Tertiary Education Commission
Te Amorangi Matauranga Matua

Briefing to the Incoming Minister for Tertiary Education, Skills and Employment

November 2014

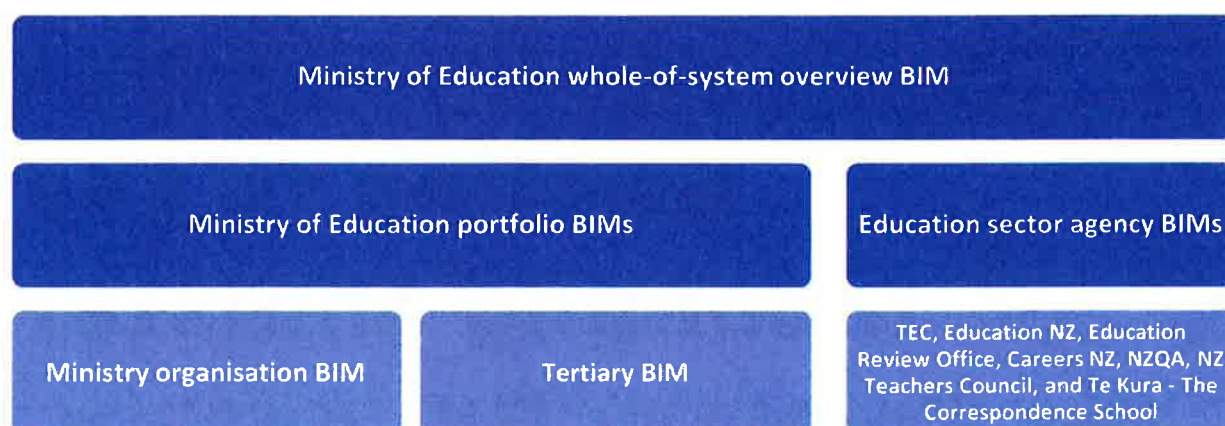# About this document

The Tertiary Education Commission (TEC) is the Government agency with statutory responsibility for funding and monitoring tertiary education organisations and giving effect to the Government's Tertiary Education Strategy.

The TEC developed this Briefing to the Incoming Minister (BIM) in September 2014 for the information of the incoming Minister for Tertiary Education, Skills and Employment. It is one of several BIMs from education sector government agencies, as shown in the figure below:

Ministry of Education whole-of-system overview BIM

Ministry of Education portfolio BIMs	Education sector agency BIMs
Ministry organisation BIM / Tertiary BIM	TEC, Education NZ, Education Review Office, Careers NZ, NZQA, NZ Teachers Council, and Te Kura - The Correspondence School

The Ministry of Business, Innovation and Employment has also produced several BIMs, including one on skills and employment, and another on science and innovation – both of which are directly relevant to tertiary education.

All agencies have worked to co-ordinate their BIMs so that they provide a coherent and complete overview of the education to employment pipeline.

Throughout the text, references to attached documents, or other agencies' Briefings to the Incoming Minister, are marked with an arrow like this.

Contents

A note about acronyms

In this document, we use several acronyms. The most common one is "TEO", which refers to **tertiary education organisations**. TEOs comprise nearly all the organisations that the TEC funds: universities, institutes of technology and polytechnics (ITPs), wānanga, private training establishments (PTEs), industry training organisations (ITOs), community providers/schools in receipt of tertiary funding, and a small number of employers participating in a funding pilot. There is a diagram on page 31 showing how different types of TEO fit together.

Key messages

> **Key message:** Tertiary education is vitally important to New Zealand. The New Zealand tertiary system is good, and improving, but we need it to achieve more for New Zealand. To optimise the impact of the Crown's investment, we believe there needs to be system change. We have a unique role in making this happen, and we are building a new TEC to achieve it.

Tertiary education is vitally important to New Zealand.

It drives better economic, social, cultural, and environmental outcomes, and creates new knowledge and new areas of economic activity.

The New Zealand tertiary system is good, and improving,

Compared with five years ago, more people are studying toward higher level qualifications, more are studying full time, and they are completing more qualifications at a lower unit cost to taxpayers. Research quality has also increased.

but it needs to be more outward-facing and learner-focused.

We need a better learner pipeline from compulsory to tertiary education and into employment, especially for Māori and Pasifika learners. And we need to translate tertiary attainment into better jobs, incomes and net wealth for learners, and into better productivity gains for businesses and the economy. This is about integrating the tertiary system with the wider world.

And the system needs to change too.

Our main delivery agents, tertiary education institutions, have limited incentives or flexibility to change their business models to be more outward-facing or learner-focused. And the TEC has little freedom to fund activities and initiatives that sit outside traditional modes of delivery. Over the next three years, we will work with you, your policy advisors, and the sector to change this, so we can support the tertiary system to deliver better value.

We will also look for ways to allow our highest-performing institutions to protect and capitalise on the benefits of their international reputation for quality, for the good of "New Zealand Inc".
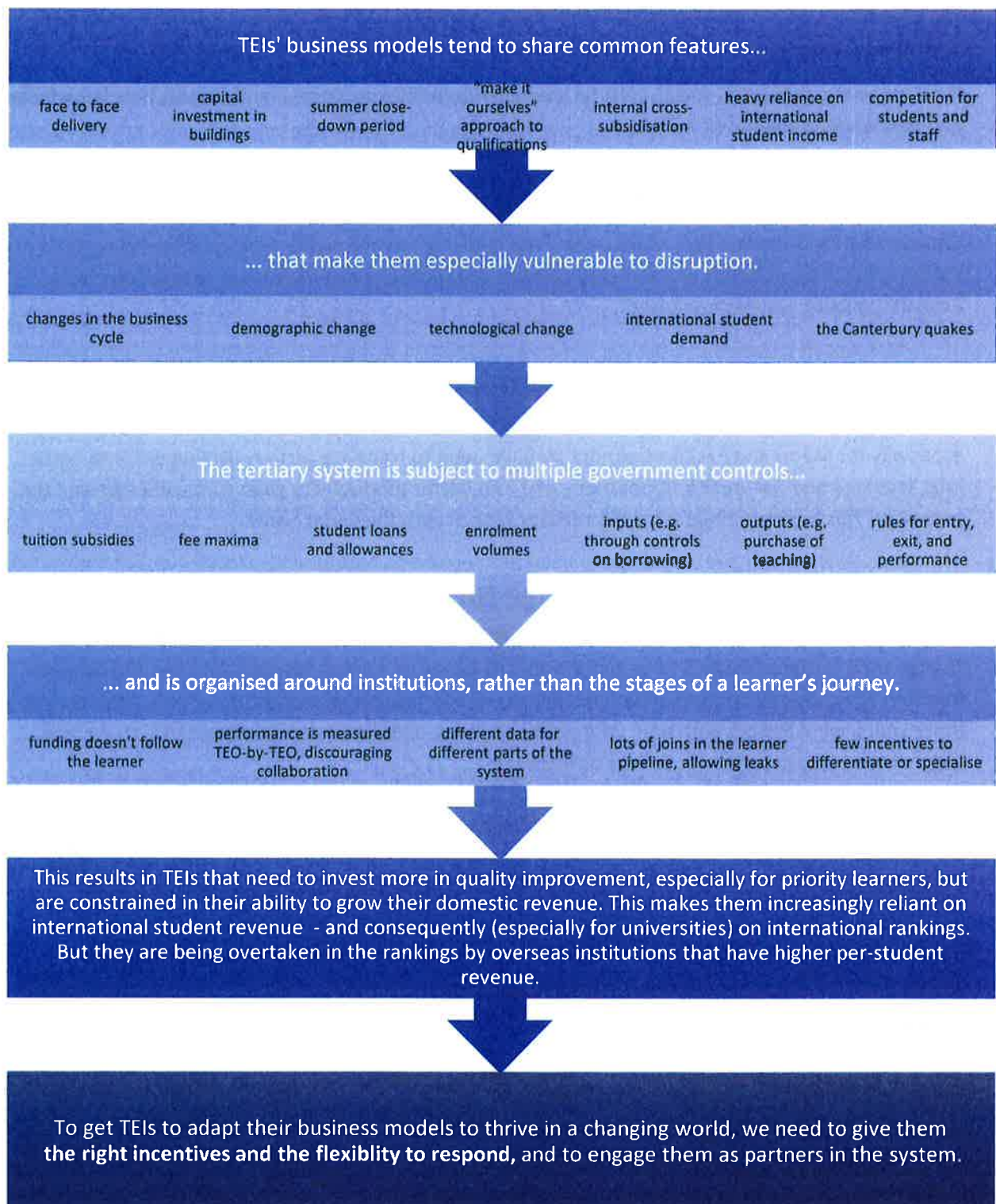
The need for systemic change

We need a tertiary network that is:
- dynamic enough to be responsive and flexible in the short term
- stable enough to innovate and drive value over the long term

- based on excellent information
- connected to the wider world
- made up of a mix of providers that collaborate well and show increased specialisation, and
- strongly focused on learner outcomes, especially for priority groups.

To create that kind of network, we need to change some of the settings that influence the network, especially for public tertiary education institutions (TEIs: universities, institutes of technology and polytechnics, and wānanga):

TEIs' business models tend to share common features...

face to face delivery	capital investment in buildings	summer close-down period	"make it ourselves" approach to qualifications	internal cross-subsidisation	heavy reliance on international student income	competition for students and staff

... that make them especially vulnerable to disruption.

changes in the business cycle	demographic change	technological change	international student demand	the Canterbury quakes

The tertiary system is subject to multiple government controls...

tuition subsidies	fee maxima	student loans and allowances	enrolment volumes	inputs (e.g. through controls on borrowing)	outputs (e.g. purchase of teaching)	rules for entry, exit, and performance

... and is organised around institutions, rather than the stages of a learner's journey.

funding doesn't follow the learner	performance is measured TEO-by-TEO, discouraging collaboration	different data for different parts of the system	lots of joins in the learner pipeline, allowing leaks	few incentives to differentiate or specialise

This results in TEIs that need to invest more in quality improvement, especially for priority learners, but are constrained in their ability to grow their domestic revenue. This makes them increasingly reliant on international student revenue - and consequently (especially for universities) on international rankings. But they are being overtaken in the rankings by overseas institutions that have higher per-student revenue.

To get TEIs to adapt their business models to thrive in a changing world, we need to give them **the right incentives and the flexiblity to respond,** and to engage them as partners in the system.

The new TEC: Your smart investor

We have a unique role in making this happen

We are your primary investor in tertiary education. Our coverage of the learner pipeline begins in senior secondary school and extends into employment.

The TEC Board and management are building a new TEC to develop and foster the kind of tertiary system New Zealand needs to be fit for the future. We are moving from being an allocator of tertiary funding to an investor in the outcomes of tertiary education.

**Our mission** is to ensure New Zealand's future success.

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

To achieve this, we will:
- **champion aspiration** – to promote the value of tertiary education to all and to highlight what it takes to succeed in the tertiary system
- **build partnerships** – to maximise our impact by engaging with and leveraging our partners, and
- **develop an investment approach** – to optimise the return from the tertiary education spend. We are at the beginning of a process to rethink the way we invest with a view to implementing the new approach for the 2017 Investment Round. It is clear that flexibility will be a key feature of the rethink. For instance, the TEC Board would like to be able to use a small amount of discretionary funding to support TEOs as they test change in the system that may have wider application; but this flexibility does not currently exist.

Our foundations for delivery will be:
- **a knowledge base** – so we know where and how to make investment decisions that will leverage the greatest gains from tertiary education and use the appropriate tools to do so, and
- **internal capability** – so that the TEC is a great place to work, and can attract and retain high-quality staff.
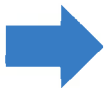
The attached document, "The new TEC story", describes our plans for the TEC in more detail.

The TEC and the tertiary education system

Who we are and what we do

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

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

Using these levers, we are working to create a world-leading tertiary education system that is characterised by:

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

Appendix One contains more detailed information about our role.

Our place in the system

We sit within a broader skills system that connects human capital and knowledge to end-users, including employers, via two-way relationships. The system is overseen at a policy level by the Ministry of Education and the Ministry of Business, Innovation and Employment, which jointly monitor the TEC.

> *The Ministry of Education and the Ministry of Business, Innovation and Employment have both provided discussion of the "skills system" policy environment in their respective Briefings to the Incoming Minister.*

Our policy framework

The main policy framework that shapes our operating environment is the Government's *Tertiary Education Strategy 2014–2019*. We are also aligned with the *Economic CEs: Shared vision of a successful New Zealand Economy by 2025* framework developed by chief executives of public sector economic agencies including the TEC.

Drivers of change in our operating environment

The tertiary education system is being shaped by globalisation, demographic and social changes, changes in industry structures and in workplaces, and by new technology. The main forces and changes are briefly outlined below.

Globalisation

The market for skills, talent, and educational services is becoming increasingly global. The international reputation of New Zealand TEOs affects the value placed on New Zealand graduates, as well as New Zealand's appeal to international students. International students are an important revenue source to tertiary providers, as well as vital contributors to New Zealand students' understanding of other cultures.
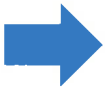
> *Education New Zealand's Briefing to the Incoming Minister says more about the importance of international education to New Zealand, and how the Government is responding.*

Research performance depends on linkages between TEOs and research organisations around the world, as does the application within New Zealand of new knowledge and innovations from overseas.

Demographic and social changes

Demographic trends affecting the tertiary system include an ageing population, urbanisation (particularly in Auckland), static or declining learner populations in some regions, and the changing ethnic composition of New Zealand society. Improving outcomes for Māori, Pasifika, youth, and learners from low socio-economic backgrounds will be a priority of growing criticality.

Learners are likely to increasingly want more flexible access to tertiary provision, to accommodate different aspects of their lives and to make it easier to adapt to workplace change and lifelong learning needs. Demand for campus-based provision may flatten or fall in future years, but demand may increase for flexible provision away from the traditional campus and semester-based learning structures.

Changes in industry structures and workplaces

Industry and workplace change is requiring learners and workers to upskill and adapt.[2] Education and skills themselves only become productive through well-managed workplaces, and their productivity varies greatly among different industries.

Recent trends have seen widespread codification of formerly highly skilled tasks; and complex tasks formerly done by the highly skilled have been turned into routines undertaken by the less skilled. Some highly skilled jobs are increasingly outsourced to offshore providers. These trends have reduced returns from some occupations and, together with higher graduate numbers, have led to a "graduate cascade down" and reduced returns to some tertiary education.

These problems are compounded by the relatively high cost (including the cost of student loans and income forgone) of traditional campus-based tertiary education to students and learners as well as government.

Changes in technology

Technology and new delivery models such as e-learning and blended delivery have the potential to lift tertiary sector productivity. E-learning may have a similar impact on tertiary education provision to that which technology has brought to the music, retail and publishing industries. It is unclear what new business or innovation models will emerge, but the TEC and the tertiary system needs to be receptive to and facilitate them when they can lift tertiary sector productivity.

> *The Ministry of Education's system-focused Briefing to the Incoming Minister contains a fuller discussion of the possible impact of technology-supported teaching and learning on education.*

Is the system prepared and flexible enough to adapt to these changes? The answer is probably no. To thrive and compete internationally, the tertiary system and TEOs will need to be more flexible and dynamic in how they respond to change. TEOs will need to be more innovative in their business and delivery models, and more focused on meeting learner and stakeholder needs, particularly for those already in the workforce.

More information about the implications for tertiary education institutions in particular (which are Crown entities, monitored by the TEC) is provided on page 34.

The performance of the tertiary system

Since the early 2000s there have been significant improvements in research and educational achievement, as the focus of the system shifted from inputs and enrolments to quality and educational attainment.

Since the first Plan-based funding cycle[3] in 2007, the TEC has implemented a variety of initiatives (e.g. publication of performance information using Educational Performance Indicators, and Performance Linked Funding) aimed at improving the value of tertiary provision and educational performance and achievement. These have led to:

- more young people attaining a qualification: Better Public Service Level 4+ target
- more young people studying at degree-levels: 50% (2007) to 56% (2012)
- more young people completing a qualification at levels 4+: 40% (2007) to 46% (2012).

The average quality score for research evaluated through the Performance-Based Research Fund increased from 4.3 in 2003 to 4.7 in 2012.

> *The Ministry of Education's tertiary-focused Briefing to the Incoming Minister contains more information about the performance of the tertiary system over time.*

Two main outstanding challenges

Performance improvements in the tertiary system to date have been primarily focused on educational attainment, including for priority learner groups.

Our two main outstanding challenges now are the need to:

- boost the system's contribution to economic growth, helping to more effectively translate educational attainment for learners, and the generation of research knowledge, into better

jobs, incomes and net wealth for learners, and productivity gains for businesses and the economy

- support priority learners – especially Māori and Pasifika – to successfully participate in the study levels and disciplines that are most likely to lead to better outcomes.

We expand on each of these briefly below, and then outline the main changes we will need to address on the supply and demand sides to deliver these improvements.

This is followed by an overview of how the TEC is reshaping itself to respond to these challenges and address these changes over the next three years.

We need to improve participation, achievement and outcomes for priority groups

The growing population share of Māori and Pasifika young people means their success is critically important to the future well-being and prosperity of New Zealand.

Although Māori and Pasifika have high levels of participation and achievement in tertiary education generally, they have low levels of participation and achievement at higher qualification levels, and they are over-represented in low-income work and employment.

This reflects a wide range of interrelated factors that create disadvantage. This includes weaknesses in the compulsory and the tertiary education sectors in working with Māori and Pasifika learners in evidence-based ways, as well as constraints on scaling up pockets of innovative good practice. These sit alongside background factors like poverty, health and sociological problems in early childhood development, economic geography, household functioning, family mobility, and lack of prior family experience of tertiary education.

Low transition rates to tertiary education are influenced by learners not being supported to set educational or career goals early enough to inform subject choices, not identifying pathways that lead to tertiary education, and choosing subjects that do not meet tertiary entry requirements.[4,5] This needs to be addressed by the education system and employers as well as the learners, their families and key influencers.

The "first best" place to intervene to improve outcomes for priority learner groups is via early childhood and compulsory education. International evidence shows that deficits in literacy, numeracy and other foundational-level capabilities are best addressed in early childhood; it is more difficult and expensive to try to address them among adult learners. Government already invests nearly 20% of all Vote Tertiary Education funding for teaching and learning at foundation level, just getting students to the "starting line" for acquiring vocational or higher education.

The TEC has invested significantly in research over the past 18 months to identify how TEOs can do better for Māori and Pasifika learners in tertiary settings. This has improved the sector's knowledge base.

This approach is resulting in incremental improvements for priority learners, but we are concerned that it will not achieve parity or significantly boost the economic wellbeing of Māori and Pasifika learners in a timely way, in line with the goals of the *Tertiary Education Strategy 2014–2019*. Current targeted equity funding adjusts funding to providers according to the mix of students they enrol, but it is very low by international standards.

We need to boost the system's contribution to economic productivity and growth – which means getting employers and TEOs to work together

Despite high levels of attainment, New Zealand's productivity rate (GDP per hour worked) is low compared with other countries, and employers and businesses report that it is increasingly difficult to find skilled labour.[6] We also have very low levels of private sector investment in research and development compared with OECD countries. Taken together, this suggests a problem with the way our "ecosystem" of skills, research and innovation is working.

This could have multiple causes, including:
- the domestic supply of skills and knowledge from the education system
- firms' ability to utilise those skills and knowledge
- inward and outward migration
- our size and distance from international markets
- low domestic savings rates
- the real exchange rate
- imbalances between the tradable and non-tradable sectors
- our low levels of capital intensity and business innovation.

The first of these – the domestic supply of skills and knowledge from the education system – may have a limited impact on productivity, at least as it is embodied in new graduates. This is due to both stocks and flows: most people who will be in the labour force for the next 20 years are already in it now; and most new entrants are new migrants, not domestic graduates.[7]

However, in highly productive economies, skills and knowledge can have a dynamic effect on productivity growth. This is as a result of virtuous circles, created when productive, adaptable workers, trained by and connected to the education system, can boost returns for firms by increasing their capacity to innovate, to apply new ideas from researchers, and to adapt to new markets and competitive challenges. This in turn creates further demand for skills and knowledge from the education system.

To get this virtuous circle in place, the broader skills system (encompassing both TEOs and employers) needs to both **develop and utilise** the right skills and knowledge. This means TEOs and employers need have a shared understanding of one another's roles, and the capability and incentives to work together closely. It also means that employers need to move away from acting as passive customers of the tertiary education system and, instead, adopt an active partnership role by:
- being actively involved in the design and delivery of education and training
- anticipating demand for skills and planning ahead
- building their capacity to utilise skills and innovation and capital investment.

At the moment, many countries are struggling to get this working well. Research by the McKinsey Center for Government[8] found that, over the 25 countries it surveyed, fewer than half of youth and employers believe that new graduates are adequately prepared for entry-level positions in work, compared with 72% of education providers – suggesting that TEOs and employers live in "parallel worlds".

In New Zealand, current government initiatives aimed at improving employer engagement in tertiary education, such as the ICT Graduate Schools,[9] are promising and valuable because they simultaneously help TEOs and employers learn how to work together, and demonstrate the value of the lesson. But they also create a risk that both the tertiary system and employers will see it as the Government's role to fund and build such capability and connections, whereas in fact we need employers to invest in them alongside TEOs.

We explain below how we think changes within the tertiary system could help to encourage this. In addition, the Ministry of Business, Innovation and Employment is considering how it can use its levers (including immigration and government procurement) to create incentives for employers to engage with TEOs.

What about research?

New graduates are only one way that skills and knowledge flow from TEOs to firms – another is through research partnerships and enterprise.

The TEC has limited levers to directly incentivise TEOs to undertake research that connects them to employers and industry.[10] We are in ongoing conversations with policy advisors about how we can best align our teaching and learning investment with the Government's other investment instruments on both the supply side (i.e. purchasing research from TEOs) and the demand side (i.e. investment in firms to support their uptake of research) to foster a dynamic and thriving "skills and innovation ecosystem".

The issues for the wider skills and innovation ecosystem are discussed more fully in the Ministry of Business, Innovation and Employment's skills-focused Briefing to the Incoming Minister.

Improving the foundation skills of adults

Another important means of improving both workplace productivity and social outcomes, including for priority groups, is to improve the foundation skills of adults. A 2006 international survey of adult literacy survey found that 1.2 million adult New Zealanders lack the literacy and numeracy they need to participate fully and productively in society. New Zealand is currently participating in a repeat survey, with results due in 2016.[11]

Through the Literacy and Numeracy for Adults Assessment Tool, we can see that the TEOs we fund are or have been in contact with about 300,000 New Zealanders who lack foundation skills. The TEC has invested significantly in building TEOs' literacy and numeracy capability, and we will be refreshing our Literacy and Numeracy Strategy in 2015 to find ways of increasing our impact and reaching larger numbers of low-skilled adults.

Changes needed within the tertiary system to address these challenges

We need to reward TEOs for looking outward as well as inward...

A key message of the *Tertiary Education Strategy 2014–2019* is that the tertiary system needs to be more outward-facing and engaged to make a bigger contribution to economic growth and deliver better outcomes for learners.

The Government's policy and operational settings to date have tended to reward TEOs for focusing on themselves rather than on their connections with, or impact on, the wider world. The Performance-Based Research Fund, Performance Linked Funding, current performance measures, Better Public Service targets, and the transfer of funding from contestable funds to Crown Research Institute core funding, have all incentivised a greater focus on educational or research quality and achievement – but not on outcomes, relevance, or innovation.

The system has also tended to encourage all TEOs to focus strongly on enrolment growth as a core means of increasing their revenue. In an environment of flattening demand, we need to incentivise TEOs to move away from their historic focus on growth, and to build sustainable business models for themselves – and a coherent nationwide network of provision and research – through greater specialisation and collaboration.

...and that means we need changes to the system...

The TEC needs to adjust its operational settings to find smart ways to reward relevance, innovation and focus alongside quality and achievement. We also need to work with policymaking agencies to consider how policy settings can support a more outwardly engaged and differentiated tertiary system ███
███████████

We at the TEC see an opportunity to explore investment in delivery that tests new ways to engage employers (or groups of employers) in the development and utilisation of skills. With more flexible funding determinations,[13] and possibly policy change, we could purchase innovative approaches for the joint development of skills, such as internships or Group Training Companies, and for supporting business utilisation of skills and innovation activities. Scotland has trialled approaches in this area with some success.

As noted above, we are also talking with policy advisors about how investments in research and knowledge transfer, on both the supply and the demand side, could be aligned across multiple agencies to increase TEO-industry connections.

...as well as better information for ourselves...

One of our biggest constraints in rewarding TEOs for delivering good outcomes is that we often lack comparable information about the outcomes of different types of education and training. Where we have better information – as with engineering and primary industries – we are already shifting investment toward the best delivery.

We are working closely across agencies to make use of information on occupational and skills gaps held by the Ministry of Business, Innovation and Employment, as well as the general analysis on the employment outcomes of tertiary education produced by the Ministry of Education.

The Ministry of Education is also leading cross-agency work to explore the possibility of accessing and publishing employment outcome information by individual TEO, by level and field of study. This information could be a powerful driver of the TEC's investment decisions.

We also want to increase the frequency and granularity of forecasting for learner demand for tertiary education, to provide ourselves and TEOs with timely and accurate information about the probable impact of changing economic, social, and demographic patterns. We intend to work with the Ministry of Education on this.

...and for students.

Student choice has a big influence on what TEOs choose to provide. Prospective students need timely access to comprehensive and accurate information, advice, and guidance so that their choices reliably steer the system toward quality. This has been a major focus of recent English and Australian tertiary reforms.

The information available to prospective students in New Zealand has improved substantially in the past 15 years, and most of it is published regularly. However, education providers and government agencies publish different types of information on different websites, requiring students to "join the dots" (or, more likely, to make decisions based on partial information). The Careers New Zealand website collates some of this information, but it is oriented to making career choices rather than a choice between study options.

The TEC is seeking to address this through its "Information for Learners" project, which is about strengthening the content and delivery of the information that prospective learners, their families, and their advisors need to make more informed decisions about tertiary education. After a period of initial research, we consulted with the sector in July 2014 on a proposed information set that all TEOs would publish in a consistent way. We are also exploring a cross-agency joint venture to deliver relevant collective content to learners in a co-ordinated and coherent format.

How the TEC will respond

The TEC Board and management are building a new TEC to respond to the challenges and address the changes described above.

The attached document, "The new TEC story", describes our plans in more detail.

Our aims, which we expand on below, are to:
- **Champion aspiration** – to promote the value of tertiary education to all
- **Build partnerships** – to maximise our impact by engaging with and leveraging our partners

- **Develop an investment approach** – to optimise the return from the tertiary education spend.

Our foundations for achieving our aims are:
- **A knowledge base** – so we know where and how to make investment decisions that will leverage the greatest gains from tertiary education and utilise the appropriate tools to do so
- **Internal capability** – so that the TEC is a great place to work and can attract and retain high-quality staff.

Each of these elements is briefly described below.

We will champion aspiration

To make more of a difference for priority learner groups, we will champion the aspiration that tertiary education can deliver success for all. We will seek opportunities to promote the value of tertiary education, highlight what is needed to succeed, and encourage students and their influencers to aim for and achieve tertiary qualifications that contribute to lifelong success.

We will look at how we can improve our investment in foundation education to support those whose tertiary pathway needs to start there. We will also work with the Ministry of Education and other key agencies to identify how and where the education system can make the most effective investments for priority learners and support their aspirations from an end to end perspective.

We want to set the clear expectation within the tertiary system, as well as within learners' or prospective learners' families and communities, that all learners can and should participate and achieve in tertiary education.

To support this, we are developing an implementation strategy for Māori learners, Tū Māia e te Ākonga, with the goal of equipping Māori learners with the skills that enable them to succeed in Te Ao Māori and Te Ao Hurihuri (the Māori world and the modern world). For Pasifika learners, we will be implementing the TEC Pasifika Framework. The TEC's Literacy and Numeracy Strategy also aims to support literacy and numeracy success for adults through foundation education, and our Youth and Transitions Framework focuses on achieving the youth-related priorities in the *Tertiary Education Strategy 2014–2019*.

We will build partnerships

There are a number of key stakeholder groups with an interest in tertiary education: learners who invest their time and resources; employers who seek talented graduates with the skills that business and industry needs as well as knowledge for commercialisation opportunities; TEOs that seek funding to provide high-quality education, training and research; and other groups with a more general interest.

We will identify how to work most effectively with these stakeholders. To enable us to take a systems approach and leverage the best results for our work, we will also strengthen our partnerships with other government agencies and key sector organisations. We will be adopting an explicit relationship management and customer-centric approach to the way we work.

We will develop our investment approach

Over the next two years (the 2015–16 investment cycle), our investment decisions will focus on supporting improved outcomes for learners, employers and communities and improving the responsiveness of the system to their needs. We will target our investments and monitoring on the key factors (such as the aspiration and preparedness of students) that affect participation, progression and achievement through to sustainable employment.

We have extracted much of the value from the current investment approach and we will be developing options for improvement within current policy settings, as well as working with other government agencies to explore options that may require policy change. We will be drawing on experience and evidence from other jurisdictions as well as the possibilities presented by the growing information base about learners in New Zealand. A key aspect of this work is to develop options that incentivise the system to be more responsive and that encourage TEOs to specialise and collaborate.

We will increasingly look to the economic returns from investment in different disciplines, qualification levels, geographical locations and/or delivery models when deciding where to invest.

We will build our knowledge base

At the core of an investment approach is the ability of the TEC to intelligently discriminate between educational programmes in a way that identifies and responds to the best public value on offer. Our work with other government agencies on the Tertiary Information Future State project, as well as work on gaining access to information on the employment outcomes of tertiary education, will be key projects to improve our information and analysis capability. Information that supports a learner-pipeline view of the system will be critical to identifying where to incentivise and leverage the system. We will also seek to improve information about forecast demand for tertiary education.

We will develop our internal capability

In 2013 we embarked on an organisational transformation plan, Te Kahurangi – Good to Great, to develop the TEC into a high performing Crown agency that is "fit for purpose" as a smart investor in tertiary education. The development of our strategy (mission, vision, and how we aim to change) has been a key component of this plan.

The next six months

The TEC's focus over the next six months will be on completing the current investment round and managing our business as usual while also taking the first steps toward implementing our new organisational strategy.

In terms of our engagement with you as our Minister, our main focus in late 2014 and early 2015 will be working with the Ministry of Education and others to support the delivery to you of initial policy advice on a range of matters of particular interest to the TEC, and which are likely to require decisions from you during 2015. These include:

[text redacted]

The TEC is also likely to ask you to make decisions on a range of specific operational matters over the next six months, including:

[text redacted]

- making decisions about a number of proposed transfers or disposals of Crown-owned assets under management by tertiary education institutions (late 2014)
- making decisions about funding the New Zealand Benchmarking Tool (late 2014)
- making decisions about several appointments to tertiary education institution councils (late 2014 and early 2015 – see page 35 for more information about your role in this process)
- signing off (jointly with the Minister of Finance) on the appropriation and draw-down of contingency funding for the Government's "ICT Graduate Schools" initiative (early 2015)

[text redacted]

- approving an Apprenticeship Training Code (early 2015).

We will brief you separately on each of these in due course.

Glossary

ACE	Adult and Community Education – community-based education that provides adults with foundation skills and pathways into other learning opportunities that meet identified community needs and funded priorities.
CoREs	Centres of Research Excellence – inter-institutional research networks with researchers working together on a commonly agreed work programme; each hosted by a university and generally comprising a number of partner organisations, including other universities, Crown Research Institutes and wānanga.
EPIs	Educational Performance Indicators – the criteria used to measure the performance of TEOs; currently, course completion, qualification completion, student progression and student retention, except for industry training organisations (ITOs) where the measures are credit achievement and completion of programmes.
EFTS	Equivalent full-time students – the main unit of measurement of the consumption of education (with one student enrolled in a programme of study full-time for the full-year equating to 1.0 EFTS); also the basic unit of measurement of tertiary teaching input for Student Achievement Component funding.
Gateway	A programme available to state and integrated schools to support senior secondary students undertaking structured workplace learning across a range of industries and businesses, while continuing to study at school.
ITF	Industry Training Fund – funding of training that will be, or is likely to be of use to a particular industry; delivered by and to people involved in the relevant industry.
ITO	Industry training organisation – an industry specific body recognised under section 5 or 8(1) of the Industry Training and Apprenticeships Act 1992 that facilitates workplace learning for trainees in employment by setting national skills standards for their industry.
ITPs	Institutes of technology and polytechnics.
LNAAT	Literacy and Numeracy for Adults Assessment Tool – an online software tool that provides robust and reliable information on the reading, writing, numeracy and vocabulary skills of adults. TEOs delivering foundation education must use the Tool as a condition of TEC funding.
NCEA	National Certificates of Educational Achievement – the set of national qualifications for senior secondary school students.
NEETS	Not in employment, education or training.
NZQA	New Zealand Qualifications Authority – a Crown Entity charged with approving qualifications and components, and registering and accrediting TEOs (other than universities) to deliver against these qualifications and/or assess against standards.
NZQF	New Zealand Qualifications Framework – the list of all nationally registered qualifications.
PBRF	Performance-Based Research Fund – a fund established to ensure that excellent research in the tertiary education sector is funded and rewarded. The PBRF is accessed by universities, institutes of technology and polytechnics, wānanga and private training establishments.
PLF	Performance-Linked Funding – one of a number of approaches intended to improve educational outcomes for students and employers and improve value for taxpayers' money through targeting funding to encourage all TEOs to reach an acceptable standard of

	educational performance.
PTE	Private training establishment – a privately owned education organisation, registered with the New Zealand Qualifications Authority (NZQA), that provides education, training or assessment services.
SAC	Student Achievement Component – the Government's contribution to the direct costs of teaching and learning and other costs driven by learner numbers; the largest single government fund that supports tertiary education.
STEM	Science, technology, engineering and mathematics.
TEIs	Tertiary education institutions – providers of tertiary education that are Crown entities under section 162 of the Education Act 1989; namely universities, institutes of technology and polytechnics, and formally established wānanga; see diagram on page 31.
TEOs	Tertiary education organisation – the overarching term for all public, private or community-based organisations that offer tertiary education or tertiary-related services.
TES	Tertiary Education Strategy – the high-level set of priorities and associated strategies issued periodically by the Minister for Tertiary Education as required by legislation.
VET	Vocational education and training.
YG	Youth Guarantee – an initiative to provide a variety of opportunities for young people, alongside or instead of senior secondary school, to achieve an NCEA Level 2 or equivalent qualification. This includes fees-free tertiary places for those aged 16–19.

Appendix One: What we do, and how we work with you

The Ministry of Education's tertiary-focused Briefing to the Incoming Minister provides a detailed overview of the governance structure of the tertiary education system. We focus below on the role of the TEC and your relationship with us.

Our size and location

As at 1 July 2014, the TEC had an agreed base-line staffing of 212.5 full-time equivalent (FTE) positions, and annual revenue of $48 million. All but three FTE positions are located on the Terrace in Wellington. The three other FTEs are co-located with the New Zealand Qualifications Authority in Auckland.

The statutory role of the TEC

The TEC is a Crown entity established under section 159C of the Education Act 1989. The TEC is governed by a Board of Commissioners appointed by and responsible to the Minister for Tertiary Education.

In terms of the Crown Entities Act 2004, the TEC is a "Crown agent". As such, the TEC must give effect to government policy when directed by the responsible Minister. The TEC also has funding-related functions under the Industry Training and Apprenticeships Act 1992.

Our principal legislated function, under the Education Act 1989, is to give effect to the Tertiary Education Strategy. The performance framework diagram overleaf shows how we do this, with more detail provided in our Statement of Intent.

TEC performance framework

The framework overleaf is from our current Statement of Intent 2014/15–2016/17. We are currently revising it to better reflect our new "TEC story" and developing metrics to measure the performance of our core business processes. We will present the new framework in our next Statement of Intent; in the meantime we will report to you quarterly on progress toward our strategic goals.

Tertiary Education Commission's Outcomes Framework

Whole-of-Government Results

GOVERNMENT NATIONAL OUTCOMES

Economic growth and productivity	Social	Cultural	Environmental

A more highly skilled, adaptive, innovative and productive workforce

More NZ citizens fully participating in society, and contributing to NZ's social and cultural well-being

With other government agencies, this contributes to:
EDUCATION-WIDE OUTCOME
A world leading education system that equips all New Zealanders with the knowledge, skills and values to be successful citizens in the 21st century

↑

With our colleague education agencies, our impacts contribute to:

Tertiary Education Organisations

TEC IMPACTS
A world-leading and high-performing tertiary education system

An increased proportion of the population with a tertiary qualification	Higher-quality and more relevant research	A tertiary system that is more responsive to the needs of employers and learners
Higher-levels of educational attainment	More leading edge research that builds New Zealand's international research reputation	More TEOs working with employers so that students gain the skills they need for work
Increased participation rates in higher level qualifications particularly by priority learner groups	More high-quality research that contributes to economic innovation and transformation	Greater responsiveness by TEOs to demand signals at local and regional levels and government priority areas
Increased qualification completion rates in higher-level qualifications, particularly by priority learner groups	Growing a world-class, innovative research workforce	More TEOs aligning their activities with their expected role within the system
More graduates with the skills valued by employers	**Priorities (TES Priority 5)**	TEOs that are well managed and financially sustainable
Priorities (TES Priorities 1, 2, 3 and 4)	Strengthening research-based institutions and stronger contribution from New Zealand's research, science, and innovation systems to our wider economic objectives	**Priority (TES Priorities 1, 5 and 6)**
Delivering skills for industry, getting at-risk young people into a career, boosting achievement of Māori and Pasifika, improving adult literacy and numeracy		Delivering skills for industry, strengthening research-based institutions, and growing international linkages

↑

Tertiary Education Commission

TEC OUTPUTS

Smart investment decisions	Provision of information and advisory services	Monitoring sector performance and capability
Investment decisions aligned with government goals and priorities	Publish information on TEO performance, funds, educational performance and research	Monitoring and analysis of financial, education and research performance of TEOs and network
Funding decisions shift investment toward higher performing providers, more relevant areas of provision and higher-quality research	Provide information and advisory services to the Minister	Monitoring and analysis of tertiary education institution (TEI) governance/management capability and ownership risk
Monitor the performance of Plans and contracts	Work closely with agencies across government to strengthen connections between tertiary education, the welfare system and the labour market	Management of Ministerial appointments to TEI Councils
		Support the development of good practice accountability and performance frameworks including financial and resource management

Government Priorities

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

Directing the TEC

The Education Act 1989 divides decision-making powers on tertiary funding between you as Minister and the TEC as your intermediary. The split in authority is designed to safeguard the academic freedom and institutional autonomy of Crown entity tertiary education institutions as prescribed in sections 160 to 162 of the Act. You are able to enforce government strategy and policy for the sector through the Tertiary Education Strategy and by influencing the TEC with your funding determinations, Statement of Intent, Letters of Expectation and Board appointments.

Tertiary Education Strategy

The Government sets out its expectations and priorities for tertiary education in the Tertiary Education Strategy. It is the vehicle for communicating the Government's vision for the system as a whole and the areas that it wishes to focus on in terms of its priorities.

The current *Tertiary Education Strategy 2014-2019* was released in early 2014, and covers the period 2014-2019. It was produced jointly by the Ministry of Education and the Ministry of Business, Innovation and Employment, and outlines six priorities for the Government's investment in tertiary education:

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

The TEC responds to these priorities through measuring progress against them in its accountability documents and requiring the investment Plans of TEOs to reflect progress against relevant priorities.

Funding determinations

At the start of each funding cycle, you issue funding determinations under section 159L of the Education Act 1989. The current determinations for funding from 1 January 2015 were agreed by the responsible Minister earlier this year.

Funding determinations form the basis of the TEC's allocation of funding to TEOs including the purpose of the fund and the amount of funding to be provided. Appendix Two provides more information about their form and function in the context of the Plan funding system, the Government's most important lever for influencing the tertiary education system.

Statements of Intent

The Crown Entities Act 2004 gives you considerable discretion as to the content of the TEC's annual Statement of Intent. The Statement of Intent, which the TEC proposes to you in draft form in February or March each year for finalisation and release in June, sets out the TEC's strategic priorities, intended actions, and performance metrics for the coming three-year period.

Letters of Expectation

The Crown Entities Act 2004 enables you to direct the TEC to give effect to government policy, either through a Letter of Expectation (an informal document) or more formally through a Ministerial Direction. The Minister for Tertiary Education last issued a Letter of Expectation to the TEC Board in April 2013.

The Ministers of Finance and State Services can issue directions to all Crown entities (under section 107 of the Crown Entities Act 2004). The last whole-of-government Letter of Expectation was issued by the Ministers of Finance and State Services in December 2008.

Board appointments

You can influence the direction of the TEC through the appointment of members to the Board of Commissioners. The Ministry of Education administers this appointment process in conjunction with you.

The monitoring role of Ministries

The Ministry of Education and the Ministry of Business, Innovation and Employment jointly monitor the TEC's finances and performance on your behalf, providing advice on the TEC's management of $45 million annual operating expenditure and $2.7 billion annual investment for tertiary education. The Ministries also monitor the TEC's performance against the activities outlined in the TEC's annual Statement of Intent, as well as assisting you to make appointments to the TEC's Board.

This joint monitoring arrangement began in 2012; before that, the monitoring role sat exclusively with the Ministry of Education.

How the TEC can support you

In addition to performing its statutory monitoring and investment functions to a high degree of quality, the TEC can support you as Minister for Tertiary Education by:

- providing operational advice on proposed tertiary education policy and specific initiatives
- working with the sector to implement government policy initiatives
- seconding a private secretary into your office, if you wish, to ensure the TEC keeps in touch with your needs and focus
- providing operational advice on current events and issues in tertiary education
- providing operational advice on communications for the sector
- providing you with background briefings when you visit TEOs
- providing you with draft speech notes on tertiary education topics
- responding to your requests for information and operational advice, and offering TEC-initiated advice to you as required
- drafting replies to your tertiary-related Ministerial correspondence.

Most of the TEC's interaction with you takes place through written briefings.

Appendix Two: The investment system

This section outlines the investment Plan funding system, the Government's biggest lever for influencing the tertiary system. A diagram showing the structure of the TEO system is provided at the end of this appendix on page 31. There is a description on page 17 on how the TEC intends to shift to an investment approach, which could potentially involve change to some of the settings below in the medium term.

Government policy

The following diagram shows the role of the agencies (purple) and mechanisms of influence (blue) in the tertiary funding system.
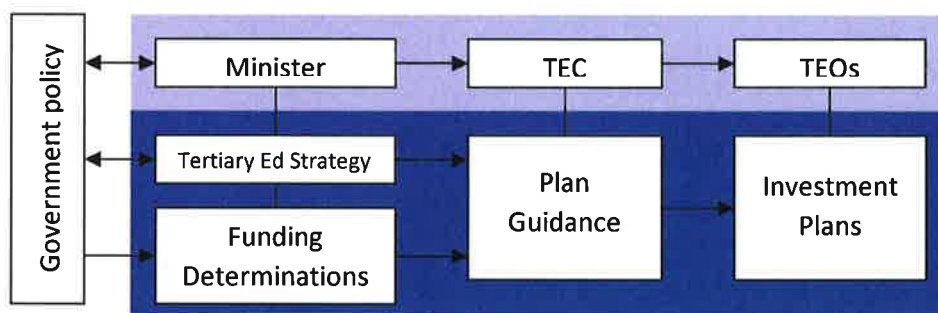
Funding determinations

The Minister issues funding determinations under section 159L of the Education Act 1989. These establish the purpose of different pools of tertiary funding and may include setting funding rates (e.g. for the Student Achievement Component (SAC)), and any relevant eligibility criteria. They also stipulate whether funding is to be provided via investment Plans or through an alternative mechanism.[16] The TEC must use its gazetted funding criteria for funding that is allocated via investment Plans.

Funding determinations, often referred to as "159Ls", are an essential means by which the Minister determines the purpose of funding available to the TEC for allocation to TEOs. The amount of funding available is determined through the Government's Budget process.

While funding determinations are intended to reflect the Government's current, medium- and long-term objectives under the Tertiary Education Strategy and related government policy, they can be tailored to meet changing circumstances or priorities within the overall strategy. They can be either permissive or prescriptive as the Minister chooses. In recent years the trend has been for them to become more prescriptive. We would like to see them shift away from detailing operational aspects of fund management, and instead articulating the high-level parameters within which the TEC must administer the fund to best give effect to government policy goals.

Section 159J(4) of the Education Act 1989 keeps the Minister one step removed from the allocation of funding for specific TEOs. This is echoed in section 159M, which prevents the Minister from identifying a specified organisation or organisations for funding purposes when he or she determines the design of a funding mechanism (by issuing a funding determination).

Funding determinations are drafted by the Ministry of Education, in consultation with the TEC, on behalf of the Minister.

The Minister for Tertiary Education, Skills and Employment has issued funding determinations for the following funds:[17]

- Student Achievement Component (SAC) – $2.045 billion
- Competitive Allocation Process for Provision at Levels 1 and 2 of the New Zealand Qualifications Framework – around $38 million (within SAC)
- Adult and Community Education (ACE) – $22.9 million
- Search and Rescue – Adult and Community Education (ACE) – $1.3 million (within ACE)
- Specialised English for Speakers of Other Languages (ESOL) – $12.9 million
- Industry Training Fund and Industry Training Organisation Strategic Leadership Fund – $192.2 million
- Youth Guarantee (YG) – $122.8 million
- Gateway – $19.0 million
- Literacy and Numeracy Provision – $34.1 million
- Wānanga Research Capability Fund – $1.5 million
- Equity Funding – $15.6 million
- Medical Trainee Intern Grant – $11.2 million
- Performance-Based Research Fund (PBRF) – $275.0 million
- Centres of Research Excellence (CoREs) – $33.4 million
- National Centre for Tertiary Teaching Excellence – $3.6 million
- Māori and Pasifika Trades Training – $5.9 million

Allocation methodologies

Once the Minister has issued a funding determination, the TEC develops the operational details of how to implement the determinations in order to best give effect to the Tertiary Education Strategy.

The TEC develops initial allocation methodologies that reward good performance and reduce funding for under-performance. Final funding decisions are made by applying the gazetted decision-making criteria for investment Plans.

Plan Guidance

At the start of each investment cycle, the TEC releases Plan Guidance for the sector. This explains to TEOs what their proposed investment Plans must contain and how the TEC will assess proposed investment Plans for funding approval.

As different TEOs have different funding cycles, the TEC releases Plan Guidance annually for different target audiences. The TEC may also publish guidance more than once a year.

In 2014, the TEC published two sets of Plan Guidance:

- **SAC Levels 1 and 2 Plan Guidance for 2015 and 2016,** which was published in February 2014, sets out the high-level expectations and process for the 2014 competitive process for allocating Levels 1 and 2 SAC.
- **General Plan Guidance for 2015 and 2016**, which was published in May 2014, sets out what we want to see in TEO's investment Plans as a response to the priorities of *Tertiary Education Strategy 2014–2019*.

Plan Guidance is supported by a Gazette notice published by the TEC that sets out the content that Plans must contain and the criteria by which the TEC will assess Plans for funding approval.

The Minister determines the maximum length of time that the TEC can allocate bulk funds through funding determinations. In the previous Plan round, the Minister determined that the maximum period the TEC could invest for would be two years, and the TEC approved funding for two-year Plans for all but one tertiary education institution. All private training establishments were approved for one year of funding only. In 2014, the TEC is proposing to approve funding for up to two years for all TEOs (excluding industry training organisations, which are mid-way through a two-year Plan funding cycle covering 2014 and 2015).

Proposed investment Plans

Each TEO[18] develops a proposed investment Plan in response to the relevant Plan Guidance and in consultation with any stakeholders they choose and with other persons or organisations specified by the TEC. TEOs then submit these proposed investment Plans to the TEC.

The TEC assesses each proposed Plan against the gazetted Plan assessment criteria and decides what to give funding approval to. This is often an iterative process as the TEC works with TEOs to help them develop a Plan that meets the TEC's expectations.

In addition, the Plan of each Crown entity tertiary education institution must include a forecast Statement of Service Performance that enables the institution to report on its performance against proposed outcomes.

Funding

The TEC approves funding for Plans (taking in to account your funding determinations). The TEC then administers payment through 12 roughly equal monthly payments, ensuring that the correct payment is made on time to the correct TEO. The TEC also monitors TEO delivery against agreed levels in the investment Plan and discusses any variation in performance regularly with individual TEOs.

Once the TEC approves funding for an investment Plan, there is limited, if any, scope for the Minister to vary a determination without risk of legal challenge.

Introduction to key funds

Funding for teaching and learning

Student Achievement Component

At $2.045 billion annually, SAC is the most significant pool of funds in the tertiary education system. It is the single largest source of revenue for universities, wānanga and institutes of technology and polytechnics (ITPs), and is also allocated to many private training establishments.

SAC provides subsidies for teaching and learning in mainstream tertiary qualifications, with most learners also paying tuition fees. Allocations are based on total student enrolments agreed in investment Plans, and are calculated using a sophisticated formula with funding rates that vary significantly by the type of qualification and according to the organisation that is being funded. The basic funding unit is the equivalent full-time student (EFTS).

Student Achievement Component Levels 1 and 2

A portion of SAC funding at Levels 1 and 2 is allocated through a competitive process. The first competitive round was held in 2012 and allocated around a third of available Level 1 and 2 SAC funding for 2013 and 2014 ($40 million per year).

The second competitive round was held in 2014 and allowed the TEC to allocate up to $70 million of funding (out of a total of $96 million available) through the competitive process for 2015 and 2016. The TEC allocated around $50 million of the available funding, with the balance allocated through the usual investment Plan process. All provision funded through the competitive process is fees-free to the learner. In the residual funding, provision is fees-free for learners under 25 years of age.

Performance-linked funding

Five percent of a TEO's SAC funding is linked to the TEO's performance in the previous year, measured against up to four educational performance indicators: qualification completions, course completions, retention and progression to a higher level of study.

Youth Guarantee

The Youth Guarantee fees-free fund ($122.8 million) provides disengaged or at-risk young people with an opportunity to achieve a foundation-level qualification, particularly the National Certificate in Educational Achievement (NCEA) Level 2, in a tertiary setting. The TEC-administered fund is part of a wider suite of initiatives that includes secondary -tertiary programmes (e.g. Trades Academies), Service Academies, and the Vocational Pathways. The fund contributes to the Better Public Service (BPS) target of 85% of 18 year olds achieving NCEA level 2 by 2017.

The objectives of Youth Guarantee are to:
- increase the educational achievement of 16-to-19 year-olds who are not currently engaged in education by improving their access to tertiary study towards at levels 1-3 on the New Zealand Qualifications Framework
- increase overall achievement for Māori, Pasifika, and students with special education needs
- reduce the overall number of young people who are not in employment, education, or training (NEETs)

- improve transitions between school, tertiary education and work.

Industry Training Fund

The Industry Training Fund ($192.2 million) funds industry training organisations, and subsidises the development of national qualification and the delivery of workplace learning linked to qualifications – predominately at Levels 1 to 4 on the New Zealand Qualifications Framework. Industry training is subsidised at a lower rate than SAC, reflecting the fact that learning primarily takes place on-the-job using workplace resources, with only a limited off-job element. The Industry Training Fund is strongly supported by employers and has made a significant contribution to New Zealand's skills base through the provision of trainees with industry-relevant qualifications. This funding may be used for industry trainees and apprenticeships.

Gateway

Gateway ($19 million) provides workplace learning opportunities for senior secondary-school students (Year 11 to Year 13+). It enables them to undertake structured workplace learning and earn credits towards qualifications on the NZQF in a range of industries and businesses around New Zealand while continuing to study at school.

Community Education

Community Education funding ($22.9 million) mainly subsidises non-assessed learning in a wide range of settings including schools, community organisations, institutes of technology and polytechnics, and wānanga. The funding provides adults with foundation skills and pathways into other learning opportunities that meet identified community needs. The priorities are:
- targeting learners whose initial learning was not successful
- raising foundation skills
- strengthening social cohesion.

Research funding

Performance-Based Research Fund

The Performance-Based Research Fund (PBRF) will rise to $300 million annually by 2016. The purpose of PBRF is to incentivise and reward research excellence and ensure that degree-level teaching is underpinned by research. It is allocated based on research outputs. Around 97 percent of the fund goes to the universities.

The fund is allocated based on past performance in each of three components:
- quality evaluation: to reward and encourage the quality of researchers with Quality Evaluations undertaken on a periodic basis (typically six years) (55 percent of the fund)
- research degree completions: to reflect research degree completions (25 percent of the fund)
- external research income: to reflect external research income (20 percent of fund).

The TEC has completed the 2012 Quality Evaluation and the report was issued mid-2013. This process has determined the allocation of funding through this component until the next quality

evaluation in 2018. The TEC has established a sector reference group to prepare for the 2018 Quality Evaluation. The two other components are annual. As well as determining funding, the PBRF provides information on the quality of research and it ranks the participants accordingly. The reputational drivers are as strong, if not stronger, than the financial drivers.
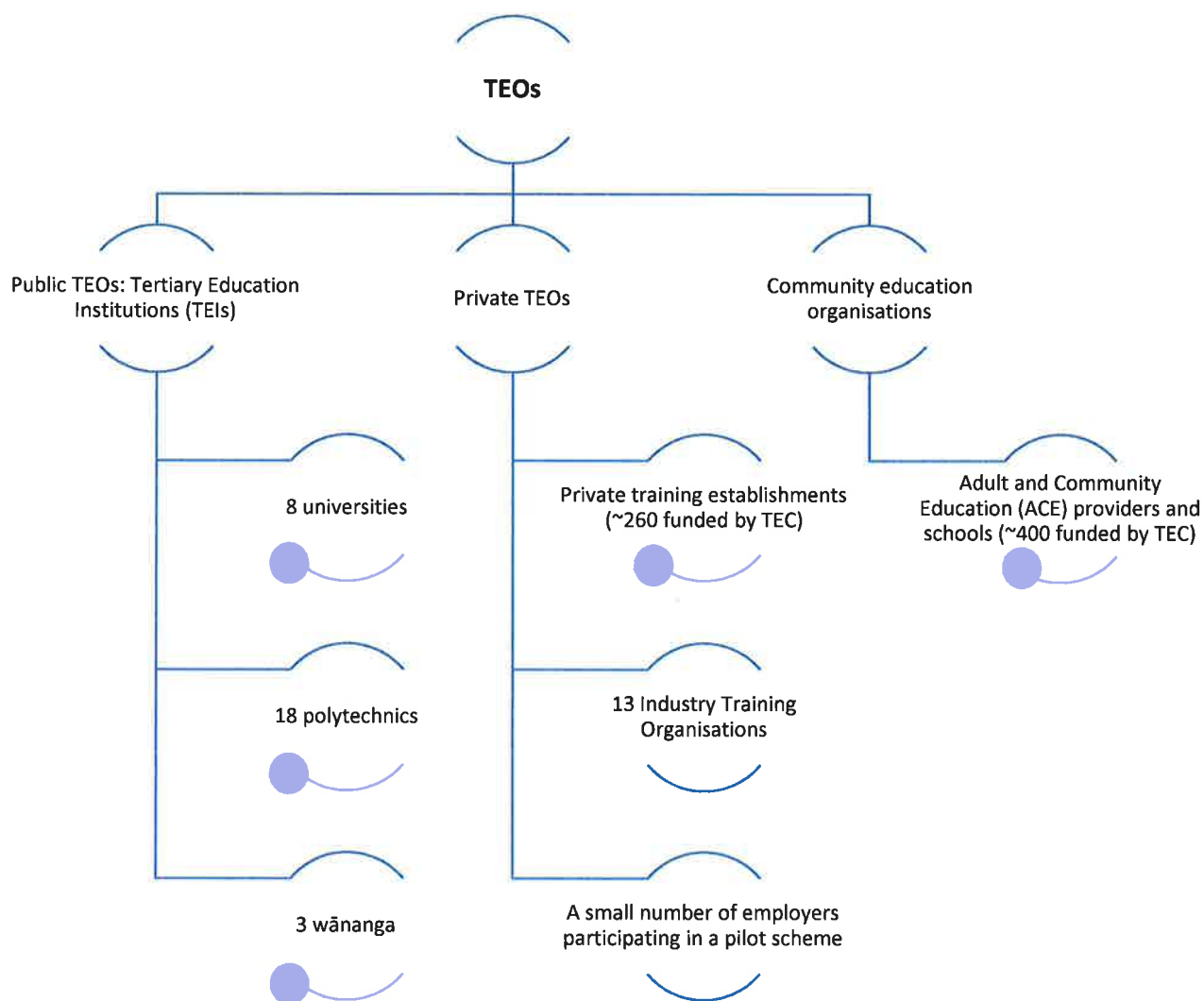
Centres of Research Excellence

The Centres of Research Excellence (CoREs) fund was established in 2001 to encourage the development of excellent tertiary-education based research that is collaborative, strategically focussed and creates significant knowledge transfer. CoREs are inter-institutional research networks, with researchers working together on commonly agreed work programmes. They focus on the development of human capital, so they undertake outreach activities (e.g. within the wider education system). They also make a contribution to national development and focus on the real-world impacts of their research.

The TEC has completed the 2013/14 CoREs selection round, through which six CoREs have been funded to the end of 2020. A further five CoREs are funded to the end of 2015. The TEC is currently conducting the 2014/15 CoREs selection round, to select four more CoREs, including a specific CoRE focussed on Māori research, for funding to the end of 2020. The annual appropriation totals $49.840 million.

Structure of the TEO network

TEOs marked with a purple circle can be collectively referred to as "providers".

TEOs

Public TEOs: Tertiary Education Institutions (TEIs)

Private TEOs

Community education organisations

8 universities

18 polytechnics

3 wānanga

Private training establishments (~260 funded by TEC)

13 Industry Training Organisations

A small number of employers participating in a pilot scheme

Adult and Community Education (ACE) providers and schools (~400 funded by TEC)

Appendix Three: The TEC's monitoring role

Introduction

Under Section 159F of the Education Act 1989, the TEC is responsible for reporting to the Minister for Tertiary Education, Skills and Employment on the tertiary education sector, including (section 159KBA) reporting.

Section 159KBA requires the Chief Executive of the TEC, as distinct from the TEC Board, to report to the Minister on performance issues at tertiary education institutions. This responsibility, which cannot be delegated, is in recognition that the Minister (on behalf of the Crown) has an ownership interest in all 29 tertiary education institutions as they are Crown entities.

As described in more detail below, the TEC monitors the performance of tertiary institutions by collecting educational and financial performance data and governance information during the year. The TEC also collects less tangible information (on staff and student morale, for example) through engagement with institutions. The TEC uses this information to assess the performance of each tertiary institution, each sector of the tertiary education system, and the system as a whole.

The TEC has also recently begun monitoring and advising on the financial performance of industry training organisations and the larger private training establishments that the TEC funds. The TEC has put in place a new financial monitoring framework for the industry training organisations, and is currently consulting on a new financial monitoring framework with the private training establishment sector. Although the Crown does not have an equity investment in these TEOs, it is frequently the primary purchaser of their outputs, and their financial failure would have a negative impact on learners.

Below is an overview of the TEC's monitoring and reporting activities.

Monitoring and reporting on tertiary education institutions

Financial monitoring and reporting

The TEC's financial monitoring framework combines historical performance and forward-looking forecasts supplied by TEIs, supplemented by current performance data. This enables the TEC to make forward-looking judgments about the viability and sustainability of tertiary education institutions.

The framework enables the TEC to establish and report a financial risk rating for each TEI to the Chief Executive and the Minister, influenced both by the content of the forecasts and the TEC's level of confidence in them. The TEC can focus on the tertiary education institutions that are in the greatest need of monitoring and support.

In addition, the TEC monitors and reports to the Minister on the capital asset management of each tertiary education institution.

The Minister receives a copy of each tertiary education institution's annual report as it is published. The TEC provides an Aide Memoire on each annual report to the Minister, which includes summary information and analysis of financial performance.

Educational monitoring and reporting

The key areas of focus in educational performance are specified by the Government in its Tertiary Education Strategy. We measure and report to the Minister on:

- the educational performance of the tertiary sector and individual TEOs, using the TEC's Educational Performance Indicators
- the performance of the *Tertiary Education Strategy 2014–2019* priority groups (Māori learners, Pasifika learners, at-risk youth, and adults with low literacy and numeracy)
- progress towards Better Public Service targets of raising the proportion of 18 year olds with NCEA Level 2 or equivalent, and of 25-34 year olds with a qualification at Level 4 or above.

Organisational and governance

The TEC monitors the governance of tertiary education institutions though regular engagement by staff in the TEC's Operations Directorate. This informs both the TEC's views of each institution's council and the nomination process for Ministerial appointments to councils.

The Ministry of Education consults with the TEC in providing advice to the Minister on the impact of proposed legislative changes on TEOs, and the TEC provided information and advice to the Ministry before the introduction of the Education Amendment Bill (No 2) 2014 and during the select committee stage.

Statutory intervention framework

The TEC's monitoring of tertiary education institutions is designed to regularly assess, monitor and manage the Crown's residual risk in these institutions. The Secretary for Education publishes risk-assessment criteria in the *New Zealand Gazette*, and these are used to determine whether a formal or statutory intervention is appropriate.

Section 195A-G of the Education Act 1989 allows for formal intervention either by the Chief Executive of the TEC or by the Minister based on the level of risk to the financial and long-term operation of tertiary education institutions.

A more graduated interventions framework has been established for institutes of technology and polytechnics (ITPs) following the enactment of the Education (Polytechnics) Amendment Act 2009 (section 222). This also includes the ability to intervene based on possible risk to the educational performance of students, not just on financial grounds as with other parts of the tertiary education system.

The Minister also has the power to dismiss council members, including chairs and deputy chairs, from their roles.

Although formal intervention channels exist, most work in relation to institutions in difficulty occurs through informal and negotiated agreements. Examples include terms and conditions appearing in

borrowing consents, strategic direction discussions as investment Plans are formulated, and strategic choices about Ministerial appointees to tertiary education institutions' councils.

The TEC has regular engagement with tertiary education institutions and the Ministry of Education relating to the powers vested in those institutions by the responsible Minister and the statutory constraints on those powers as set out in section 192 of the Education Act. The two most common powers on which the TEC provides advice are consents to borrow and consents to dispose of assets, including the demolition of assets.

Current ownership view of tertiary education institutions

Below is a summary of key factors affecting the current and future health of the tertiary education institution network, and an overview of specific current issues.

Institutional forecasts are premised on enrolment growth

Most tertiary education institutions are still forecasting that their equivalent full-time student (EFTS) number will grow, and are dependent on this growth to continue to return a surplus for reinvestment. Recent trend and demographic analysis suggests that this is optimistic and that, across the network, EFTS demand is likely to stagnate or decline.

Tertiary education institutions in regional areas are most susceptible, with higher fixed costs of provision, coupled with declining, ageing, and/or migrating population bases from which to draw students.

It is likely that tertiary education institutions will reassess growth predictions over the short to medium term, and consider financial models for a non-growth scenario that still return a surplus. This may mean that institutions move to more cost effective delivery models, or look to increase their levels of collaboration. The TEC and the Ministry of Education are both considering how we can use policy and operational levers to encourage this shift.

Investment in buildings

Tertiary education institutions are currently engaged in a significant level of capital development aimed at attracting students with new, modern, and state of the art facilities. There is a need for fit-for-purpose facilities that meet industry and student needs and to replenish aged infrastructure. As a marketing approach, however, it is unlikely that a particular institution can rely on attracting a greater market share, as all institutions are engaged in the same strategy. There is a risk that multiple developments across the network could result in capacity exceeding demand.

Financial viability

No tertiary education institution is at immediate risk of financial or operational collapse. In the medium term, a number of regional tertiary education institutions are unlikely to be sustainable or may not be able to fully meet the needs of learners in their community. The TEC's view is that investigations should start to determine the most appropriate structure of the institutions across the tertiary network to meet the needs of learners and industry throughout New Zealand. Solutions may include encouraging and incentivising greater collaborations, changes to institutions' mix of provision to better meet regional needs, changes to the funding model, and institutional mergers.

The TEC is currently addressing any significant Crown ownership or intervention issues in several tertiary education institutions:

- **Manukau Institute of Technology** was significantly affected by the crash of Mainzeal.
- **Lincoln University** has been posting deficits for a number of years and the Christchurch earthquakes essentially stalled recovery initiatives.
- The **University of Canterbury** has also been significantly affected by the Christchurch earthquakes.
- Reduced student volumes at **Aoraki Polytechnic** have recently created significant financial difficulties for this institution.

Lincoln University's and Aoraki Polytechnic's financial situations are being case managed by the TEC project office, as are the capital injections agreed with Canterbury University and Lincoln University (as well as Christchurch Polytechnic Institute of Technology, which is at less ongoing risk).

Governance

The tertiary education institutions are governed by autonomous councils, whose roles and functions are set out in the Education Act 1989. The Minister for Tertiary Education, Skills and Employment appoints four members to each council with the remainder appointed in accordance with each council's constitution or statute.

University and wānanga councils have between 12 and 20 members. Councils of institutes of technology and polytechnics (ITPs), which were reconstituted in 2010, consist of eight members. The Minister also appoints the Chair and Deputy Chair of ITP councils.

The TEC's role is to monitor and evaluate the governance capability of tertiary education institutions' councils. It provides advice to the Minister on governance matters, including Ministerial appointments, and provides information and support to enhance governance capability.

The TEC is responsible for recommending candidates for Ministerial appointment, and a framework for selection was approved by the TEC Commissioners in 2012. The TEC manages the appointments process and prepares the documentation, including papers for the Cabinet Appointment and Honours Committee.

The TEC's role in promoting good governance means that the TEC provides induction courses for new council members from time to time that are open to Ministerial appointees and council-appointed members. Twenty eight council members attended the most recent induction and briefing for council members, which was held in Wellington in July 2014, and the Minister's participation was a highlight of the day.

A revised version of the TEC's Governance Guide for Council Members was published in March 2014, and a dedicated web space for council members is being developed. The TEC held the inaugural meeting of a council secretaries' network in Wellington in August 2014, and attendees included senior university staff. The aim of the network is to promote good governance across the sector.

Ministerial appointments

In the 2013/14 financial year, the TEC provided advice to the Minister on 58 appointments. Seven appointments due for consideration late in 2014 were held over for consideration by the incoming government. There are sixteen appointments due on or before August 2015 and the TEC intends to provide advice relating to the first 9 of these in October 2014.

Governance of institutes of technology and polytechnics

The 2010 governance reform of the ITPs, which focused on increasing the skills base of councils and reduced their size, was intended to enhance the governance capability of the ITPs and strengthen their leadership. The aim was improved institutional performance.

To evaluate the governance changes, the TEC has initiated a three-phase research programme. The second phase of this review, which assesses the medium-term outcomes of the reforms, commenced in 2013 and sought to establish whether the council structure change is contributing to improved institutional performance.

An outcome of the review is the publication of information about three council-led initiatives:
- Students First: the strategic partnership between WelTec and Whitireia
- From distance learning to connected learning: Open Polytechnic's new student journey
- Kick for the seagulls: NorthTec's new approach "for the kids up North"

Governance in the university and wānanga sectors

The Ministry of Education, as part of its policy advisory role, was engaged in providing advice to the Minister in 2013 about whether changes to the governance arrangements of universities and wānanga would be beneficial. This included consideration of whether university and wānanga would benefit from a reduction in council size and if legislative change is necessary.

Early in 2014, Cabinet approved legislative changes that would reduce the size of university and wānanga councils. The Education Amendment Bill (No 2) 2014 was introduced into the House in March 2014, but did not complete its passage before the end of the parliamentary term.

Ongoing funding for benchmarking tool

The New Zealand Benchmarking Tool (NZBT), a software tool developed and managed by a company called Tribal, complements the data that the TEC collects, and supports the TEC in its investment management role and in providing advice to the Minister. The NZBT database, which dates back to 2007 for the ITP sector, now provides a rich source of comparative data and a means of assessing the impact of policy changes. Since 2013, tertiary education institutions' participation in the NZBT has been mandatory as a condition of Student Achievement Component (SAC) funding. As a result the data collected is sufficiently comprehensive to provide valuable trend and comparative information for the sector as well as for individual tertiary education institutions.

A one-year extension to the TEC's agreement with Tribal for the supply of the NZBT has been agreed effective 1 July 2014. The TEC is now working with a newly established sector governance group on requirements and possible enhancements to the NZBT in order to make recommendations to the

incoming Minister on the future arrangements, including funding, for benchmarking. We expect that the report will be available by the end of 2014.

Publishing information

Information on TEOs

One of the key roles of the TEC is to publish information on TEO performance, funds, educational performance, and research. The TEC uses performance information to monitor and report on the performance of TEOs and to inform funding decisions.

The TEC publishes reports on the performance of specific funds (Student Achievement Component, Performance-Based Research Fund, Youth Guarantee) and information on the allocation of funding to TEOs. A report on tertiary sector performance is published annually, covering the responsiveness, effectiveness and capability of tertiary education institutions; of the tertiary subsectors; and the tertiary education sector as a whole. From 2013, all individual Industry Training Organisations are also included in the report. We are currently preparing the 2013 Tertiary Education Performance Report and will provide you with a draft next month.

In addition, the TEC publishes Educational Performance Indicators (EPIs) and allocation information for each TEO which creates visibility for stakeholders and enhances TEOs' accountability.

Publishing this type of information acts as a lever to improve sector performance by:
- enhancing the accountability of individual TEOs and government agencies
- allowing TEOs to compare their performance with competitors
- allowing learners to make more informed study choices.

Improvements to the information available to stakeholders

The TEC is working to improve the information available to tertiary stakeholders by:
- refining performance measures
- simplifying how we collect and use data from TEOs
- working towards TEOs publishing more comparable and useful information to support information to support prospective students' enrolment decisions, including employment outcomes information, via our "Information for Learners" project described on page 15.

Appendix Four: Key facts about each tertiary subsector

General information about the size, scale, nature and performance of the tertiary education system and the individual institutions within it can be found in the TEC's annual Tertiary Education Performance Report. We are currently preparing the 2013 report and will provide you with a draft next month. In the meantime, we provide summary information about each tertiary subsector below.

Universities

Number of institutions	8
Funding (amount and source)	$1.476 billion (2014 calendar year) 53.2% of total TEC funding for tertiary education
Governance and ownership arrangements	Universities (along with wānanga and institutes of technology and polytechnics) are tertiary education institutions under the Education Act 1989 and Crown entities under the Crown Entities Act 2004. Each university is governed by a council; under the Education Act, university councils are to consist of not fewer than 12 members and not more than 20. Four of these members are appointed by the Minister. See page 36 for information about proposed changes to university council composition.

Key organisations and people in the sector	**Universities New Zealand** Chris Whelan – Executive Director		
	University	**Chancellor**	**Vice-Chancellor**
	University of Auckland	Dr Ian Parton	Professor Stuart McCutcheon
	Auckland University of Technology	John Maasland	Derek McCormack
	University of Waikato	Rt Hon Jim Bolger	Professor Roy Crawford
	Massey University	Chris Kelly	Hon Steve Maharey
	Victoria University of Wellington	Ian D McKinnon	Professor Grant Guilford
	University of Canterbury	Dr John Wood	Dr Rod Carr
	Lincoln University	Tom Lambie	Dr Andrew West
	University of Otago	John Ward	Professor Harlene Hayne

Universities are a high-performing subsector overall. They make a significant contribution towards Tertiary Education Strategy goals and priorities through their teaching, research, and knowledge exchange activities.

Most universities have continued to increase overall student achievement, but a significant proportion of provision at some institutions is low-performing. Participation and performance for priority groups such as Māori and Pasifika is improving but considerable work remains to be done and it is doubtful that universities will reach the parity targets set by the TEC. While postgraduate enrolments and postgraduate research degree completions have been increasing, research intensity and productivity in the sector is low compared with other countries. The Performance-Based Research Fund Quality Evaluation 2012 showed that research quality has been enhanced by the

fund, but also suggested that the PBRF is driving undesirable human resource practices at some universities.

Key issues in the university subsector

Parity for Māori and Pasifika learners

Universities have set challenging "stretch" commitments in their investment Plans to progress towards improved participation and parity of achievement for Māori and Pasifika learners by 2018. These targets are unlikely to be met without stronger incentives and the TEC is putting 2015 new funding at risk based on the achievement of commitments in this area. Issues in the secondary school system are a major contributor to the low levels of participation in university amongst Māori and Pasifika learners.

Issues for Canterbury-based universities

The ongoing recovery of the University of Canterbury and Lincoln University from the impacts of reduced student volumes and damaged facilities as a result of the earthquakes will be a focus for the next three to five years.

Centres of Research Excellence

These inter-institutional research networks (all hosted by universities) conduct excellent, collaborative, strategically focused research that contributes to developing capability, national development and knowledge transfer. The TEC is negotiating contracts with universities that will host the selected CoREs funded for 2015–2020 and is preparing for new CoREs, which will be selected in 2015 and funded for 2016–2020.

Orienting away from growth

As noted on page 34, learner demand for tertiary education is forecast to be largely stable from 2014 to 2018 – but most universities are planning for growth in demand. This will increase competition between universities (and with other providers) as they attempt to meet their growth forecasts by targeting the same groups of learners, particularly in Auckland. The TEC will recover funding from universities that cannot meet their delivery commitments, reducing their future allocations so that investment moves in line with student demand; and we will encourage universities to adjust their business models to respond to a future of flat demand.

Key opportunities in the university subsector

To be more influential, the TEC University Investment Team is working on developing deeper strategic relationships with the universities, which can be aligned to the TEC's organisational and directorate plans.

We are expecting universities to show in their 2015–2017 Investment Plans how they will be more responsive to stakeholder needs, collaborate more to achieve a step-change in progress towards parity of participation and achievement for Māori and Pasifika learners, increase research intensity, build more effective relationships with firms, and better demonstrate their distinctive contribution to improving national outcomes. We have introduced a Student Achievement Component (SAC)

allocation methodology that will give us greater leverage to influence improved performance outcomes.

We will be proactively seeking new, innovative and integrated solutions by working closely with the sector to improve performance and contribute to Tertiary Education Strategy priorities.

Institutes of technology and polytechnics

Number of institutions	18		
Funding (amount and source)	$598 million (2014 calendar year) 21.6% of total government spending in tertiary education		
Governance and ownership arrangements	Institutes of technology and polytechnics (ITPs) are tertiary education institutions under the Education Act 1989 and Crown entities under the Crown Entities Act 2004. Education Act 1989 amendments took effect in May 2010, setting ITP council membership at eight members, four of whom are appointed by the Minister, including the Chair and Deputy Chair. The changes also allowed for other governance models, such as combined councils. The first combined ITP council took effect on 1 January 2012, joining the councils of Weltec and Whitireia, and consisting initially of 12 members. According to the Education Act 1989, the Minister appoints half of each council's membership.		
Key organisations and people in the sector	**ITP**	**Council Chair**	**Chief Executive**
	Aoraki Polytechnic	Janie Annear	Alex Cabrera
	Bay of Plenty Polytechnic (BOPP)	Ian Turner	Dr Alan Hampton
	Christchurch Polytechnic Institute of Technology (CPIT)	Jenn Bestwick	Kay Giles
	Eastern Institute of Technology (EIT)	David Pearson	Chris Collins
	Manukau Institute of Technology (MIT)	Peter Winder	Dr Peter Brothers
	Nelson Marlborough Institute of Technology (NMIT)	Ross Butler	Tony Gray
	Northland Polytechnic (NorthTec)	Vern Dark	Paul Binney
	Otago Polytechnic	Kathy Grant	Phil Ker

	Southern Institute of Technology (SIT)	Sarah Brown	Penny Simmonds
	Tai Poutini Polytechnic (TPP)	Graeme McNally	Allan Sargison
	The Open Polytechnic of New Zealand	Murray Bain	Dr Caroline Seelig
	Unitec Institute of Technology	Lee Mathias	Dr Rick Ede
	Universal College of Learning (UCOL)	Malcolm Inglis	Paul McElroy
	Waiariki Institute of Technology	Graeme Nahkies	Dr Margaret Noble
	Waikato Institute of Technology (WINTEC)	Mary Cave-Palmer	Mark Flowers
	Wellington Institute of Technology (WelTec)	Hon Roger Sowry	Dr Linda Sissons
	Western Institute of Technology at Taranaki (WITT)	Mary Bourke	Barbara George
	Whitireia Polytechnic	Hon Roger Sowry	Don Campbell

Key issues and opportunities in the ITP subsector

Educational and financial viability

Since 2010, educational performance in ITPs has improved. With 18 ITPs across New Zealand, however, some struggle to deliver adequate educational quality and to attract enough learners for financial viability. The 2010 reforms improved ITP governance. There is still, however, a limited pool of council members and top managers who can provide the governance and leadership needed in all ITPs. ITPs' financial challenges have been exacerbated by recent losses in funding for Levels 1 and 2 provision, and by static or reduced demand for some regional ITPs such as Aoraki and UCOL.

As the economy improves, many people who might otherwise study in an ITP instead take up jobs. Due to concerns about financial viability and/or educational performance Waiariki and Aoraki ITPs were on one-year plans in 2013, and Aoraki is now under case management for 2014.

Some smaller ITPs such as WITT and TPP are dependent on a few high-value provision fields for financial viability, some of which involve out-of-region provision, which creates vulnerability for these institutions.

Connections with regional learners

Some ITPs have struggled to engage with parts of their region or with learner cohorts within those regions. An example is UCOL's weak engagement within the Whanganui region, including with learners who are not in employment, education or training (NEET).

Links to industry

Links to industry are generally good for most ITPs, with some metros especially strong. More effort needs to go into developing better pathways into employment, including through more industry input into shaping teaching programmes. A number of ITPs are taking initiatives in this area including Unitec and MIT.

Interface issues between industry training organisations and ITPs

While industry training organisations and ITPs have good overall relationships, there are issues of 'overlapping provision' between training funded via both the Industry Training Fund and the Student Achievement Component. ███████████████████████████████████████

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Flexibility in provision to meet changing needs

ITPs need to deliver vocational education and training to learners who may be in remote locations, may be balancing learning and working lives, may need to retrain, or may have literacy needs. Employment practices can be based on rigid, semester-based campus delivery rather than more flexible ways of meeting learner needs and some ITPs struggle to achieve viable class sizes in some regions.

ITPs have entered into third party relationships such as subcontracting. While such relationships can add value, subcontracting can also lead to problems with accountability and educational quality.

ITPs have opportunities to enhance the flexibility and quality of delivery for learners through e-learning and blended delivery, and over time these technologies and delivery modes should enhance performance.

Tertiary Education Strategy priority groups

ITPs have generally responded well to lifting the educational performance of the Tertiary Education Strategy priority groups, though some struggle with youth (especially NEETs) engagement. There are challenges in ensuring that improving educational performance for Māori and Pasifika learners links to better employment opportunities in higher earning fields.

The new Māori and Pasifika Trade Training initiative is creating new opportunities for encouraging Tertiary Education Strategy priority group learners into trades training using a consortium model.

Responsiveness to other government priorities

ITPs have responded well to delivery of priority trades for the Christchurch rebuild and to additional engineering provision, complementing the higher level of engineering delivery in universities.

Foundation education

In 2014, ITPs will continue to be heavily engaged in Youth Guarantee provision and in implementing the Government's fees-free policies for young learners. Embedded literacy and numeracy and use of the Literacy and Numeracy for Adults Assessment Tool are important in ITPs' foundation education delivery.

Approach to engagement

Where ITPs have been identified as meeting financial and educational performance goals we will take a strategic approach to the development of their investment Plans. Increased engagement will be carried out with those ITPs that are considered to be at risk for financial or educational purposes. Intensive engagement and monitoring will be carried out with four ITPs that are considered to be either at financial risk or to have a history of poor educational performance, to ensure their strategic plans mitigate those risks and support effective educational performance.

Wānanga

Number of institutions	3		
Funding (amount and source)	$172 million (2014 calendar year) 6.2% of total government spending in tertiary education		
Governance and ownership arrangements	Wānanga are tertiary education institutions under the Education Act 1989 and Crown entities under the Crown Entities Act 2004. Each wānanga is governed by a council. Under the Education Act, wānanga councils are to consist of not fewer than 12 members and not more than 20. Four of these members are appointed by the Minister. See page 36 for information about proposed changes to wānanga council composition.		
Key organisations and people in the sector	**Wānanga**	**Chair**	**Chief Executive**
	Te Wānanga o Aotearoa (TWoA)	Richard Batley	Jim Mather – Te Taiurungi (Chief Executive Officer)
	Te Wānanga-o-Raukawa	Robin Hapi	Mereana Selby (Tumuaki)
	Te Whare Wānanga o Awanuiārangi	Distinguished Professor Hirini Moko Mead	Distinguished Professor Graham Smith

Key issues and opportunities in the wānanga subsector

Educational performance

Wānanga as a whole perform well against the Educational Performance Indicators (EPIs) compared with other sectors; however, Te Wānanga o Raukawa is the lowest performing of all the tertiary education institutions. An educational improvement plan was put in place in 2011, since then performance has improved each year and is in line with investment Plan targets.

Performance-Linked Funding and Educational Performance Indicators

Performance-Linked Funding is a formulaic method of funding recoveries (up to five percent of Student Achievement Component funding) based on performance across all sectors against the TEC's four Educational Performance Indicators (EPIs). An issue for the wānanga is the use of EPI measures and performance based on other institutions in other sectors rather than within the wānanga sector. The wānanga oppose using a one-size-fits-all approach to education performance when the starting or entry point of the wānanga learner has not been considered.

Literacy and Numeracy for Adults Assessment Tool

The wānanga have raised issues about the appropriateness of the Tool for wānanga learners and their preference for a Māori version of the tool.

Increased focus on younger learners

The age demographic for wānanga learners is higher than most providers, as a large proportion of their learners are people who left compulsory schooling early, and are engaging with tertiary education for the first time as older adults. As well as re-engaging adult learners back into education, wānanga are working to increase the number of young people studying with them.

Potential Treaty of Waitangi claim

Wānanga have expressed concern with the EPIs that the TEC uses to measure performance and applies in Performance-Linked Funding. They believe that the role of wānanga, as defined under the Education Act and successive Tertiary Education Strategies, is not appropriately recognised in the design of the EPIs. Wānanga believe the indicators are too narrow, and that the performance consequences do not acknowledge the challenging learner profile at wānanga. Wānanga have also raised concerns about research funding and Māori language provision ███████████████

Approach to engagement

We are taking a strategic approach to developing investment Plans with the wānanga that focus on the *Tertiary Education Strategy 2014–2019*, collaborative initiatives, and learner outcomes including links to employment, pathways and progression.

Industry training organisations

Number of organisations	13
Funding (amount and source)	$163 million (2014 calendar year) 5.9% of total government spending in tertiary education
Governance and ownership arrangements	Industry Training Organisations (ITOs) and their industry coverage are recognised by the Minister under the Industry Training and Apprenticeships Act 1992. ITOs are bodies corporate that are privately owned by industry. They have a variety of structures, including companies and charitable trusts. ITOs are required to have arrangements for involving employers in their governance.

Key organisations and people in the sector	Industry Training Federation Mark Oldershaw – Chair		
	ITO	**Chair**	**Chief Executive**
	Boating Industries (NZ Marine)	Lloyd Stevenson	Chris Van Der Hor
	Building and Construction (BCITO)	Kevin Sceats	Ruma Karaitiana
	Community Support Services (Careerforce)	Richard Westlake	Ray Lind
	Engineering, Food and Manufacturing (Competenz)	Mike Simm	John Blakey
	Fire and Rescue Services (EMQUAL)	David Guard	Bill Robertson (National Manager)
	Funeral Services[19] (FSTT)		John Peryer (Executive Director)
	Hairdressing (HITO)	Flora Gilkinson	Erica Cumming
	Infrastructure	Frances Hague	Helmut Modlik
	Motor Industry (MITO)	David O'Kane	Janet Lane
	Primary	John Parker	Mark Jeffries
	Service Skills Institute (ServiceIQ)	Rick Christie	Dean Minchington
	Skills Org	Brian Nowell	Gary Fissenden
	Sports, Fitness and Recreation (Skills Active)	Sam Napia	Grant Davidson

Key issues and opportunities in the ITO subsector

Review of industry training (Ministry of Education-led)

A review of industry training was carried out in 2012 by the Ministry of Education with changes announced in 2013. Key changes are the introduction of New Zealand Apprenticeships from 2014, changes to funding rates, clearer roles and expectations of ITOs, the introduction of the Apprenticeship Reboot scheme and establishment of competition by allowing employers direct access to the Industry Training Fund. Implementing these changes has continued to be a focus in

2014. The Government also clearly signalled its expectation of improving performance from the ITO sector.

Shape of the ITO sector

Over recent years there has been considerable consolidation within the ITO sector with numbers reducing from 39 ITOs in 2010 to 12 funded ITOs in late 2014. This move to larger, well-scaled ITOs should lead to an enhanced level of service for employers, apprentices and trainees, as well as better educational outcomes.

Response to changes in the labour market

During the recent economic downturn and changes to the operational settings of ITOs, the numbers of trainees and apprentices being funded has reduced from around 201,000 in 2009 to just over 130,000 in 2013. With a projected upswing in the economy and growth in construction and infrastructure projects related to the Christchurch rebuild and Auckland growth, the next few years should see trainee numbers increasing. Growth in training demand will put pressure on funding and may require a rebalancing of investment from provider-based delivery to industry training.

Increased collaboration

With fewer but larger ITOs there is scope to address some of the traditional barriers to cooperation and collaboration with other parts of the tertiary system. In particular, the relationship with institutes of technology and polytechnics needs to be strengthened and there is an opportunity to develop an investment strategy that focuses on vocational education and training more broadly rather than a subsector-based approach.

Approach to engagement

Over the 2014 and 2015 investment Plan period engagement will focus on ensuring excellent support for New Zealand Apprentices, improved education performance and collaboration with other sectors. The TEC will also be expecting ITOs to work towards demonstrating the value of the Government's investment through improved productivity of businesses and industry.

Private training establishments

Number of organisations	669 organisations, comprising 261 Private Training Establishments (PTEs), 27 community education (CE) organisations, and 381 schools.
Funding (amount and source)	$363 million (2014 calendar year) 13.1% of total TEC spending in tertiary education
Governance and ownership arrangements	Privately owned organisations (some for-profit, some charitable trusts or other ownership arrangements)
Key organisations and people in the sector	**Peak bodies** **Independent Tertiary Education New Zealand (ITENZ)** – Chuck Wareham/Christine Clark **Independent Tertiary Institutions (ITI)** – Neil Miller/Feroz Ali **Pacific Islands Tertiary Education Providers of New Zealand (PITPONZ)**

| | – John Fiso |
| | **Aotearoa Māori Providers of Tertiary Education and Employment (AMPTEE)** – Janeene Panoho/Christine Warren |

Key issues and opportunities in the Private Training Establishment and Community Education subsector

Increasing performance for PTEs

From 2009, the TEC developed a performance consequences framework for PTEs and introduced a threshold of minimum performance to inform future investment decisions. In 2009, the threshold used for not making an initial funding allocation was a 2008 successful course completion rate of 45 percent or less. The threshold has incrementally increased to a 70 percent threshold.

The TEC's PTE and CE Investment Team will continue its focus on removing funding from poor performing PTEs, whether wholly or in part, and reallocating to high-performing provision in the PTE sector or other sub-sectors that raises educational achievement and supports economic growth. For 2015, subject to the availability of funding, there may be opportunities to allocate additional funding to provision that meets identified skills gaps and priority areas of economic and social need.

Māori, Pasifika and under 25-year-old learner targets

PTEs and CEs have an important role to play in raising the achievement of Māori, Pasifika, and young learners at all levels, and in supporting progression to higher levels of study or employment.

The TEC expects PTEs to set performance commitments for both participation and achievement of young learners, Māori and Pasifika learners that are on a par with or greater than other learners. Overall, PTEs are performing well in this area, compared with other subsectors, but will need to focus on improving parity of educational performance between Māori and Pasifika learners and other groups.

Changes to foundation education funding for PTEs

In recent years, PTEs delivering at foundation level have focused on providing foundation education which prepared learners for employment. The cessation of Foundation Focused Training Opportunities funding in 2013 and Youth Training in 2012 saw a shift from a focus on employment outcomes to a broader focus on qualification attainment and progression into further education.

From 2014, there is a clear expectation that foundation provision be aimed at enabling graduates to make a seamless transition to either higher-level education or employment. Providers will be expected to have established pathways and collaborative arrangements with other providers, employers, and schools to support this transition.

PTEs delivering foundation education will need to continue to strengthen their focus on attracting young learners who are not in education, employment, or training (NEET) into formal foundation education and ensuring their success. Graduates from these programmes will be expected to have the transferrable skills needed to pathway to higher levels of learning and employment.

Levels 1 and 2 competitive Student Achievement Component for PTEs

A portion of SAC Levels 1 and 2 funding was made available through a competitive process for the first time in 2013. This change has driven competition and innovation in the foundation education space. Before this, PTEs were unable to access SAC Levels 1 and 2 funding. In 2013, 18 PTEs began delivery at SAC Levels 1 and 2 through the competitive allocation round and 32 percent ($12 million) of the total SAC competitive funding available for 2014 delivery was allocated to PTEs.

In the latest competitive process, 24 PTEs have been allocated SAC levels 1 and 2 competitive funding for delivery in 2015. The total value of the SAC levels 1 and 2 competitive funding allocated to the PTE sub-sector for 2015 delivery is $13 million, which is 24 percent of the total $53.79 million proposed for allocation across eligible sub-sectors. Of the original 18 PTEs funded in 2013/2014, ten have been reallocated indicative funding for 2015 and 2016. Final funding decisions will be made in November 2014.

English for speakers of other languages

The PTE and CE sector delivers the majority of TEC-funded English for Speakers of Other Languages (ESOL) provision. The PTE and CE Investment Team is currently working with the Ministry of Education to map ESOL provision against regional need. This work will be used to enable more strategic ESOL investment decisions across multiple funds, and will help inform funding decisions to help ensure ESOL provision is fit-for-purpose and matches demand.

Approach to engagement

The PTE and CE Investment Team's new structure will enable the TEC to engage more intensively with the private education sector, closely monitor and manage risk, and provide a higher degree of customer service. There will be a focus on supporting these organisations to make shifts in their educational provision that align with the priorities of the new *Tertiary Education Strategy 2014–2019*.

Appendix Five: TEC's Board of Commissioners and Senior Management Team

Board of Commissioners

The TEC's Board comprises seven Commissioners. The positions of chair and deputy chair are appointed by the Minister for Tertiary Education, Skills and Employment.

Commission Chair, John Spencer

John Spencer is a Wellington-based businessman and company director. He has been a director and chair of a number of companies over the past 10 years. His background includes a period as the Chief Executive of NZ Dairy Group – one of the two dairy companies that merged to form Fonterra.

John brings substantial governance experience to his role as Chair of TEC. He is currently the Chair of KiwiRail, Raukawa Iwi Developments Ltd, Waikato Regional Airport Ltd and WEL Networks Ltd. He serves on the Boards of Tower Limited and Mitre 10.

Commissioner, Christopher Mace

Chris Mace is an Auckland-based businessman, a director of a number of companies and Chair of the Crown Research Institute NIWA.

Chris was a founding trustee of the Sir Peter Blake Trust and continues as a trustee of the Antarctic Heritage Trust; he is also past Chair of Antarctica New Zealand and the Crown Research Institute ESR. Chris works closely with the tertiary sector with a particular focus on marine science and research and chaired a support group for the redevelopment of the Marine Science Campus for the University of Auckland at Leigh.

Chris was made a Companion of the New Zealand Order of Merit in 2004 for services to Antarctica and the community.

Commissioner, John Morris

John Morris has a strong background in education, and also sits on the Education New Zealand Board. He is Chair of the Education Council of Aotearoa New Zealand Transition Board (EDUCANZ) and a member or the Partnership Schools' Authorisation Board. Mr Morris served as Headmaster at Auckland Grammar School from 1993 until 2012, has been Principal of Takapuna Grammar School,

and was a member of the University of Auckland Council. Mr Morris is founding Chairman of the Association of Cambridge Schools in New Zealand and a former Chairman of the Education Forum and is Senior Education Advisor for Cambridge International Examinations. In 1999, Mr Morris was awarded a Woolf Fisher Fellowship for Outstanding Educational Leadership, and is a frequent speaker at various educational forums both in New Zealand and internationally. He has also represented New Zealand in soccer, was Chairman of New Zealand Soccer between 2002 and 2008, and was a long-serving member of the FIFA Technical and Development Committee. In 2013 John was made an Officer of the New Zealand Order of Merit for services to education.

Commissioner, Judith Johnston

Dr Judith Johnston is an independent management consultant with senior executive level experience in both the public and private sectors. She has broad management and governance experience and currently sits on the Board of Directors for the New Zealand Qualifications Authority, convenes a number of professional conduct committees under the Health Practitioners Competency Act, and is a member of governance boards and audit and risk committees for major government agencies.

She has previously been a partner at Unisys Corporation, Chief Information Officer at the Ministry of Justice and Deputy Director-General at the Ministry of Health. Dr Johnston has also held roles as a Teaching Fellow and Lecturer at the University of Auckland and University of Waikato, and was Visiting Professor of Public Policy at Princeton University and the Massachusetts Institute of Technology. She is both a Harkness Fellow and a Foundation 21st Century Trust Fellow.

Commissioner, Nigel Gould

Nigel is a chartered accountant by profession with an early career in management positions including managing director of a public listed company. During the past 30 years he has established companies in the information technology, primary, and exporting sectors, and has more recently taken an active interest in tourism.

Following his election to the Wellington Harbour Board in 1980 he became Chairman and continued this involvement as Chair of Centreport till 2008. He joined the Massey University Council in 1999 becoming initially Pro Chancellor and then Chancellor for six years.

He is a past president of the Wellington Regional Chamber of Commerce and the New Zealand Chamber of Commerce; Fellow of the New Zealand Institute of Chartered Accountants; Fellow of the Institute of Directors; and in 2010 was awarded Officer of the New Zealand Order of Merit, and a Doctorate of Commerce by Massey University.

In addition to his roles as a TEC Commissioner, Nigel is currently Chair of the Civil Aviation Authority of New Zealand, Chair of the Young Enterprise Trust, and Chair of Destination Marlborough, and a director of other companies.

 Commissioner, Vanessa Stoddart

Vanessa is currently an independent director for Refining NZ, The Warehouse Group Limited, Alliance Group Limited and Paymark Limited. She was previously the Group General Manager of Technical Operations and People at Air New Zealand for almost 10 years and a key driver of the cultural transformation at the airline. A lawyer by profession, Vanessa joined Air New Zealand from Carter Holt Harvey Packaging Australia, where she was the Chief Executive.

Before heading Carter Holt Harvey's packaging business, Vanessa was the company's General Manager Performance Improvement and, before that, held change management and legal positions. She is a member of both the Australian and New Zealand Institute of Directors; an honorary fellow of the Human Resources Institute of New Zealand, a Companion of the Institution of Professional Engineers New Zealand, and is currently assisting with diversity initiatives in the engineering profession. She is also a member of the Better Public Services Advisory Board, Global Women Board, Kings College Board and chairs the Otago University Business School Advisory Board and is Business NZ's representative on the Territorial Employers Support Council.

 Commissioner, Phil O'Reilly

Phil O'Reilly is Chief Executive of BusinessNZ, New Zealand's largest business advocacy group, representing thousands of businesses of all sizes.

Phil and his Wellington-based team work with companies, organisations and political and other decision-makers, advocating for New Zealand's success through sustainable economic growth. He is Chair of the Board of the Business and Industry Advisory Committee to the OECD and is New Zealand's employer delegate to the International Labour Conference.

In New Zealand Phil chaired the Green Growth Advisory Group, and is Chair or member of several public and private advisory boards in areas as diverse as manufacturing, exports, trade, tax, retirement, research and development, innovation, employment, child poverty, health and safety, skills, government procurement and sustainable business.

The Senior Management Team

The TEC Senior Management Team is made up of the Chief Executive, three Deputy Chief Executives, and the Chief Advisor Māori.

Chief Executive, Tim Fowler

Tim Fowler has held the position of Chief Executive of the TEC since April 2013. He was previously Deputy Chief Executive, Quality Assurance at the New Zealand Qualifications Authority. Tim has held management positions in Australia and New Zealand in both the private and university sectors after starting his career in the Department of the Prime Minister and Cabinet.

Tim has an Honours Degree from Victoria University of Wellington, a Masters from the East-West Center and the University of Hawaii, and executive education from the Wharton School at the University of Pennsylvania.

He has experience and interest in the fields of change management, business re-engineering, and strategy.

Gerard Gilmore, Deputy Chief Executive Operations

Christchurch-born Gerard (Gus) has held many senior roles at Air New Zealand, where he has worked for the past 33 years, including general management positions in the offshore ports of Hong Kong, Singapore, London and Los Angeles. In recent years, he has been based at the Auckland headquarters as General Manager – Commercial and General Manager – Operations International, and over the past 12 months, he has been consulting for the Star Alliance as the Project Director for the alliance airlines' move to the new London Heathrow airport.

Gus is a graduate of the University of Auckland where he completed a Masters of Business Administration. During his career with Air New Zealand he has focused on operations, marketing and general management. His strengths lie in operations, market development, leadership and change management.

Lara Ariell, Deputy Chief Executive Finance

Lara joined the TEC in February 2014. Before joining the TEC, Lara worked for the Ministry of Justice, initially as the Chief Financial Officer and then as General Manager Performance and Improvement. Previously she was the Chief Financial Officer at Te Papa Tongarewa, the Museum of New Zealand.

Lara also spent some time working in planning and finance teams across the education sector – starting with the New Zealand Qualifications Authority and then the Ministry of Education. She started her career working in receivership and insolvency with accountancy firm Price Waterhouse and then McCallum Petterson and Co.

Brendan Kelly, Deputy Chief Executive Information

Brendan was the ICT Program Manager for the Box Hill Hospital Redevelopment Project in Melbourne where he was responsible for all IT and communications systems being implemented as part of the $447.5 million development of a new 600-bed hospital at Box Hill. Previously, he was Director IT Architecture at the $1.2 billion New Royal Children's Hospital project in Melbourne.

Before moving to Australia from New Zealand in late 2009, Brendan was Chief Advisor Health Information Strategy and Policy at the Ministry of Health, before which he was Program Architect for the E-government Program run by the State Services Commission.

Paula Collins, Chief Advisor Māori

Paula is of Ngā Rauru and Ngāti Ruanui whakapapa, and is a whāngai of Ngāti Toa Rangatira.

Paula began her career in training and development and spent several years developing systems and advising private training establishments about effective management practices and the delivery of quality programmes. Her move into strategic planning and operational management with Te Māngai Pāho (Māori Broadcasting) and CWA New Media (Te Kete Ipurangi) set her up well to develop and lead the promulgation of the Government's Māori e-Media outcomes framework while at Te Puni Kōkiri.

She was also a chair for the whole-of-government Māori Language Strategy group and headed key Rugby World Cup initiatives. Paula spent 10 years as a consultant for private and public groups and non-governmental organisations. She holds a Master of Information and Communications Technology degree from Victoria University of Wellington, and is a Māori language speaker.

Notes

[1] "Skilled and Safe Workplaces" is one of six strands of the Government's Business Growth Agenda. The Skilled and Safe Workplaces Chief Executives group comprises the chief executives of the Ministry of Education, the Ministry of Social Development, the Ministry of Business, Innovation and Employment, Te Puni Kōkiri, the TEC, the New Zealand Qualifications Authority, Careers New Zealand, the Accident Compensation Corporation, and the Treasury. ███████████

[2] See for example Acemoglu, D, and Autor, D (2010), *Skills, Tasks and Technologies: Implications for Employment and Earnings*. National Bureau of Economic Research Working Paper No. 16082. www.nber.org/papers/w16082

[3] See Appendix Two for an explanation of the Plan-based funding system.

[4] Tertiary Education Commission (2012). *Doing better for Māori in tertiary settings – Review of the literature.*

[5] Tertiary Education Commission (forthcoming). *Doing better for Pasifika in tertiary settings – Review of the literature.*

[6] As reported by the Ministry of Business, Innovation and Employment in its Labour Market Scorecards (www.dol.govt.nz/publications/lmr/scorecard/index.asp), based on the New Zealand Institute of Economic Research's Quarterly Survey of Business Opinion.

[7] Data provided to the TEC by the Ministry of Business, Innovation and Employment shows that, in the year to June 2014, 147,083 people entered the working-age population. Of these, 41% (60,370) were young New Zealanders turning 15; the other 59% (86,713) were new migrants. Around 52,000 working-age New Zealanders emigrated over the same period.

[8] See for example the McKinsey Center for Government (2012), *Education to employment: Designing a system that works.*

[9] The ICT Graduate Schools, announced in mid-2014, will fund TEOs and employers to collaborate to deliver ICT qualifications in "real work" environments in the Innovation Precincts in Auckland, Wellington, and Christchurch.

[10] Most targeted research funding for TEOs (i.e. funding that purchases a particular type of research) is administered by the Ministry for Business, Innovation and Employment, the Royal Society of New Zealand, and the Health Research Council. The one large research fund administered by the TEC, the Performance-Based Research Fund (see description on page 29), is primarily designed to incentivise and reward research excellence, and ensure that degree-level teaching is underpinned by research. It is a capability fund and does not purchase outputs, though it does reward research activity that generates external research income, and also considers relevance as part of its assessment of research quality.

[11] The 2006 survey was the Adult Literacy and Life Skills (ALL) survey, run by several international partners including the OECD. The new survey, part of the OECD's Programme for the International Assessment of Adult Competencies (PIAAC), is not identical to the ALL survey but shares enough questions to provide meaningful comparative data.

[12] "Skilled and Safe Workplaces" is one of six strands of the Government's Business Growth Agenda. The Skilled and Safe Workplaces Chief Executives group comprises the chief executives of the Ministry of Education, the Ministry of Social Development, the Ministry of Business, Innovation and Employment, Te Puni Kōkiri, the TEC, the New Zealand Qualifications Authority, Careers New Zealand, the Accident Compensation Corporation, and the Treasury. ███████████

[13] Funding determinations are issued by the Minister for Tertiary Education, Skills and Employment and determine how the TEC can spend its grants funding. Page 25 provides more information.

[14] Op cit

[15] Ibid

[16] Section 159ZC of the Education Act 1989 enables funding through an alternative funding mechanism if the Minister make provision for this in his or her Funding Determination

[17] All funding shown below is for the 2015 calendar year.

[18] Unless exempted from this requirement by the TEC under section 159Q of the Education Act 1989

[19] The Funeral Services ITO does not receive funding from the TEC.

From:	Clare Sinnott
Sent:	Monday, 10 November 2014 5:06 p.m.
To:	███████████
Cc:	Tim Fowler
Subject:	Final TEC BIM - 10 November 2014
Attachments:	2014 TEC BIM - Final 10_11_14 with redactions.pdf; 2014 TEC BIM - Final 10_11_14 without redactions.pdf

Good evening

We are currently working on the forthcoming Tertiary Education Performance Report (TEPR), which is due in the Minister's office soon. In the cross check of the TEPR with our annual report and BIM we have picked up an apparent inconsistency in a comment on the Māori and Pasifika achievement story in the BIM.

Our approach over the last two years has been to work with tertiary education institutions (TEIs) to commit to future focussed targets on Māori participation and achievement and this work will be reflected in the TEPR. This is making some improvements though we still see opportunity for considerable further improvement. A comment in the previous version of the BIM relating to TEI enrolment of priority learners is, therefore, somewhat counter-intuitive. As a result we have identified a need to undertake further analysis in relation to provider behaviour in this regard and made a minor amendment to the BIM to remove the comment.

A revised version of the BIM is attached. We apologise for this late change to the BIM, but we think it better reflects where we want to take the conversation with the tertiary education sector and agencies.

Clare Sinnott
Chief Advisor and Manager Office of the Chief Executive
███████████

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