course provider. We then pay fees to English language course providers on enrolment of migrants. We recognise a 10 percent administration fee out of the fees received as revenue at the time of payment to providers. If the migrant fails to enrol for the course within five years of the receipt of the fees, the fees are refunded to MBIE.

Interest – operating

Interest income is recognised by accruing the interest due for the term deposit on a time-proportion basis. The interest earned is used in our operations.

Interest – grants

Interest income is recognised by accruing the interest due for the term deposit on a time-proportion basis. We voluntarily return interest earned on grants funds to the Ministry of Education.

Capital charge

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

Goods and services tax (GST)

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

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

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

Commitments and contingencies are disclosed exclusive of GST.

Income tax

We are a public authority and consequently are exempt paying income tax. Accordingly, no provision has been made for income tax.

Budget figures

The budget figures are derived from the statement of performance expectations as approved by the Board of Commissioners 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 of Commissioners in preparing these financial statements.

Cost allocation

We have 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 outputs. 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 equivalent and direct labour hours.

There have been no changes to the cost allocation methodology since the date of the last audited financial statements.

Critical accounting estimates and assumptions

In preparing these financial statements we have 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. This includes 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:

- › useful lives of intangible assets – refer to note 8
- › useful lives of property, plant and equipment – refer to notes 8 and 9
- › estimates and assumptions around retirement and long service leave – refer to note 10.

Critical judgements in applying accounting policies

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

- › leases classification – refer to note 6.

Comparative information

When presentation or classification 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.

2. Grants expense relating to tertiary education institutions

Accounting policy

Grants expenditure relates to payments to tertiary education organisations for post-secondary school education and training, including foundation education, adult and community education, and research. When there are no conditions attached, grants expenditure is recognised as an expense in surplus or deficit when an unconditional obligation to provide funding arises. When there are conditions attached, the expense is recognised at the earlier of the condition being met or payment being made.

Breakdown of grants expense

We have provided Crown-owned tertiary education institutions (TEIs) with funding for the provision of education, training and other services. The transactions are within a normal supplier or client/recipient relationship on terms and conditions no more favourable than those it is reasonable to expect we would have dealing with other parties at arm's length in the same circumstances. The table on the following page details the amounts paid to each TEI.

	Funding \$000	Accounting adjustment \$000	2017 \$000	2016 \$000
UNIVERSITIES				
Auckland University of Technology	165,910	(9,843)	156,067	159,699
Lincoln University	41,800	(3,590)	38,210	49,044
Massey University	203,384	(1,395)	201,989	201,121
University of Auckland	445,381	(15,500)	429,881	442,663
University of Canterbury	161,895	1,567	163,462	160,367
University of Otago	303,653	31,917	335,570	297,477
University of Waikato	88,952	(2,693)	86,259	88,141
Victoria University of Wellington	179,719	4,271	183,990	175,815
	1,590,694	4,734	1,595,428	1,574,327
POLYTECHNICS				
Aoraki Polytechnic	-	-	-	3,797
Ara Institute of Canterbury	64,488	(557)	63,931	36,190
Bay of Plenty Polytechnic	-	3,156	3,156	11,915
Christchurch Polytechnic Institute of Technology	-	-	-	28,096
Eastern Institute of Technology	40,048	(894)	39,154	37,548
Manukau Institute of Technology	59,116	(11,926)	47,190	60,077
Nelson Marlborough Institute of Technology	19,285	(519)	18,766	18,986
Northland Polytechnic	25,173	(2,570)	22,603	25,622
Otago Polytechnic	38,289	3,026	41,315	36,106
Southern Institute of Technology	30,038	3,817	33,855	28,683
Tai Poutini Polytechnic	18,218	(1,851)	16,367	16,693
The Open Polytechnic of New Zealand	38,053	(5,617)	32,436	37,807
Toi Ohomai Institute of Technology	50,223	(11,307)	38,916	-
Unitec Institute of Technology	66,796	(8,790)	58,006	72,646
Universal College of Learning	28,216	1,323	29,539	27,797
Waiariki Bay of Plenty Polytechnic	-	-	-	24,656
Waiariki Institute of Technology	-	3,282	3,282	12,524
Waikato Institute of Technology	47,724	(2,532)	45,192	47,583
Wellington Institute of Technology	27,309	(2,182)	25,127	27,543
Western Institute of Technology at Taranaki	13,783	(838)	12,945	12,221
Whitireia Community Polytechnic	24,119	(1,312)	22,807	24,671
	590,878	(36,291)	554,587	591,161
WĀNANGA				
Te Wānanga o Aotearoa	135,814	31,997	167,811	128,994
Te Wānanga o Raukawa	12,376	(817)	11,559	10,502
Te Whare Wānanga o Awanuiārangi	20,579	(1,117)	19,462	20,224
	168,769	30,063	198,832	159,720
Total TEI grants	2,350,341	(1,494)	2,348,847	2,325,208
Other tertiary education organisation grants	503,829	(16,276)	487,553	485,910
Bad debts written off and movement in provision for uncollectable debts	9,170	-	9,170	13,141
Total grants expense	2,863,340	(17,770)	2,845,570	2,824,259

3. Payables

Accounting policy

All grants payables are classified as non-exchange transactions, and all operating payables are classified as exchange transactions.

As we provide funding to tertiary education organisations but receive nothing tangible in return, this funding is considered a non-exchange transaction. We recognise a liability for our funding commitments as follows:

- › Where we have committed to provide funding based on a multi-year contract, we recognise commitments for a further 12 months. Our contracts with tertiary education organisations state our ability to provide funding depends on the Government continuing to appropriate sufficient funding for us to fund the tertiary education organisation. At 30 June 2017, our funding has only been confirmed up until 30 June 2018.
- › Where we have committed to provide funding to tertiary education organisations to the end of the current calendar year, we recognise commitments up to then.

Exceptions are as follows:

- › Volume-based funding: the majority of our funding is paid based on the number of valid student enrolments. We obtain the number of students enrolled in courses at each tertiary education organisation as at 30 June, and compare this to what we have funded the tertiary education organisation for to 30 June. We record an asset or liability based on these student numbers and whether the funding we provided to the tertiary education organisation is higher or lower than what they are entitled.
- › Deliverable-based funding: some of our funding is paid once a tertiary education organisation completes a piece of research or meets a milestone. We do not record a liability unless the tertiary education organisation has met the milestone at 30 June.

Based on the explanations above, the tertiary grants payable at 30 June differs from the funding we expect to provide in the upcoming financial year.

Breakdown of payables	2017 \$000	2016 \$000
GRANTS: NON-EXCHANGE TRANSACTIONS		
Tertiary grants payable	505,858	523,628
Creditors	2	418
Accrued expenses	10,203	7,303
Total grants payables	516,063	531,349
OPERATIONS: EXCHANGE TRANSACTIONS		
Creditors	732	151
Accrued expenses	4,283	3,580
Total operations payables	5,015	3,731
Total payables	521,078	535,080

4. Receivables

Accounting policy

Short-term receivables are recorded at the amount due, less any provision for uncollectable debts.

A receivable is considered uncollectable when there is evidence the amount due will not be fully collected.

The amount that is uncollectable is the difference between the amount due and the present value of the amount expected to be collected.

Breakdown of receivables and further information

	2017 \$000	2016 \$000
Tertiary grants receivables (non-exchange transaction)	34,895	16,696
MoE grants receivable (non-exchange transaction)	598,239	571,384
Other accounts receivable (exchange transaction)	513	799
Provision for uncollectable debts	(33,026)	(13,351)
Total receivables	600,621	575,528

The ageing profile of receivables at year-end is detailed below:

	Gross \$000	Provision \$000	Net \$000
As at 30 June 2017			
Not past due	620,664	(21,235)	599,429
Past due 1-30 days	-	-	-
Past due 31-60 days	-	-	-
Past due 61-90 days	530	-	530
Past due > 90 days	12,453	(11,791)	662
Total	633,647	(33,026)	600,621
As at 30 June 2016			
Not Past Due	532,113	-	532,113
Past due 1-30 days	1,716	-	1,716
Past due 31-60 days	11	-	11
Past due 61-90 days	44	-	44
Past due > 90 days	54,995	(13,351)	41,644
Total	588,879	(13,351)	575,528

The provision for uncollectable debts has been calculated based on expected losses for the pool of receivables. Expected losses have been determined based on an analysis of losses in previous periods and a review of specific receivables.

Movement in the provision for uncollectable debts is as follows:

	2017 \$000	2016 \$000
Balance at 1 July	13,351	368
Increase/(decrease) in provision	26,419	13,141
Receivables written off during the year	(6,744)	(158)
Balance at 30 June	33,026	13,351

5. Personnel costs

Accounting policy

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.

Breakdown of personnel costs and further information

	2017 \$000	2016 \$000
Salaries	22,000	21,035
Contributions to defined contribution plans	618	589
Additional provision for leave entitlements	379	379
Training and development	209	561
Other personnel expenses	7,283	4,165
Redundancy cost	25	311
Total personnel costs	30,514	27,040

Employee remuneration

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

	2017 Number of employees	2016 Number of employees
510,001 to 520,000	1	-
480,001 to 490,000	-	1
340,001 to 350,000	-	1
270,001 to 280,000	1	1
260,001 to 270,000	1	-
250,001 to 260,000	-	1
200,001 to 210,000	2	-
180,001 to 190,000	4	5
170,001 to 180,000	4	6
160,001 to 170,000	8	5
150,001 to 160,000	5	5
140,001 to 150,000	4	3
130,001 to 140,000	8	12
120,001 to 130,000	15	12
110,001 to 120,000	18	16
100,001 to 110,000	15	19
Total employees	86	87

During the year, three employees (2016: seven) received compensation and other benefits in relation to cessation totalling \$82,825 (2016: \$177,299).

Board of Commissioners remuneration

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

		2017 \$	2016 \$
CURRENT COMMISSIONERS			
John Spencer (Chair) (Note 1)	appointed August 2012	54,701	48,720
Nigel Gould (Note 2)	appointed May 2013	22,400	22,400
Sir Christopher Mace	appointed May 2013	22,400	22,400
John Morris	appointed November 2012	22,400	22,400
Phil O'Reilly	appointed September 2013	22,400	22,400
Vanessa Stoddart	appointed September 2013	22,400	22,400
Susan Paterson	appointed July 2015	22,400	22,400
Dale Karauria (Note 3)	appointed August 2016	18,667	-
Dr Alastair MacCormick	appointed May 2017	1,867	-
PAST COMMISSIONERS			
Judith Johnston	retired July 2015	-	1,867
Total commissioners' fees		209,635	184,987

Note 1 – Chair, term ended 31 July 2017.

Note 2 – Chair, from 1 August 2017.

Note 3 – Term ended 16 August 2017.

The amount paid to John Spencer includes \$9,341 (2016: \$3,360) related to both the University of Canterbury Governance and Oversight Group, and the Lincoln University Governance and Oversight Group.

There have been no payments made to committee members who are not commissioners.

We have not provided a deed of indemnity to any commissioner or employee.

We have directors' and officers' liability and professional indemnity insurance cover in respect of the liability or costs of commissioners and employees.

No commissioner received compensation or other benefits in relation to cessation.

6. Other expenses

Accounting policy

Operating leases

An operating lease is a lease that does not substantially transfer all the risks and rewards incidental to ownership of an asset to the lessee.

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 as a reduction of rental expense over the lease term.

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 to us substantially all the risks and rewards of ownership.

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.

We have exercised our judgement on the appropriate classification of equipment leases and have determined none of our lease arrangements are finance leases.

Breakdown of other expenses and further information

	Note	2017 \$000	2016 \$000
Property rental		1,507	1,261
Motor vehicles		4	9
Computer operations		2,486	1,998
Consultants		3,675	3,259
Audit fees for audit of financial statements		167	175
Other fees paid to auditors – assurance services		77	11
Travel		487	433
Insurance		123	107
Legal fees		405	503
Managing third-party contracts		5,287	5,512
Bank fees		2	5
Telephone, tolls and postage		152	177
Other supplies and services		966	1,818
Commissioners' fees	5	210	185
PBRF panel members' fees		243	28
Loss on disposal of property, plant and equipment and intangible assets		1	38
Total other expenses		15,792	15,519

Operating leases as lessee

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

	2017 \$000	2016 \$000
Not later than one year	1,666	1,347
Later than one year and not later than five years	6,666	5,388
Later than five years	8,349	8,096
Total non-cancellable operating leases	16,681	14,831

We lease five floors at 44 The Terrace, Wellington. The next renewal date is 1 July 2027, with a final expiry date of 30 June 2033. The figures above have been calculated to 1 July 2027.

7. Cash and cash equivalents**Accounting policy**

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

Breakdown of cash and cash equivalents	2017 \$000	2016 \$000
OPERATIONS		
Cash at bank	1,900	1,258
Term deposits with maturities less than three months	20,000	21,500
Total operations cash and cash equivalents	21,900	22,758
GRANTS		
Cash at bank	9,496	7,042
Term deposits with maturities less than three months	8,000	-
Total grants cash and cash equivalents	17,496	7,042
PRE-PURCHASED ENGLISH LANGUAGE TUITION		
Cash at bank	2,015	469
Term deposits with maturities less than three months	22,000	21,000
Total Pre-purchased English Language Tuition cash and cash equivalents	24,015	21,469
Total cash and cash equivalents	63,411	51,269

8. Intangible assets

Accounting policy

Software acquisition and development

Computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Costs that are directly associated with the development of software for internal use are recognised as an intangible asset. Direct costs include software development employee costs and an appropriate portion of relevant overheads.

Staff training costs are recognised as an expense when incurred.

Costs associated with maintaining computer software 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 the asset is derecognised. The amortisation charge for each financial year is recognised in the surplus or deficit.

The useful life and associated amortisation rate of the major class of intangible assets has been estimated as follows:

Computer software	4 years	25% straight line
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Impairment of property, plant and equipment and intangible assets

We do not hold any cash-generating assets. Assets are considered cash generating where their primary objective is to generate a commercial return.

Non-cash-generating assets

Property, plant and equipment and intangible assets held at cost that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate 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 service amount. The recoverable service amount is the higher of an asset's fair value, less costs to sell and value in use.

Value in use is determined using an approach based on either a depreciated replacement cost approach, restoration cost approach or a service units approach. The most appropriate approach used to measure value in use depends on the nature of the impairment and availability of information.

If an asset's carrying amount exceeds its recoverable service amount, the asset is regarded as impaired and the carrying amount is written down to the recoverable amount. The total impairment loss is recognised in the surplus or deficit.

The reversal of an impairment loss is recognised in the surplus or deficit.

Critical judgements in applying accounting policies

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

At each balance date, the useful lives and residual values of property, plant and equipment and intangible assets 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. These include the physical condition of the asset, expected period of use of the asset and expected disposal proceeds from the future sale of the asset.

An incorrect estimate of the useful life or residual value will affect the amortisation and depreciation expense recognised in the surplus or deficit and carrying amount of the asset in the statement of financial position.

We minimise 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.

We have not made significant changes to past assumptions concerning useful lives and residual values.

Breakdown of intangible assets and further information

Movements for each class of intangible assets are as follows:

2017					
	Acquired software \$000	Internally generated software \$000	Work in progress (acquired) \$000	Work in progress (internal) \$000	Total \$000
Balance at 1 July	3,439	3,191	1,372	1,877	9,879
Additions	-	-	2,368	1,247	3,615
Transfers from work in progress	660	2,176	(660)	(2,176)	-
Amortisation	(1,740)	(1,611)	-	-	(3,351)
Balance at 30 June	2,359	3,756	3,080	948	10,143
Cost	17,177	16,625	3,080	948	37,830
Accumulated amortisation	(14,818)	(12,869)	-	-	(27,687)
Balance at 30 June	2,359	3,756	3,080	948	10,143
2016					
	Acquired software \$000	Internally generated software \$000	Work in progress (acquired) \$000	Work in progress (internal) \$000	Total \$000
Balance at 1 July	2,926	3,723	1,695	1,521	9,865
Additions	-	-	2,019	1,664	3,683
Transfers from work in progress	2,342	1,308	(2,342)	(1,308)	-
Amortisation	(1,829)	(1,840)	-	-	(3,669)
Balance at 30 June	3,439	3,191	1,372	1,877	9,879
Cost	18,574	17,331	1,372	1,877	39,154
Accumulated amortisation	(15,135)	(14,140)	-	-	(29,275)
Balance at 30 June	3,439	3,191	1,372	1,877	9,879

The amount of contractual commitments for the acquisition of intangible assets is \$306,000 (2016: \$853,000).

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

Work in progress costs comprise projects that are in progress, pending capitalisation.

9. Property, plant and equipment

Accounting policy

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

All asset classes are measured at cost, less accumulated depreciation and impairment losses.

Additions

The cost of an item of property, plant and equipment is recognised as an asset only when it is probable that future economic benefits or service potential associated with the item will flow to us 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 through a non-exchange transaction, it is recognised at its fair value as at the date of acquisition.

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 us 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.

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.

Depreciation

Depreciation is provided on a straight-line basis on all property, plant and equipment. 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 and fittings	10 years	10% straight line
Leasehold improvements	Life of lease	
Motor vehicles	5 years	20% straight line

Leasehold improvements are depreciated over the unexpired period of the lease or the estimated remaining useful lives of the improvements, whichever is the shorter.

Impairment of property, plant and equipment, and critical accounting estimates and assumptions

Refer to the policy on intangible assets in note 8.

Breakdown of property, plant and equipment and further information

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

2017						
	Leasehold Improvements \$000	Computer equipment \$000	Office equipment \$000	Furniture and fittings \$000	Work in progress \$000	Total \$000
Balance at 1 July	3,306	1,136	106	277	484	5,309
Additions	-	-	-	-	1,219	1,219
Transfers from work in progress	9	607	1	240	(857)	-
Depreciation	(301)	(577)	(23)	(63)	-	(964)
Balance at 30 June	3,014	1,166	84	454	846	5,564
Cost	3,404	6,556	128	742	846	11,676
Accumulated depreciation	(390)	(5,390)	(44)	(288)	-	(6,112)
Balance at 30 June	3,014	1,166	84	454	846	5,564
2016						
	Leasehold Improvements \$000	Computer equipment \$000	Office equipment \$000	Furniture and fittings \$000	Work in progress \$000	Total \$000
Balance at 1 July	-	1,004	6	124	423	1,557
Additions	-	-	-	-	4,565	4,565
Transfers from work in progress	3,395	735	116	258	(4,504)	-
Disposals	-	(1)	(2)	(43)	-	(46)
Depreciation	(89)	(602)	(14)	(62)	-	(767)
Balance at 30 June	3,306	1,136	106	277	484	5,309
Cost	3,395	5,968	137	603	484	10,587
Accumulated depreciation	(89)	(4,832)	(31)	(326)	-	(5,278)
Balance at 30 June	3,306	1,136	106	277	484	5,309

10. Employee entitlements

Accounting policy

Short-term employee entitlements

Employee benefits due to be settled within 12 months after the end of the year in which the employee provides the related service, are measured based on accrued entitlements at current rates of pay. These include salaries and wages accrued up to balance date, annual leave earned but not yet taken at balance date and sick leave.

A liability for sick leave is recognised to the extent that absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year. The amount is calculated based on the unused sick leave entitlement that can be carried forward at balance date, to the extent 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 and a reliable estimate of the obligation can be made.

Long-term employee entitlements

Employee benefits due to be settled beyond 12 months after the end of the period in which the employee provides 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 employees, based on years of service, years to entitlement, the likelihood employees will reach the point of entitlement and contractual entitlement information, and
- › the present value of the estimated future cash flows.

Presentation of employee entitlements

The current portion of 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.

Critical accounting estimates and assumptions

Measuring retirement and long service leave obligations

The present value of retirement and long service leave obligations depend on a number of factors determined on an actuarial basis. Two key assumptions used in calculating this liability include the assumed salary escalation rate, and assumed resignation rate. Any changes in these assumptions will affect the carrying amount of the liability.

Expected future payments are discounted using forward discount rates derived from the yield curve of New Zealand government bonds. The discount rates used have maturities that match, as closely as possible, the estimated future cash outflows. The assumed salary escalation rate has been determined after considering historical salary inflation patterns and after obtaining advice from an independent actuary. The assumed resignation rate has been determined by the actuary using rates that vary with age and length of service and reflect the experience of company superannuation schemes in New Zealand.

Sensitivity analysis of retirement and long service leave for changes in the two key assumptions is detailed on the following page.

Breakdown of employee entitlements and further information

	2017 \$000	2016 \$000
CURRENT PORTION		
Salaries and wages	329	211
Annual leave	1,298	1,157
Severance provision	75	133
Sick leave	64	57
Retirement and long service leave	207	138
Total current portion	1,973	1,696
NON-CURRENT PORTION		
Sick leave	71	-
Retirement and long service leave	502	584
Total non-current portion	573	584
Total employee entitlements	2,546	2,280

Sensitivity analysis

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

	Long service leave \$000	Retiring leave \$000	Total \$000
No change	375	334	709
Salary growth: 1% per year	356	321	677
Salary growth: 3% per year	396	349	745
Resignation rates: 150% of assumed	359	332	691
Resignation rates: 50% of assumed	394	337	731

11. Pre-purchased English Language Tuition – fees in advance

Accounting policy

Refer to the policy on Contract – Pre-purchased English Language Tuition in note 1.

Breakdown of Pre-purchased English Language Tuition – fees in advance	2017 Actual \$000	2016 Actual \$000
Balance at 1 July	23,705	19,267
Fees received from migrants	6,912	7,996
Fees paid to providers	(2,526)	(2,157)
Refund of unused fees to Ministry of Business, Innovation and Employment	(1,147)	(1,079)
Contract expense – administration	(397)	(322)
Balance at 30 June	26,547	23,705

12. Provision for lease

Accounting policy

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 an outflow of future economic benefits or service potential will be required to settle the obligation, and
- › a reliable estimate can be made of the amount of the obligation.

Onerous contracts

A provision for onerous contracts is recognised when the expected benefits or service potential to be derived from a contract are lower than the unavoidable cost of meeting the obligations under the contract.

The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

Lease incentives

Lease incentives are recognised as a reduction of rental expense over the lease term, on a straight-line basis.

Breakdown of provision for lease and other further information

	2017 \$000	2016 \$000
CURRENT PORTION		
Lease incentive	112	112
Total current portion	112	112
NON-CURRENT PORTION		
Lease make-good	102	102
Lease incentive	1,011	1,123
Total non-current portion	1,113	1,225
Total provision for lease	1,225	1,337

	Lease make-good \$000	Onerous lease \$000	Lease incentive \$000	Total \$000
Balance at 1 July 2016	77	40	-	117
Additional provisions made	102	-	1,395	1,497
Amounts used	(70)	(40)	(160)	(270)
Unused amounts reversed	(7)	-	-	(7)
Balance at 30 June/1 July 2017	102	-	1,235	1,337
Additional provisions made	-	-	-	-
Amounts used	-	-	(112)	(112)
Unused amounts reversed	-	-	-	-
Balance at 30 June 2017	102	-	1,123	1,225

We lease five floors at 44 The Terrace, Wellington. At the expiry of the leased term we are required to make good any damage caused and remove any fixtures and fittings installed. The cost is based on the market value of replacement items as specified in the lease agreements.

The provision is released as a reduction in the lease cost when the obligation has been met.

When we entered into the lease agreement effective from 1 July 2015, we received a lease incentive of \$1,395,000, including \$48,000 for painting costs. The \$48,000 was offset against our project cost. The balance of \$1,347,000 was recognised as a reduction of lease rental over the lease term.

13. Repayment of grants surplus

Accounting policy

We are required to return any excess grants funds collected during the year to the Ministry of Education. This includes some of the funds drawn from the appropriations but not spent during the year, and certain prior year recoveries. We can retain certain funds on our balance sheet if agreed by the Minister for Tertiary Education, Skills and Employment. We also voluntarily return interest earned on grants funds.

Breakdown of repayment of grants surplus	2017 \$000	2016 \$000
Balance at 1 July	7,903	6,751
Surplus repaid during the period	(7,903)	(6,751)
Grants surplus for the year	55,715	49,438
Surplus retained on balance sheet	(53,988)	(42,519)
GST retained on balance sheet	826	-
GST on surplus to be repaid	277	984
Balance at 30 June	2,830	7,903

14. Equity

Accounting policy

Equity is measured as the difference between total assets and total liabilities.

Capital management

Our capital is our equity, which comprises accumulated funds. Equity is represented by net assets.

We are subject to financial management and accountability provisions of the Crown Entities Act 2004, which imposes restrictions in relation to borrowings, acquisition of securities, issuing guarantees and indemnities and the use of derivatives.

We have complied with the financial management requirements of the Crown Entities Act 2004 during the year.

We manage our equity as a by-product of prudently managing revenues, expenses, assets, liabilities, investments and general financial dealings to ensure we effectively achieve our objectives and purpose, while remaining a going concern.

Breakdown of equity	2017 \$000	2016 \$000
OPERATIONS EQUITY		
Balance at 1 July	28,372	28,204
Surplus/(deficit) for the year	(1,641)	(657)
Capital contribution	500	825
Balance at 30 June	27,231	28,372
GRANTS EQUITY		
Balance at 1 July	42,519	-
Surplus/(deficit) for the year	55,715	49,438
Provision for repayment of grants interest – MoE	(350)	(6,919)
Balance at 30 June	97,884	42,519
Total equity	125,115	70,891

15. Related party transactions

We are controlled by the Crown.

Related party disclosures have not been made for transactions with related parties that are:

- › within a normal supplier or client/recipient relationship, and
- › on terms and conditions no more or less favourable than those it is reasonable to expect we would have adopted in dealing with the party at arm's length in the same circumstances.

Further, transactions with other government agencies (for example, government departments and Crown entities) are not disclosed as related party transactions when they are on normal terms and conditions consistent with the normal operating arrangements between government agencies.

We have no related party transactions to disclose.

Key management personnel compensation	2017 \$000	2016 \$000
COMMISSIONERS		
Remuneration	210	185
Full-time equivalent members	1.0	0.8
LEADERSHIP TEAM		
Remuneration	1,511	1,564
Full-time equivalent members	5.0	5.0
Total key management personnel remuneration	1,721	1,749
Total full-time equivalent personnel	6.0	5.8

The full-time equivalent for commissioners has been determined based on the frequency and length of Board of Commissioner meetings and the estimated time for commissioners to prepare for meetings.

An analysis of Board of Commissioners remuneration is provided in note 5.

Key management personnel include commissioners, the chief executive, three deputy chief executives and chief advisor Māori.

16. Financial instruments

Financial instrument categories

We are party to financial instrument arrangements as part of our normal operations.

The categories of financial assets and liabilities are as follows:

	2017 \$000	2016 \$000
FINANCIAL ASSETS		
Cash and cash equivalents	63,411	51,269
Receivables	600,621	575,528
Total current portion	664,032	626,797
FINANCIAL LIABILITIES MEASURED AT AMORTISED COST		
Payables	521,078	535,080
Total non-current portion	521,078	535,080

Financial instrument risks

Market risk – interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate owing to changes in market interest rates. There were no interest rate options or interest rate swap options in place as at 30 June 2017. Our bank deposits are on call and on term deposits with less than or equal to three-month maturities.

Market risk – currency risk

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

Credit risk

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

Liquidity risk

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

Contractual maturity analysis of financial liabilities

Our financial liabilities consist of payables. The carrying amount equals the contractual cash flows. All amounts mature in less than six months.

17. Contingencies

Contingent liabilities

There are no contingent liabilities for the current year (2016: nil).

Contingent assets

We have a contingent asset which arises from the likelihood of realising recoveries from some tertiary education organisations. The amount relates to grants expenses and is likely to be returned to the Crown if realised. The investigations are progressing but there is no certainty on the amounts that may be recovered. This is no change from 2016.

18. Events after balance date

A Cabinet decision was made to integrate Careers New Zealand with the Tertiary Education Commission.

The integration was confirmed by legislation passed on 15 May 2017, effective 1 July 2017.

As Careers New Zealand ceased to exist as an entity on 1 July 2017, the transfer of their assets and liabilities to the Tertiary Education Commission occurred on 1 July 2017. For property, plant and equipment and intangible assets, both the cost and accumulated depreciation were transferred.

The following 30 June year-end Careers New Zealand balances were transferred to us on 1 July:

	\$000
ASSETS	
Cash and cash equivalents	4,013
Receivables	166
Intangible assets	1,800
Property, plant and equipment	303
Total assets	6,282
LIABILITIES	
Payables	355
Taxes due and payable	237
Employee entitlements	529
Provisions	263
Total liabilities	1,384
Equity	4,898

19. Explanation of major variances against budget

Explanations for major variances from our budgeted figures in the *Statement of Performance Expectations 2016/17* are as follows:

Statement of Comprehensive Revenue and Expense

Grants expense

Grants expense was \$81 million less than budgeted. Actual expenditure reflects funds allocated to the tertiary sector during the year. The majority of this variance is due to recoveries and performance linked adjustments for the 2016 year.

Grants expense also includes bad and doubtful debts of \$9 million that are not budgeted for. This relates to investigations during the year and the write-off of a debt. They are funds we have not yet recovered and have made judgement there is some doubt about full recovery. Any amounts subsequently received will be reported as prior year recoveries in grants revenue.

Statement of Financial Position

Cash and cash equivalents

We have a cash and cash equivalents variance of \$16 million as we are holding payments due to providers.

Receivables

Receivables are \$600 million above budget owing to the full implementation of the PBE accounting standards creating a receivable that arose after the budget was published.

Payables

Creditors and other payables are \$514 million over budget owing to the full implementation of the PBE accounting standards creating a payable that arose after the budget was published.



Part six

Appendices

Appendix A:

Our good employer requirements

Leadership, accountability and culture

Our leadership group has continued with their programme of individual and team development. This group is critical to understanding, communicating and guiding our organisation over the year ahead.

The results of our employee engagement survey and our customer survey give direction to our leadership effort. We used these results to set group targets for our leaders in their performance and development plans. It sets the platform for collaboration and the expectation that what everyone does has an impact on our whole organisation.

This year we added a demographics question to our engagement survey: “Do you live with the effects of an injury, a long standing illness, condition or disability?” 9.7 percent of our workforce identified themselves as living with the effects of a disability. We will analyse the data as part of our work on diversity and inclusion in 2017/18.

Recruitment, induction and selection

Our induction process has been reviewed to give people a more personalised experience on their first day. This is supported by revised recruitment and induction resources to ensure consistent, person-specific, and ‘right information, right time’ orientation over a new staff member’s first 90 days.

How we recruit and select for key roles, such as Tier 2 leaders and external relationship roles, has been adjusted to involve a wider range of people. Candidates meet key people from across the TEC and, if relevant to the role, stakeholders from other agencies. This gives more information for selection, and gives candidates more information about the role and the TEC.

Employee development, promotion and exit

Every TEC staff member has a development plan focused on performance in their current role and supporting career aspirations. Training and development provided are a mix of formal and on-the-job opportunities. We also have ongoing programmes for all staff on te reo me ngā tikanga Māori, quality writing and computer skills.

Development and succession plans are in place for key roles, overseen by the senior management team and regularly reviewed. It ensures workforce continuity when things change, and supports public sector capability through initiatives such as the Education Career Board.

When our people exit we have processes in place to support their departure from the TEC. Our values guide how we farewell people and recognise their contribution to the TEC.

Flexibility and work design

Our engagement survey shows we score significantly above, or on par with, the rest of the state sector in questions about wellbeing and manager relationships. We have a number of supports in place for our people, including access to an employee assistance programme and a healthcare scheme. We installed standing desks as part of our office refit completed in June 2016, and have installed more over the last 12 months on request.

Our approach is supported by a clear policy and process on flexible working arrangements, and managers who are committed to supporting their people to succeed. We have systems and resources that allow for remote working as needed. In addition, our commitment to support our staff members' development, through opportunities like secondments to new projects or teams, improves people's work satisfaction and gives the TEC flexibility.

Remuneration, recognition and employment conditions

Our performance and development system is linked to remuneration. As part of our good working relationship with the Public Service Association (PSA), they are involved in discussions on how this system works and applies. With Careers New Zealand joining the TEC on 1 July 2017, we developed an approach with the PSA to take us through the transition phase. We worked with the PSA, who represented members from both Careers New Zealand and the TEC, to bargain for one collective agreement from day one of the transfer of Careers New Zealand to the TEC.

As we progress through change we will undertake job analysis and evaluation to ensure there is pay relativity and equity, including gender equity.

In the coming year, we will take a close look at recognition in our new environment, aligned to our values.

Harassment and bullying prevention

Our policies and procedures set out our expectations on harassment and bullying, and they are covered in our orientation process. Our values support the behaviours we wish to see in the organisation.

Creating a safe and healthy work environment

Over this past 12 months, we have taken an even more proactive approach to our safety and wellbeing here at the TEC.

During the year, we:

- › improved our reporting for senior management with the use of key performance indicators
- › commenced monthly safety and wellbeing committee stand-up meetings
- › participated in education sector health and safety meetings
- › updated our resources and orientation activities
- › held joint health and safety committee meetings between Careers New Zealand and the TEC
- › trained first aiders and floor wardens (including communication upgrades in emergency situations)
- › updated supplies and emergency equipment to cater for all employees (including those requiring assistance)
- › rolled out upgrades to the new Tracksuit (wellbeing) website.

In 2017/18, the TEC health and safety committee will raise awareness of health and safety by educating all staff on various topics, including upgrades of our processes. That includes rolling out a health and safety website called GOSH, which enables efficient collection, monitoring and reporting of information. We will also be focusing on supporting our staff through a time of change.

Appendix B:

Governance and accountability

We are a Crown agent under the Crown Entities Act 2004.

We are governed by a Board of Commissioners responsible to the Minister for Tertiary Education, Skills and Employment. Our board and the position of chair are appointed by the minister.

The TEC Board of Commissioners:

- › sets our strategic direction and makes decisions about funding allocations
- › monitors the performance of the chief executive and the organisation
- › oversees management of strategic risk.

We are jointly monitored by the Ministry of Education and MBIE, reflecting our contribution to both education and the economy.

The Ministry of Education is responsible for tertiary education policy and we work closely with them in generating and carrying out that policy.

Our board



Nigel Gould
(Chair, from
1 August 2017)



John Spencer
(Chair, term ended
31 July 2017)



Dr Alastair MacCormick
(from 30 May 2017)



Sir Christopher Mace



Dale Karauria
(term ended
16 August 2017)



John Morris



Phil O'Reilly



Susan Paterson



Vanessa Stoddart

Audit, Risk and Compliance Committee members 2016/17

Nigel Gould – Chair (Dr Alastair MacCormick from 14 August 2017)

John Morris

Phil O'Reilly

Remuneration Committee members 2016/17

John Spencer – Chair (Nigel Gould from 1 August 2017)

Sir Christopher Mace

Vanessa Stoddart

Phil O'Reilly

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