

Tertiary Education Commission
Te Amorangi Mātauranga Matua

ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2014

WHO WE ARE

The Tertiary Education Commission

The TEC is one of seven State-sector education agencies that work collaboratively towards the Government's vision of a world-leading education system. Our key functions are to:



Invest government funding in tertiary education organisations



Provide information and advice to the Government about tertiary education organisations and on the tertiary education sector



Monitor and manage the performance of tertiary education organisations

WHAT WE ACHIEVED IN 2013/14



Increased proportion of the population with a tertiary qualification

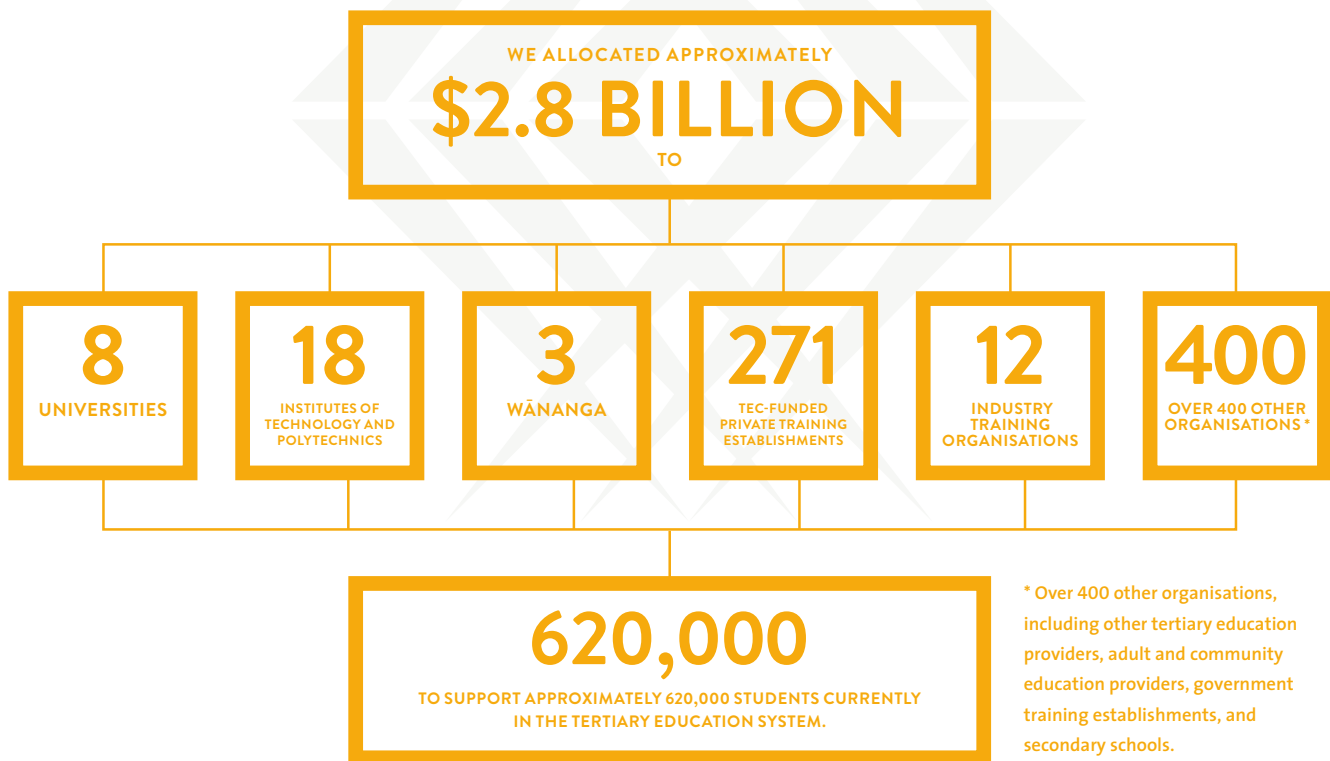
- **\$89 million** allocated to Youth Guarantee for **9,949** disengaged and at-risk **youth** to gain a Level 1 to 3 qualification
- **Youth** between the ages of 15 and 25 are **improving their literacy and numeracy skills** with the addition of the youth Literacy and Numeracy Assessment Tool
- **1,370** learners obtaining trade skills and qualifications through the **Māori and Pasifika Trades Training initiative**

High-quality and more relevant research

- **Six** new **Centres of Research Excellence** will receive funding from 2015 until 2020



WHAT WE DID



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

- **321** more **priority engineering** equivalent full-time students (up from 7,907 in 2012 to 8,228 in 2013)
- Approximately **12,000** trainees eligible to receive assistance towards the cost of tools and training through the **Apprenticeship Reboot initiative**
- **Employers** directly funded for **staff training** through the **Direct Funding Scheme**



Contributed to the education sector Better Public Services Results

- 1.1% **more 25- to 34-year-olds** have a New Zealand Qualifications Framework Level 4 or above **qualification**, up from 53.8 %
- 1% more **22-year-olds** completing a **qualification at NZQF** Level 4 or above, now at 35 %

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Chair's Foreword

The Tertiary Education Commission Te Amorangi Mātauranga Matua (TEC) allocates almost \$2.8 billion to over 700 tertiary education organisations each year to fund education, training and research. This investment supports approximately 620,000 students who are in various parts of the tertiary system. These services are both State and privately owned and together they deliver all post-secondary education, from vocational education to degree-level qualifications. New Zealand's tertiary education system has improved its efficiency and value for money over the last few years. Tertiary education organisations are taking on more responsibility for the performance of their organisations, as well as the performance of their learners.

Since 2009, the TEC has shifted the focus to educational achievement and performance by using performance indicators – such as course completions, qualification completion, student retention and student progression – to stimulate a high-quality and responsive tertiary education system. More graduates now hold a relevant tertiary education qualification, are achieving success and are contributing to the economy.

The TEC has worked closely with tertiary education organisations and other agencies on the Canterbury rebuild. The development and implementation of

business cases – for the University of Canterbury, Lincoln University and Christchurch Polytechnic Institute of Technology – is supporting the rebuild of earthquake damaged facilities.

As we celebrate these successes, we are also mindful that the tertiary education system operates in a challenging environment, is influenced by rapidly changing technology and needs to respond to the high expectations of learners, communities, business and industry. We need to ask ourselves whether our system will produce the productivity, skilled workforce and societal outcomes we want and need.

While we celebrate the success of the sector, we need to acknowledge that we have created a system that does not create the ideal growing conditions to achieve success in the broadest sense.

We need to examine the ways in which we influence the system – our approach to funding, how we build partnerships across the system and the investment we make in tertiary education on behalf of New Zealanders – to ensure that programme delivery will result in the skills required by business to keep us globally competitive and to make sure we are seen as operating a world-leading tertiary education system.

To maximise the impact of our investment and gain greater traction across the tertiary education sector, the TEC is changing significantly. We have adopted a strategy that has three key pillars; we will seek to champion aspiration by actively utilising opportunities to promote the value of a tertiary education and what it takes to succeed in that system. We will seek to build partnerships with the tertiary education sector, businesses, colleague agencies and learners to better leverage our role and, third, we will develop an investment approach to get a better return for the tertiary education spend.

There are significant challenges ahead of the tertiary education sector as set out in the latest Tertiary Education Strategy 2014–2019. As we work together to deliver on the priorities set out in the Tertiary Education Strategy over the next five to 10 years, we need to improve the ways we link what students are learning with the needs of industry. We need to encourage greater innovation and a more international outlook and we need to ensure that all people have the opportunity and encouragement to gain the skills they need to participate successfully in modern life.

This report sets out what we have delivered in 2013/14. We are pleased with what the TEC has achieved but

there is more to be done. We look forward to continuing to work with the tertiary education sector, with communities, business and industry to equip all New Zealanders with the knowledge and skills they need for lifelong success.



JOHN SPENCER

CHAIR, TERTIARY EDUCATION COMMISSION

23 October 2014



Chief Executive's Message

The Tertiary Education Commission Te Amorangi Mātauranga Matua (TEC) is one of a large number of organisations working to support and enhance what our tertiary education system delivers for New Zealanders. We are all working to grow a world-leading education system for New Zealand.

Every day New Zealanders interact with someone who has been through the tertiary education system, is about to enter the system or is in the middle of the system – and many of us have a view about what a good tertiary system looks like. We all want a flexible and innovative system that is able to respond to the changing needs of learners and our communities, business and industry.

Working together across the system we have increased the proportion of the population who have a tertiary education; we've supported the production of higher quality and more relevant research; and we're working hard to be more responsive to the needs of learners and employers. We need to work together to build on these strong foundations – to develop sustainable operating models, increase collaboration and build capability and economies of scale. We must work together to take a system focus so that we can harness diversity, build on differentiation and specialise in areas of strength.

There are a number of good things about the system and the TEC, however, there are a range of things we could do better. At the TEC, we've spent the last 12 months focusing on what our organisation needs to be like so we can play our part in ensuring all New Zealanders are equipped with the knowledge and skills they need for lifelong success.

We've continued to deliver our 'business as usual' activity with the publication of Plan Guidance, and the distribution of around \$2.8 billion to over 700 tertiary education organisations. We've played our part in contributing to the Better Public Service target (85 percent of 18-year-olds achieving National Certificate of Educational Achievement (NCEA) Level 2 or equivalent in 2017) with \$89 million invested in Youth Guarantee funding in 2013 so that 9,949 learners could gain a level 1 to 3 qualification.

We've also been involved in supporting the development of tools that we believe will help the sector to achieve some of the lifts and shifts we need – like the release of the literacy and numeracy youth option tool to help get at-risk young people into careers and boost achievement for our Māori and Pasifika peoples.

Research is also an important feature of the tertiary education landscape and this year we supported the process to select and fund six new Centres of Research Excellence from 2015 until 2020. Within our own business we have progressed our transformation project, Te Kahurangi, to identify what we need to do to be a more externally focused organisation that works hard to be able to respond to the needs of learners and to be more business friendly.

We're having a good, hard look at our approach to funding and we want to work in partnership with the sector to build our collective knowledge about how and where we should invest in tertiary education to achieve positive outcomes across the sector.

Our work is fundamentally about making good investment decisions, advising on, and monitoring the performance and delivery of the tertiary sector so that all New Zealanders are able to pursue their tertiary education goals, and aspire to lifelong success.

Our 200 staff are the heart of our organisation and we are committed to doing all we can to ensure we have the best tertiary education system imaginable. Our transformation project has confirmed our commitment to working in partnership with the sector to ensure everyone has access to the life changing opportunities of tertiary education.

As an organisation we are looking forward to working across the system to find ways to do things better and make more of an impact. We are all working towards the same goal – a system that provides all New Zealanders with the knowledge and skills they need for lifelong success.



TIM FOWLER

CHIEF EXECUTIVE, TERTIARY EDUCATION COMMISSION

23 October 2014

The Role of the Tertiary Education Commission

The Tertiary Education Commission Te Amorangi Mātauranga Matua (TEC) is a Crown entity. Our Board of Commissioners provides governance and is accountable to the Minister for Tertiary Education, Skills and Employment. Leadership and strategic advice are provided by our Senior Management Team, which is also responsible for the performance and deliverables of the organisation.

Under the Education Act 1989, we are charged with allocating funding and giving effect to the Tertiary Education Strategy. Our three key functions are to:

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

Our performance as a Crown entity is jointly monitored by the Ministry of Education and the Ministry of Business, Innovation and Employment. The joint monitoring arrangement reflects the role of tertiary education and its importance to the labour market and the science and innovation system.

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

We allocate approximately \$2.8 billion a year on behalf of the Government to fund the provision of tertiary education, training and research.

In 2013/14, the TEC funded educational provision through:

- eight universities
- 18 institutes of technology and polytechnics
- three wānanga
- 271 TEC-funded private training establishments
- 12 industry training organisations,¹ and
- over 400 other organisations, including other tertiary education providers, adult and community education providers, government training establishments and secondary schools.

The tertiary education institutions – universities, institutes of technology and polytechnics and wānanga – are Crown entities subject to the Public Finance Act 1989. The TEC is the Crown’s monitoring agency for these institutions.

Our Sector Helpdesk is the key contact point for tertiary education organisations, while our Investment Managers provide additional support to industry training organisations and tertiary education institutions (universities, institutes of technology and polytechnics and wānanga).

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

¹ This is the number of funded industry training organisations as at 30 June 2014.

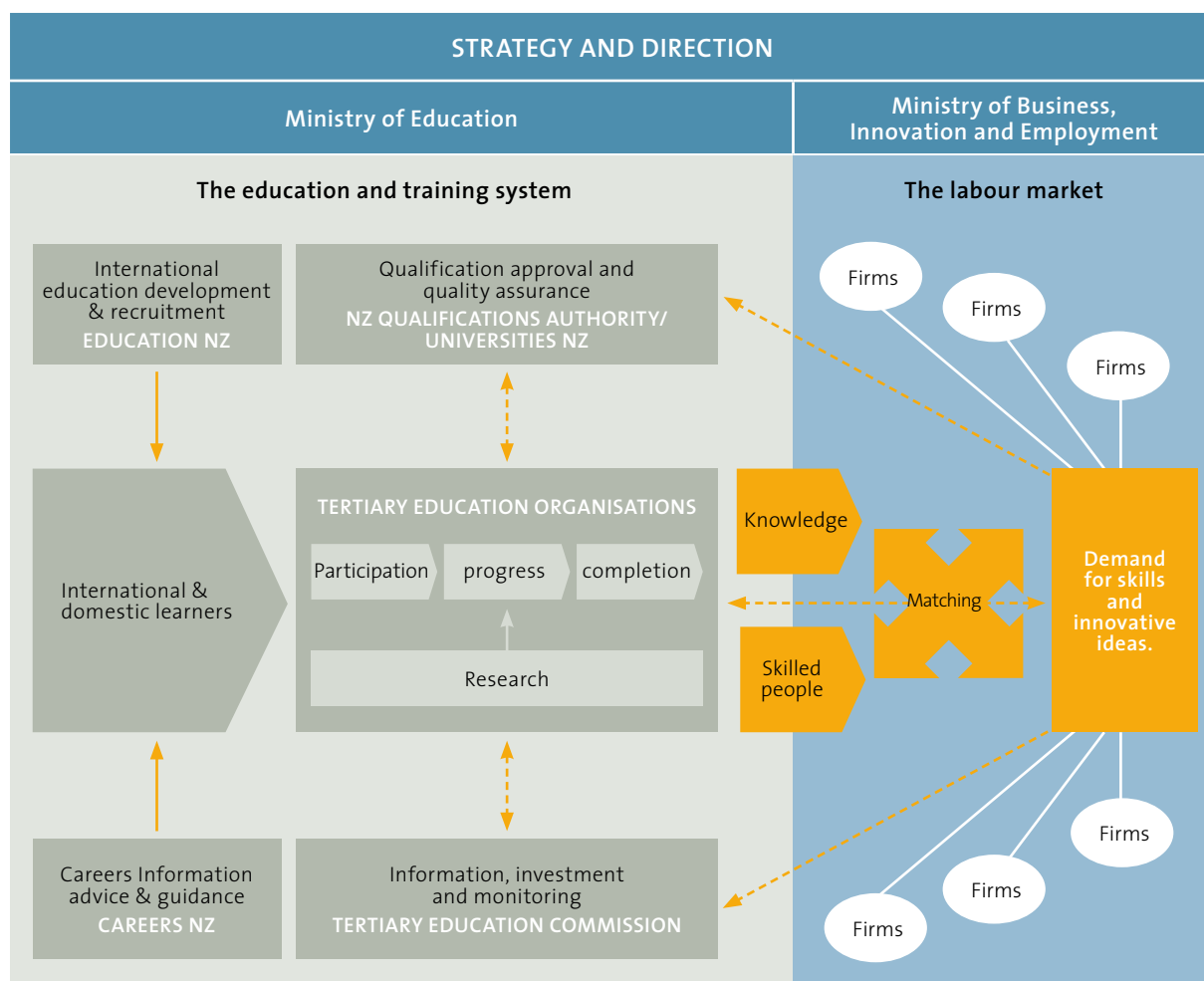
The Education Sector

The TEC is one of seven State-sector education agencies that work collaboratively towards the Government's vision of a world-leading education system that equips all New Zealanders with the knowledge, skills and values to be successful citizens in the 21st century. The other agencies are the Ministry of Education, New Zealand Qualifications Authority, the Education Review Office, the New Zealand Teachers Council, Careers New Zealand and Education New Zealand.

The TEC's focus is on funding and monitoring tertiary education and training. Four other education agencies – the Ministry of Education, the New Zealand

Qualifications Authority, Careers New Zealand and Education New Zealand – also influence the tertiary education sector.

The TEC also works closely with the Ministry of Business, Innovation and Employment to ensure the tertiary education system responds to the needs of employers and produces research and graduates with skills that can contribute to economic growth and productivity. The respective roles and contributions of these agencies are set out in the following supply-chain diagram.



Strategic Direction

Tertiary Education Strategy

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

A new Tertiary Education Strategy 2014-2019 was issued in March 2014. The new strategy signals a shift toward a more outward-facing New Zealand tertiary education system, with strong links to industry, community and the global economy. It is designed to guide tertiary education and its users (learners and businesses) towards a more prominent contribution to a more productive and competitive New Zealand.

There are six strategic priorities in the new Tertiary Education Strategy 2014-2019:

- delivering skills for industry
- getting at-risk young people into a career
- boosting achievement of Māori and Pasifika
- improving adult literacy and numeracy
- strengthening research-based institutions, and
- growing international linkages.

Our contribution to the Tertiary Education Strategy's priorities is through our key outputs:

- smart investment decisions
- provision of information and advisory services, and
- monitoring sector performance and capability.

Over the past seven years the TEC has focused on improving educational performance through moving funding from poor-performing courses, as measured by course completion rates, and progressively directing funding towards higher educational achievement and high-priority areas, such as in science, technology, engineering and mathematics.

Over the next four years we will broaden this focus and take significant steps toward more of an investment approach to tertiary education funding that will further enhance the sector's contribution to the Tertiary Education Strategy, Business Growth Agenda and Better Public Services targets.

Business Growth Agenda

Economic growth is a central priority for the Government. The Government's Business Growth Agenda² seeks to address low growth in Gross Domestic Product (GDP) per capita and low labour productivity. Three of the Business Growth Agenda's workstreams are directly relevant to the Tertiary Education Strategy and the TEC's activities:

- the *Skilled and Safe Workplaces* workstream, aimed at enhancing productivity through a higher number of qualified graduates who have the right skills
- the *Innovation* workstream, aimed at upskilling the innovation workforce and ensuring research organisations, including tertiary education organisations, create and transfer new knowledge to businesses, and
- the *Building Export Markets* workstream, aimed at increasing exports by New Zealand businesses, including the education sector's goal of doubling the value of international education to \$5 billion a year by 2025.

We contribute to these three workstreams through giving effect to the Tertiary Education Strategy and a focus on matching skills training to employers' needs. Through the Investment Plan process we work with the Ministry of Business, Innovation and Employment to use information on undersupply and the outcomes of tertiary education to shift investment toward areas of unmet needs.

² <http://www.med.govt.nz/business/economic-development/the-governments-business-strategy>.

Better Public Services

To sharpen the public sector's focus on high-quality delivery, the Government has set Better Public Services³ targets to boost skills and employment by increasing educational achievement among young New Zealanders. Two of the targets aimed at boosting skills and employment are directly relevant to the TEC's activities:

- by 2017, 85 percent of 18-year-olds will have achieved a National Certificate of Educational Achievement Level 2 or an equivalent qualification, and
- by 2017, 55 percent of 25- to 34-year-olds will have a qualification at Level 4 and above on the New Zealand Qualifications Framework.

Our expectations of tertiary education organisations

Through the Investment Plan process, we require tertiary education organisations to set performance commitments that show how they will respond to the Government's priorities in return for Government investment.

An Investment Plan is an accountability document that sets out how each tertiary education organisation will respond to Government priorities and contribute to national outcomes as expressed in the Tertiary Education Strategy and Plan Guidance.

The Plan-based investment process begins with the TEC publishing Plan Guidance, which outlines its expectations of tertiary education organisations in general. In engaging with tertiary education organisations and approving their Investment Plans, the TEC shifts funding from lower-performing to higher-performing tertiary education organisations and ensures adequate investment occurs in high-priority areas.

In our Plan Guidance for 2013 and 2014 Investment Plans, we required that:

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

³ The rationale for this target and the cross-agency plan for achieving it is at: <http://www.minedu.govt.nz/theMinistry/BetterPublicServices/BoostingSkillsEmployment.aspx>.

Assisting Canterbury's tertiary education institutions

Following the earthquakes in 2010 and 2011 the TEC worked closely with Canterbury-based tertiary education institutions to restore their education and research services, to ensure continuity through extraordinary financial support and to develop robust business cases for capital funding for rebuilding damaged facilities.

In 2013/14 the Government announced capital support for Canterbury-based institutions for their rebuilding programmes. In 2014/15 and beyond, the TEC will continue to monitor the institutions' progress on the rebuilding and associated projects and to provide advice to the Minister on yet to be developed aspects of their business cases.

International Education

The Leadership Statement for International Education sets out the Government's policy objectives and stretch goals for international education. This includes a goal to double the annual economic value of New Zealand's international education services to \$5 billion between 2011 and 2025.

Through the Investment Plan process we ensure that tertiary education organisations operating in this market grow their international revenue in a way that:

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

The TEC's Outcomes Framework for 2013/14

Our outcomes framework identifies the TEC's key intended impact as New Zealand having 'a world-leading and high-performing tertiary education system'.

This overarching impact has three elements:

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



The TEC Impacts

An increased proportion of the population with a tertiary qualification

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

WHAT WE WANT TO SEE

- higher levels of educational achievement
- increased participation rates in higher-level qualifications, particularly by priority learner groups
- increased qualification completion rates in higher-level qualifications, particularly by priority learner groups, and
- more graduates with the skills valued by employers.

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

HOW WE CONTRIBUTE

We contribute to this impact primarily through our key outputs of investment, smart investment, provision of information and advisory services and monitoring sector performance and capability.

Two of the Better Public Services targets set by government are directly relevant to the TEC's activities:

- by 2017, 85 percent of 18-year-olds will have achieved a National Certificate of Educational Achievement (NCEA) Level 2 or an equivalent qualification.

Our contribution to achieving this requires a focus on providing foundation-level education for

learners who did not successfully transition from post-compulsory to tertiary education and improving the performance of the system, particularly for priority learners groups.

- by 2017, 55 percent of 25- to 34-year-olds will have a qualification at Level 4 and above on the New Zealand Qualifications Framework.

Our core activities are focused on the Better Public Services target. We contribute to this target through incentivising improvements in the performance of the tertiary education system for priority groups – Māori, Pasifika and at-risk young people.

WHAT WE DID

Through Investment Plans and performance-linked funding we focus elements of our funding on those organisations that deliver for learners. The majority of our funds are allocated through Investment Plans, which require tertiary education organisations to commit to improving participation and achievement among priority learner groups. We also directly link funding to the educational performance indicators through performance-linked funding.

Performance-linked funding

2013 was the second year that five percent of each tertiary education organisation's Student Achievement Component funding was linked to the previous year's educational performance. In 2013 only \$2.8 million out of \$2.02 billion (0.14 percent) of Student Achievement Component funding was withheld owing to under-performance, a slight decrease on 2012 adjustments of \$3 million out of \$2.01 billion (0.15 percent).

Funding was linked to 2012 educational performance, which continued to show improvements across the sector. Course completion rates were up by one percent (2011 82 percent – 2012 83 percent) and qualification completion rates up five percent (2011 71 percent – 2012 76 percent). As performance has continued to improve we have increased performance thresholds to ensure sustained improvement.

Course and qualification completion rate trends



Levels one and two competitive process

In February 2014 the TEC published Student Achievement Component Levels One and Two Plan Guidance for 2015 and 2016. This explains the competitive process for allocating up to \$70 million of the Student Achievement Component levels one and two funding pool for 2015 and 2016. The TEC published application information on its website in March and ran a series of regional briefings for tertiary education organisations interested in learning more about the competitive process. Eligible applications were assessed for quality and value for money and then considered by a panel. Initial allocations for successful applicants have been notified. Final allocations will be confirmed in late 2014 via the usual Investment Plan approval processes.

Educational performance information

We encourage improvement by annually publishing information that measures tertiary education organisations' performance on the educational performance indicators. We also published the annual Tertiary Education Performance Report in November 2013. The Tertiary Education Performance Report profiles the relative educational and financial performance of each tertiary education institution and presents at a high level performance across the sub-sectors, including a specific focus on performance for Tertiary Education Strategy priority learners.

New graduate measures of performance

Two new measures were developed:

- proportion of graduates who are employed two years after completing a qualification at Level 4 or above, and
- earnings of graduates who are employed two years after completing a qualification at Level 4 or above.

Tracking the employment rates and earnings gained from tertiary education are two key ways of measuring the value employers place on qualifications. Our monitoring of these measures will recognise that they are influenced by external factors, such as the state of the economy and the labour market.

“The tertiary education sector continued to produce strong educational performance in 2013. The Government’s focus on educational performance rather than just enrolments has led to some significant gains over the last five years and I am pleased to see that in 2013 tertiary providers are maintaining high course and qualification completion rates while retaining students.”

Tertiary Education, Skills and Employment Minister, STEVEN JOYCE

Our key achievements

Youth Guarantee

The Youth Guarantee fund provides fees free opportunities for disengaged and at-risk 16- to 17-year-olds to gain a foundation education in a tertiary setting. Youth Guarantee extends from levels 1 to 3 on the New Zealand Qualifications Framework (NZQF), the majority of provision is at Levels 1 to 2 and in particular the *National Certificate for Educational Achievement (NCEA) Level 2 aligned with a Vocational Pathway*. This makes Youth Guarantee an important contributor to the Better Public Services target of *85 percent of 18-year-olds achieving NCEA Level 2 by 2017*.

In 2013, \$89 million was allocated to enable 9,949 learners, equating to 7,539.69 equivalent full-time students, to gain a Level 1 to 3 qualification. For many of the former Youth Training private training establishments, 2013 remained a transitional year following on from the merger of Youth Training into Youth Guarantee in 2012. Private training establishments have focused on shifting to a more educational outcomes focus, offering full qualifications for the first time and shifting to the Single Data Return.

This was a big step change for many of the smaller private training establishments. Work is ongoing to ensure these changes are embedded and the fund matures. Part of this work included providing additional access for those learners most in need by extending the age range from 2014 to include 18- and 19-year-olds.

Literacy and numeracy assessment

The Literacy and Numeracy for Adults Assessment Tool is an online adaptive tool that provides robust and reliable information on the reading, writing and numeracy skills of adults. This assessment tool informs the development of learning interventions that strengthen literacy and numeracy skills. The Assessment Tool also allows learners to track their progress over time and enables educators and organisations to report on the progress made by groups or cohorts of learners.

This year the TEC developed a new option – The Youth Option of the Literacy and Numeracy for Adults Assessment Tool. This new option is tailored for young learners between the ages of 15 and 25 and was launched by the Minister for Tertiary Education, Skills and Employment on 9 July 2014. The youth option of the tool will help educators improve the literacy and numeracy skills of young learners, including the increasing numbers of young Māori and Pasifika learners participating in tertiary education through programmes such as Youth Guarantee and Māori and Pasifika Trades Training.

The youth option of the tool is a key contributor to three of the key priorities from the Government's Tertiary Education Strategy 2014-2019: lifting adult literacy and numeracy, getting at-risk young people into a career, and boosting achievement for Māori and Pasifika.

Development work has also started on literacy and numeracy for adults assessment tool options that are targeted specifically to Māori learners and for learners with English as a second language.

THE LITERACY AND NUMERACY TOOL HELPS TO IDENTIFY LEARNING AREAS

The Literacy and Numeracy Assessment Tool is now also being used by other government agencies, such as the New Zealand Army. They use the tool to help identify learning areas that will help staff reach their career aspirations. The Department of Corrections also uses the tool to help identify the appropriate training for inmates.

The technology and approach have also garnered interest from abroad with countries such as Singapore, Australia, Canada and the United Kingdom. The Tertiary Education Commission has agreed to support the New Zealand Council for Educational Research (NZCER) in investigating the commercial viability of developing a more generalised tool for other countries.

IPANZ GEN-i Digital Government Award finalists – The Institute of Public Administration New Zealand (IPANZ) selected the Literacy and Numeracy Assessment Tool as one of the finalists in the Excellence in Digital Government Award at the annual IPANZ Gen-i Public Sector Excellence Awards.

Māori and Pasifika Trades Training

The Māori and Pasifika Trades Training initiative was introduced in Budget 2013 to support more Māori and Pasifika learners, aged 18-34, to obtain trades skills/ qualifications and to support pathways to level four New Zealand Apprenticeships or equivalent. The initiative establishes consortia made up of tertiary education organisations, community groups and employers to recruit and support learners through trades training that will ultimately lead to good employment outcomes.

The Māori and Pasifika Trades Training funds the costs of consortia development and services and making training fees free for learners. It also provides employment brokerage support and a tools grant for learners once they have progressed to New Zealand Apprenticeships. The initiative is jointly funded by the TEC and the Ministry of Business, Innovation and Employment.

As at 25 June 2014 the Ministry of Business, Innovation and Employment has agreements with 11 consortia, thereby authorising the TEC to enter into funding agreements with the tertiary institutions involved in them. These consortia are supporting 1,370 learners, equating to 852 equivalent full-time students in 2014. Potentially at least one more consortia will soon become operational.

Early indications are that the Māori and Pasifika Trades Training initiative is engaging some learners who were previously disconnected from tertiary education. It is also significantly strengthening relationships between some tertiary institutions and their communities, with this proving especially valuable in parts of the country with dispersed regional populations and difficult to access learner cohorts. The Māori and Pasifika Trades Training initiative is supporting a wide range of trades skills, including building and construction, electrical and general engineering, automotive and primary industry provision. These skills are important in supporting the Christchurch rebuild, in overcoming infrastructure and construction bottlenecks and in developing our regional economies.

MĀORI AND PASIFIKA TRADES TRAINING

**TESSA GREGORY – AN APPRENTICE PAINTER**

Tessa, whose iwi is Wai Taha, Ngai Tahu and Ngati Mamoe, says enrolling in He Toki ki te Rika (Māori Trades Training) at CPIT was the best decision she could have made.

The Māori and Pasifika Trades Training Fund contributes to an increased proportion of the population having a tertiary education. Not only is Tessa Gregory, an apprentice painter, working towards a qualification, she also contributes to skills needed for the Christchurch rebuild.

Following 14 weeks of training and a further six weeks of work experience, Tessa was offered an apprenticeship with Frame Contracting. “I was so happy. I felt really good. I had finally achieved something.”

In two and a half to three years she will be fully qualified and also experienced in painting and decorating homes, commercial spaces and Earthquake Commission repair work. “I am just happy. I feel like I’m on the right path. If it wasn’t for He Toki I don’t know what I would be doing now.”

Established in 2012, He Toki ki te Rika has trained and supported over 276 students to graduate from the programme. He toki ki te Rika is a collaboration between Te Rūnanga o Ngāi Tahu, CPIT and Hawkins Construction designed to help Māori contribute to the Christchurch rebuild and become leaders in the industry.

The programme includes cultural elements and supports Māori students through their trades training and into employment. Graduates enjoy further support at work, as well as opportunities to keep learning and progress to being the foreperson, the manager or the business owner.

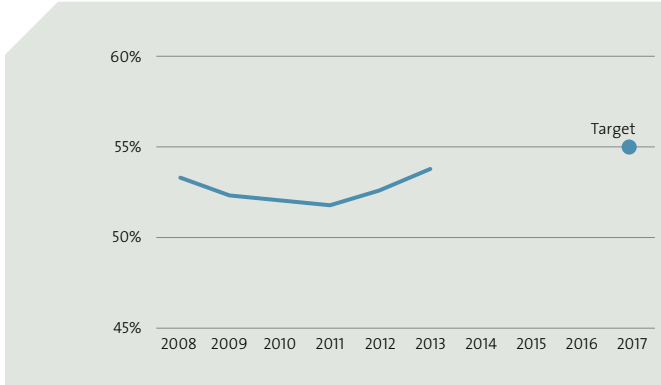
Measure of Progress

An increased proportion of the population with a tertiary qualification					
Measure	2010 Actual	2011 Actual	2012 Actual	2013 Target	2013 Actual
Proportion of domestic, full-time students studying NZQF Levels 1-3 qualification who have progressed to higher-level study	39.8%	36.5%	36.4%	36.6%	36.7%
25- to 34-year-olds					
Proportion of 25- to 34-year-olds who have a qualification at NZQF Level 4 or above	52.1%	51.8%	52.6%	52.7%	53.8%
19-year-olds					
Proportion of 19-year-olds who have studied at NZQF Level 4 or above (see note one)	46%	47%	47%	50%	47%
Proportion of Māori 19-year-olds who have studied at NZQF Level 4 or above (see note one)	27%	28%	29%	42%	28%
Proportion of Pasifika 19-year-olds who have studied at NZQF Level 4 or above (see note one)	35%	36%	36%	49%	37%
22-year-olds					
Proportion of 22-year-olds who have completed a qualification at NZQF Level 4 or above	31%	32%	34%	33%	35%
Proportion of Māori 22-year-olds who have completed a qualification at NZQF Level 4 or above	18%	20%	22%	24%	24%
Proportion of Pasifika 22-year-olds who have completed a qualification at NZQF Level 4 or above	20%	22%	26%	26%	28%

Note one – 19-year-olds

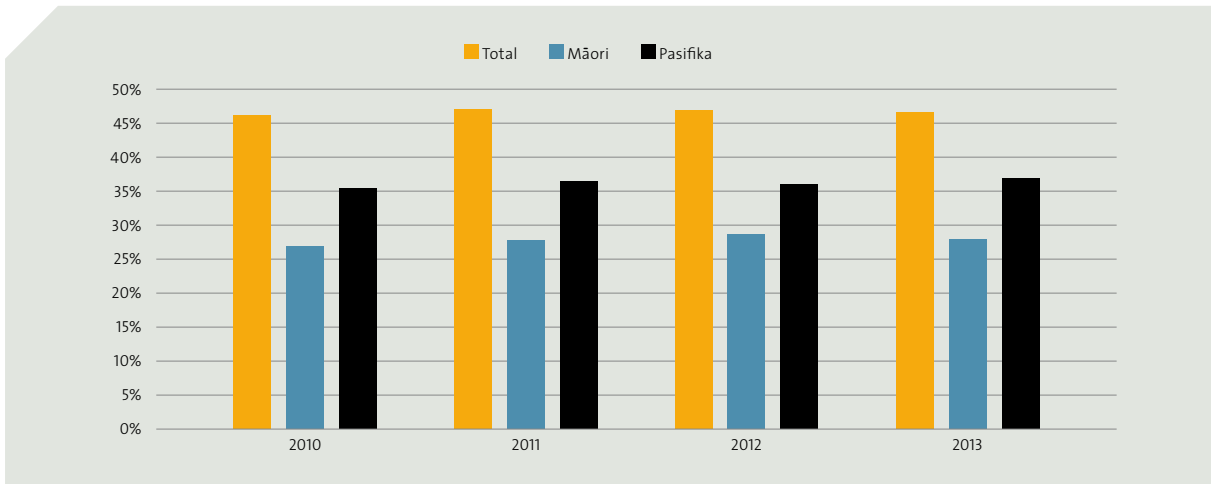
The method for this indicator was changed in 2014 to use the cohort dataset developed to monitor Youth Guarantee. This dataset tracks students from age 15 at school and provides better estimates for the population. The actuals shown for 2010-2013 have all been calculated using the new method. 2013 targets, using the new method, were not set.

Proportion of 25- to 34-year-olds who have attained a Level 4 or higher qualification

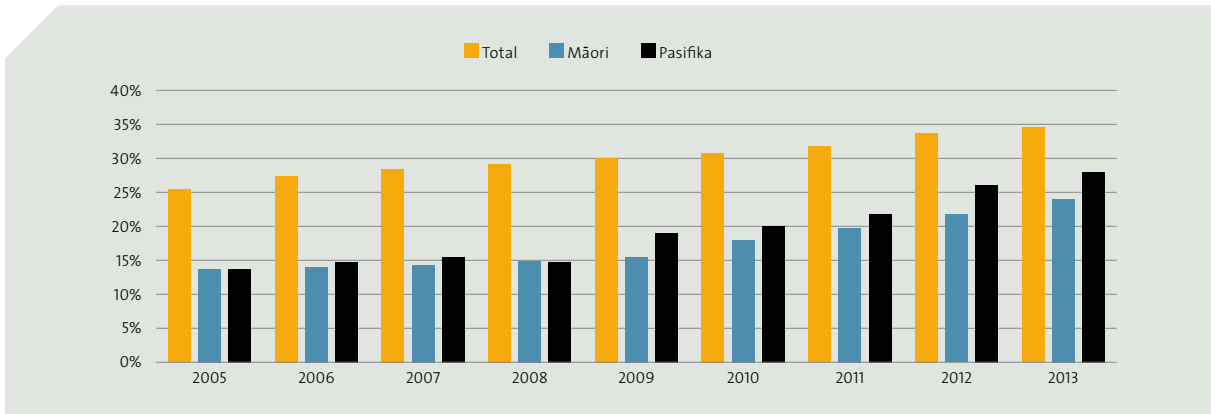


The annual result for the proportion of 25- to 34-year-olds with a qualification at Level 4 or above in 2013 was 53.8 percent, up from 52.6 percent in 2012. Although changes to the Household Labour Force Survey qualification question in June 2013 may have contributed to this increase, the increase is owing in part to improvements in migration and improved performance in the tertiary sector.

Proportion of the 19-year-old population who have had an enrolment at Level 4 or above



Proportion of 22-year-old population who have completed a qualification at Level 4 or above through the New Zealand tertiary education system



Higher-quality and more relevant research

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

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

The TEC influences improvements in the quality and relevance of research and research-led teaching through its investment in the Performance-Based Research Fund, the Centres of Research Excellence fund and through the Investment Plan process.

WHAT WE WANT TO SEE

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

HOW WE CONTRIBUTE

The TEC is one of a number of agencies that fund and support research. Others include the Ministry of Business, Innovation and Employment; the Ministry for Primary Industries; the Royal Society of New Zealand and the Health Research Council.

Performance-Based Research Fund

The primary purpose of the Performance-Based Research Fund is to ensure that excellent research in the tertiary education sector is encouraged and rewarded. This entails assessing the research performance of tertiary education organisations and then funding them on the basis of their performance. The Performance-Based Research Fund is accessed by universities, institutes of technology and polytechnics, wānanga and private training establishments. The Performance-Based Research Fund is paid through the Investment Plan.

The Performance-Based Research Fund has three measures that support the Government's aims:

- the Quality Evaluation measure encourages and rewards the quality of a broad range of research outputs. It is an assessment of the research performance of staff, at eligible tertiary education organisations, by expert peer review panels
- the Research Degree Completion measure supports tertiary organisations to build their human research capability through higher-level skills development. It is a yearly measurement of the number of Performance-Based Research Fund-eligible postgraduate research-based degrees completed at participating tertiary education organisations, and
- the External Research Income measure rewards organisations for undertaking high-quality research funded through external sources. It is a yearly measurement of the amount of income received by participating tertiary education organisations from external sources for research purposes.

Māori Research

Supporting Māori research, methodologies and research capability is critical for the development of Māori and of all New Zealanders.

The Performance-Based Research Fund takes account of, and supports, Mātauranga Māori. As part of this, the Performance-Based Research Fund recognises all theses submitted in Te Reo Māori and all research degrees completed by Māori research students, through higher weightings in the funding calculation.

Centres of Research Excellence fund

The Centres of Research Excellence fund supports excellence in collaborative research in areas that are strategically relevant to New Zealand. It encourages the dissemination of knowledge to end-users and, like the Performance-Based Research Fund, supports tertiary education organisations to build New Zealand's future research workforce.

Centres of Research Excellence are inter-institutional research networks, with researchers working together on commonly agreed work programmes. Centres of Research Excellence make a contribution to New Zealand's development and link to user groups. They also build research capacity and capabilities through postgraduate programmes and the training of new researchers.

The Centres of Research Excellence fund is allocated in accordance with the Minister for Tertiary Education, Skills and Employment's funding mechanism issued under section 159L of the Education Act 1989. Funding from the Centres of Research Excellence fund is determined through a fully contestable process. Funding is allocated and monitored through a funding arrangement with the TEC.

WHAT WE DID

The TEC contributed to government strategies to improve research, science and innovation outcomes through provision of content and advice to the Business Growth Agenda Future Direction Report, the National Statement of Science Investments and the Science and Society project.

We made it a requirement that research-based tertiary education organisations include information in their Investment Plans how they will manage their overall resources to support their research strategies and implementation plans and support innovation (especially commercial innovation) through research, knowledge exchange and human capital development.

2012 Quality Evaluation

The TEC completed the 2012 Performance-Based Research Fund Quality Evaluation in April 2013. The final report was released in October 2013. During this time the TEC also worked with the Ministry of Education to review both the policy settings and the operational aspects of the Performance-Based Research Fund and engaged with the sector on potential changes. A number of recommendations were agreed by Cabinet in February 2014. These changes will:

- clarify the objectives of the Performance-Based Research Fund
- better value user-perspectives of research quality and engagement in user-oriented research
- simplify the Performance-Based Research Fund Quality Evaluation to reduce transaction costs
- better support the sustainability of the tertiary education research workforce, and
- strengthen reporting on research performance.

These changes will be implemented between 2014 and 2018, with the TEC having convened a Sector Reference Group in July 2014 to develop detailed operational guidelines for the 2018 Quality Evaluation.

Our key achievements

Centres of Research Excellence selection round

The Centres of Research Excellence are inter-institutional research networks, established to encourage the development of excellent tertiary education-based research that is collaborative, strategically focused and creates significant knowledge transfer activities.

The 2013/2014 selection round is the third time tertiary education institutions have had the opportunity to seek funding. Of the 27 applications from across all eight universities, six Centres of Research Excellence were successful through this process, including two Centres of Research Excellence that currently receive funding.

These Centres of Research Excellence will be funded from 2015 until 2020.

New Centres of Research Excellence (CoRE):

- Brain Research NZ (hosted by the University of Auckland)
- the Medical Technologies CoRE (hosted by the University of Auckland)
- Te Pūnaha Matatini – the Centre for Complex Systems and Networks (hosted by the University of Auckland), and
- the Dodd-Walls Centre for Photonic and Quantum Technologies (hosted by Otago University).

Existing Centres of Research Excellence:

- the McDiarmid Institute for Advanced Materials and Nano Technology (hosted by Victoria University), and
- the Maurice Wilkins Centre (hosted by the University of Auckland).

Budget 2014 has provided further funding to increase the range of Centres of Research Excellence activity. In May 2014 the Government announced a 2014/15 general selection round and a Centre of Research Excellence focused on Māori research selection round. This will add another four Centres of Research Excellence to the six Centres of Research Excellence that were selected through the 2013/14 selection round.

The three additional general Centres of Research Excellence will be selected through a closed selection process, with only tertiary education institutions that submitted an application to the 2013/2014 selection round able to apply. A fourth Centre of Research Excellence dedicated to Māori research will be selected through an open selection round, with hui held in June 2014 to engage with the sector and key stakeholders on the process and outcomes sought from the round. The results of the two additional rounds are expected in 2015.

“The new CoREs that were successful in this round are for research in areas fundamental to the interests of New Zealand such as health, nanotechnology, photonics and quantum technologies, and working with and exploiting large datasets...”

“The Centres of Research Excellence are world-leading. Take, for example, the Centre for Complex Systems (Te Pūnaha Matatini). It will focus on harnessing and understanding complex big datasets for economic, social and environmental benefit. As a concept, this barely existed until very recently.”

The TEC’s Chief Executive Tim Fowler announcing the Centres for Research Excellence for 2015 to 2020

TE PŪNAHA MATATINI – THE CENTRE FOR COMPLEX SYSTEMS AND NETWORKS



Te Pūnaha Matatini Director Shaun Hendy

Te Pūnaha Matatini, a new Centre of Research Excellence, is working to turn complex data about the biosphere, the economy and the marketplace into knowledge and knowledge-based decisions.

Two dozen experts from the academic research community, industry and government are coming together to study complex systems and networks in the biosphere, the economy and the marketplace involving physics, economics, mathematics, biology, computer science, operations management, statistics and social science.

“New Zealand faces pressing economic, environmental and social challenges. We need socially and environmentally sustainable sources of growth and tools for managing the complex, interconnected world of the 21st century” says Te Pūnaha Matatini Director Shaun Hendy.

Measure of Progress

Higher-quality and more relevant research			
Measure	2012 Actual	2013 Target	2013 Actual
Average Quality Score of the sector, as measured by the Performance-Based Research Fund Quality Evaluation (Measured every 6 years – no new data until 2018)	4.66	4.66	n/a
Increase in External Research Income (see note one)	-0.09%	2-4%	-3.5%
Number of Research Degree Completions	3,766	3,333	3,971

Note one – Increase in External Research Income

The reduction in External Research Income declared between 2012 and 2013 is largely accounted for by changes in the funding received by universities through the Marsden Fund and Health Research Council.



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

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

Tertiary education organisations can support improved employment and economic outcomes by increasing their roles as places for educators, researchers and businesses to engage, collaborate and innovate.

WHAT WE WANT TO SEE

- more tertiary education organisations working with employers so that students gain the skills they need for work
- greater responsiveness by tertiary education organisations to demand signals at local and national levels and to Government priority areas
- more tertiary education organisations aligning their activities with their expected roles within the system, and
- tertiary education organisations that are well managed and financially sustainable.

HOW WE CONTRIBUTE

We contribute to this impact primarily through our funding decisions.

The majority of our funds are allocated through Investment Plans that require tertiary education organisations to demonstrate how they will shift their delivery toward priority areas.

The TEC has been working with the Ministry of Business, Innovation and Employment through the 2015 Investment Plan round to ensure that the TEC's

investments better align with labour market needs. The TEC and the Ministry of Business, Innovation and Employment are also collaborating on a project to incorporate labour market and other relevant data to better inform the TEC's investment strategies.

In response to our Plan Guidance, in their 2013-14 Investment Plans tertiary education organisations were required to provide performance commitments for how they will shift their delivery toward priority areas, such as Levels 4 and above, young learners, Māori and Pasifika.

WHAT WE DID

Engineering enrolments

Budget 2012 provided \$42 million over four years and Budget 2013 provided \$9 million over four years for funding rate increases to engineering. Budget 2013 also provided \$33 million over four years for additional volume. These investments were accompanied by a goal of an additional 500 graduates per year from 2017.

We continued to work with providers to increase the number of engineering enrolments. We also held workshops with providers and industry and commissioned a report to share initiatives to grow the engineering pipeline. Across all subsectors the number of priority engineering equivalent full-time students increased by 321 (from 7,907 in 2012 to 8,228 in 2013).

Together with the Metropolitan Institutes of Technology and Polytechnics, Institute of Professional Engineers of New Zealand and BusinessNZ we have developed a comprehensive programme of initiatives, designed to stimulate a sustainable increase in the number of engineering enrolments. The initiatives will be rolled out through 2014/15 and include:

- a nationwide marketing campaign to promote a more accurate and exciting view of engineering generally, with specific emphasis on careers for engineering technicians and technologists
- greater support for students who are interested in engineering – through scholarships, bridging courses and other initiatives
- greater collaboration among industry training providers and industry to grow the engineering

pipeline together, including supporting the marketing and promotion of engineering, as well as assisting with graduate programmes such as work placements, cadetships and other industry-based

- experience and learning opportunities, and
- a national plan to increase connection and collaboration between the tertiary and secondary education sectors regarding the engineering pipeline.

ENGINEERS IN HIGH DEMAND IN NEW ZEALAND



Allie Foote with Michael Kerr, Wellington Regional Manager for BECA

(Picture by Andrew Harrow, WelTec)

The investments in engineering provision were boosted in Budgets 2012 and 2013, seeing more enrolments at universities. The challenge going forward is getting more enrolments at institutes of technology to increase the numbers of graduate engineering technologists and technicians.

Engineer-in-training Allie Foote is the inaugural recipient of the Beca Engineering Technology scholarship at WelTec, a \$6,000 scholarship to encourage more women into engineering. According to the Institution of Professional Engineers New Zealand (IPENZ) women make up only 13 percent of engineers in New Zealand and 7 percent of Chartered Professional Engineers.

“The New Zealand engineering job market is highly resource constrained and we need engineering technologist graduates to meet the massive shortfall the industry is facing,” says Mike Kerr, Wellington Regional Manager for BECA. (Story published courtesy of Weltec and Leaving School 2014 magazine).

The Bachelor of Engineering Technology is an internationally-led qualification offered in collaboration with five other Institutes of Technology throughout New Zealand and forms the basis for a career as an Engineering Technologist – an area in huge demand across the country and around the world.

Published courtesy of Weltec and Leaving School 2014 magazine

Learner Information

To support the system to become more responsive to the needs of learners, the TEC is working with the tertiary sector on tertiary education organisations making consistent, comparable information available, from 2015, to inform learner enrolment decisions. This includes the publication of employment outcomes information across tertiary education organisations.

Investment approaches

In preparation for the 2015-2016 Investment Plans, the TEC worked with government agencies, providers and industry to develop investment approaches for education and training in the primary industries, ICT, engineering and health, with a specific focus on meeting workforce needs. This work will continue through 2014/15.

ICT Graduate Schools

To help address information and communication, technology (ICT) skills issues, the TEC and the Ministry of Business, Innovation and Employment developed the Budget 2014 initiative to deliver ICT Graduate Schools in Auckland, Wellington and Christchurch. The schools will focus on industry-focused, high-level skills development and research. Schools will start delivery from mid-2015.

Skills Highway

Changes to the Skills Highway programme are under way to improve the delivery and reach of the programme in promoting the benefits of workplace literacy. This includes targeting to areas and industry most in need.



IMPROVING READING, MATHS AND COMMUNICATION SKILLS IN THE WORKPLACE



ANZ and Equal Employment Opportunities (EEO) Trust Diversity Awards NZ 2013: Hamish Crooks, Pacific Homecare Chief Executive, and staff accepting the Skills Highway Award from the Hon Jo Goodhew, Minister of Women's Affairs and EEO Trust Chief Executive Bev Cassidy-Mackenzie.

A reading, maths and communication skills programme established with support of the TEC's Workplace Literacy Fund is another way the TEC contributes to an education system that is more responsive to the needs of employers and learners.

2013 Skills Highway Award Winners

The Skills Highway Award celebrates organisations that actively improve reading, maths and communication skills in the workplace. Pacific Homecare in South Auckland won the 2013 award for Pacific Pathways – a very successful workplace literacy and numeracy programme funded through the TEC's Workplace Literacy Fund. The award is sponsored by the Skills Highway, a TEC-funded programme that promotes the benefits of workplace literacy, and is awarded by the ANZ and EEO Trust Diversity Awards NZ.

Louise Uluakiola, Pacific Homecare Service and Training Manager says the workplace literacy skills training improved service delivery, increased verbal communication, increased reporting skills and heightened observation skills. "Our staff walk taller, care more, voice their opinions, share information, participate in company activities and interact more with colleagues and management," she says.

Our key achievements

Improvements in Industry Training

New Zealand Apprenticeships commenced in January 2014, establishing a high-quality vocational pathway for people of all ages. New Zealand Apprenticeships have a strong theoretical component and set a person up for a career in their chosen industry.

The Apprenticeship Reboot initiative was launched in March 2013. By 30 June 2014 approximately 12,000 trainees in apprenticeship training were eligible to receive the Government's payment of either \$1,000 or \$2,000 for priority trades. Their employers were also eligible to receive the same payment. The success of the initiative in encouraging apprenticeships has led to its extension until 31 December 2014.

The Direct Funding Scheme was implemented following a competitive process in late 2013. The scheme, which enables employers to be directly funded for training their employees, was introduced to encourage competition and drive innovation. A small number of employers and organisations have been selected to test implementation issues in 2014 before the scheme is rolled out more widely. An evaluation of the scheme is running alongside its implementation to inform future funding rounds and any changes to operational policy.

One of the outcomes of the Government's review of industry training in 2012 was an expectation of improved performance from industry training organisations. The TEC made a number of operational policy changes to support this increased focus and the 2013 educational performance indicators for industry training organisations show a significant improvement in educational outcomes for trainees when compared to previous years.

Assisting Canterbury's tertiary education institutions

We have been working with the Canterbury tertiary education institutions to develop business cases for capital funding from the Government to assist their recovery from the Canterbury earthquakes.

The rebuild of Canterbury requires considerable additional builders, electricians, drainlayers and the like. We wanted to make sure we were able to train as many New Zealanders as possible to do these jobs and have skills and qualifications that would set them up for the rest of their working lives. In September 2013 the Government agreed to give CPIT \$18.9 million to expand its trade training facilities.

In October 2013 the Government announced that it would give the University of Canterbury up to \$260 million for the rebuild of its science and engineering facilities. This would ensure the university would have modern teaching and research facilities and be focused on the key science, technology, engineering and mathematics subjects. It would also be sufficient to enable the university to use its own resources, including insurance proceeds, to remediate other damaged parts of its campus. The TEC continues to fund the University of Canterbury at prequake levels, despite a dramatic drop in student numbers, to support its recovery.

We are continuing to work with Lincoln University and the Crown Research Institutes at Lincoln to redevelop its science facilities in a way that shares key facilities and promotes working together. We expect government to make announcements in the near future on the level of capital support to be provided.

Measure of Progress

A tertiary system that is more responsive to the needs of employers and learners				
Measure		2012 Actual	2013 Target	2013 Actual
Increased delivery in priority areas – NZQF Levels 4 and above, Māori, Pasifika and engineering	Percentage of equivalent full-time students funded through Student Achievement Component fund that were Māori at NZQF Level 4 and above	17% ⁴	>17%	18%
	Percentage of Student Achievement Component funded equivalent full-time students that were Pasifika at NZQF Level 4 and above	8% ⁴	>8%	9%
	Percentage of equivalent full-time students funded through Student Achievement Component fund that were under the age of 25 at NZQF Level 4 and above (see note one)	62% ⁴	>62%	63%
	Number of engineering equivalent full-time students	7,907	>7,907	8,228
Proportion of investment in tertiary education organisations with category 1 and 2 External Evaluation and Review (EER) rating (see note one)		95.4%	>95.4%	92.9%
TEI asset management, as measured by the Asset Management Assessment tool (see note two)		New measure	52	47
Proportion of TEI councils that appropriately mitigate shifts in risk rating as measured by Financial Management Framework (FMF)		New measure	>33%	50%

Note one – Proportion of investment in tertiary education organisations with category 1 and 2 External Evaluation and Review (EER) rating

The 92.9 percent represents the number of funded tertiary education organisations that had an EER rating at the time of making final Investment Plan decisions in December 2013. The TEC will continue to consider the EER ratings of private training establishments when making Investment Plan decisions. Where these are category 3 or 4 providers, the TEC may choose to divest in provision or request an action plan for improvement.

Note two – TEI asset management, as measured by the Asset Management Assessment tool

The score of 47 is the overall score for the sector. This has been calculated using the 2013 (calendar year) independent review scores (and the two self-assessments) submitted by each tertiary education institution in May 2013. Despite not meeting the target, the sector is making good progress in improving Capital Asset Management (CAM). A continuation of the TEC's requirement on tertiary education institutions to undertake annual self-assessments and biennial mandatory external assessments against a CAM standard, will maintain this progress. Participation in this process is also reinforced by making CAM a requirement in any Crown Title transfer and in s192 Borrowing Consents.

⁴ 2012 Actuals were updated using revised methodology to enable comparison with the current year. 2012/13 performance based on the previous methodology (reported in the TEC 2012-13 Annual Report) was 14 percent for Māori, 7 percent for Pasifika and 52 percent for under 24 year olds, at NZQF Level 4 and above.

Organisational Capability

Our people

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

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

Te Kahurangi

In August 2013 the TEC embarked on a business transformation project, Te Kahurangi, aimed at taking the TEC from being good to great.

The four project workstreams of Te Kahurangi are:

- leadership and integration
- strategic direction and vision
- people and culture, and
- business transformation.

The work programme for these workstreams is scheduled to occur initially over a period of 12–18 months, then responsibility for progressing any remaining initiatives and activities will sit with individual business areas within the TEC.

The workstreams will develop and deliver:

- strong, effective leadership
- an agreed strategic direction and vision for the TEC
- a high-performing, engaged TEC team
- a customer-focused organisation, and
- integrated, effective and efficient business processes, systems and tools.

Te Kahurangi is progressing to plan with the implementation of the TEC's new structure completed in March 2014 with a new Senior Management Team and Leadership Group established and operating. Development of the TEC's Strategic Direction and Values and Principles was completed in June 2014. Initiatives to build a customer-focused TEC will be implemented over the next 12-18 months.

WHAT WE WANT TO SEE

- staff more engaged in their roles and with the organisation
- turnover tracking toward the average rate for the core public service or below
- better alignment between our resources and capability and our work and skill requirements, and
- increased productivity through effective use of technology.

WHAT WE DID

- A People Plan is being developed. Managers and staff are being consulted and we will start implementing the four-year rolling plan in 2014/15.
- A TEC employee engagement survey was conducted in April 2014. The TEC's engagement score was 66.7 percent compared to the State Sector average of 68.1 percent. Result findings were shared with staff and action plans focusing on staff engagement will be implemented during 2014.

Measure of Progress

Organisational Capability			
Measure	Actual 2012/13	Target 2013/14	Actual 2013/14
Annual voluntary staff turnover	20.2%	19%	13.70%
Level of staff engagement (engagement survey) (see note one)	New measure	Consistent with State Sector average	66.7%

Note one – Level of staff engagement (engagement survey)

The TEC's employee engagement score is consistent with the State Sector average (68.1 percent). This is the first time the TEC has conducted an employee engagement survey since 2010.

Working with others

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

Whole-of-government directions extended

Section 107 of the Crown Entities Act 2004 allows the Minister of State Services and the Minister of Finance to jointly direct Crown entities to support a whole-of-government approach for the purposes of: improving public services; securing economies of efficiencies; developing expertise and capability; ensuring business continuity; and managing risks to the Government’s financial position. Section 151 of the Crown Entities Act requires Crown entities to report in annual reports on any directions given by ministers during the financial year and any other directions that remain current.

On 19 June 2014 Cabinet extended its existing whole-of-government directions relating to functional leadership requirements for procurement and property to all Crown entities and for ICT to the New Zealand Qualifications Authority and the TEC.

The procurement direction applies from 1 February 2015 and the property direction applied since 1 July 2014. The ICT direction applied since 19 June 2014.

The procurement direction extends the application of the Government Rules of Sourcing. The property direction extends the role of the Property Management Centre of Expertise and the application of the Government National Property Strategy. The ICT direction formalises a monitoring role for the Government Chief Information Officer in regard to specified agencies’ ICT operations and projects.

WHAT WE WANT TO SEE

- better alignment of activities across government
- greater use of shared services across education sector agencies, and
- increased outsourcing of non-core TEC services through all-of-government procurement arrangements.

WHAT WE DID

The TEC is actively working with the Property Management Centre of Expertise on its property strategies and leases. Planning is under way to consolidate the TEC’s Wellington-based staff into a single building. As part of the office consolidation, the TEC’s premises will undergo a refit that reflects the Government National Property Strategy and Principles workplace principles and reduces the average m² per person from the current 21.12m² to approximately 15.1m².

We have signed up to all-of-government contracts as they have become available. During 2013/14 the TEC signed the Rental Vehicles contract, which will save the TEC about 7 percent per car hire. The TEC has previously signed all-of-government contracts for electricity, external legal services, external recruitment services, IT hardware, mobile voice and data services, office consumables, print devices, reticulated gas, travel and vehicles.

The TEC has taken up a number of the All of Government ICT common capabilities offered, including the One.Govt Wide Area Network Service and associated SeeMail encryption and Email Protection Services. We have incorporated the Government Rules of Sourcing in the TEC Procurement Policy.

The TEC continues to liaise with the education sector agencies to identify operating synergies in areas such as property, health and safety, business continuity and procurement.

Systems, processes and technology

A key priority for the TEC is improving our information systems and processes to ensure we can carry out our core function as efficiently and effectively as possible.

This improvement work supports the goals of the Tertiary Information Future State programme, which aims to improve the systems and processes for managing tertiary information through better tracking of students' participation and progress as they move through the New Zealand education system. The TEC is working closely with the Ministry of Education and other education agencies on this programme, which seeks to better align data, information, technology systems and business processes to support tertiary education policy and delivery.

WHAT WE WANT TO SEE

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

WHAT WE DID

Technology developments have improved timeliness and flexibility of reporting. Improvements to how the TEC processes data from each Single Data Return have been implemented within the organisation resulting in a reduction in the time required to produce Educational Performance Indicator measures. Changes to the validation rules within the Single Data Return system have been made to improve data quality.

The Data Warehouse development plan includes projects to improve the underlying data processing. New hardware has been installed to improve processing performance.

To support the new business strategy developed through the Te Kahurangi business transformation programme, a two-year information plan has been developed that aligns all major ICT investments over the next two years to the business strategy.

The TEC continues to collaborate with education sector partners to develop common terminologies, data definitions and processes.

Our workforce: the TEC's people profile

As at 30 June 2014 we had a total of 192 staff made up of 190 full-time equivalent staff. The table below provides a breakdown of our workforce.

As at 30 June 2014, 49 percent of TEC staff were male and 51 percent were female. The gender profile over the past two years has seen a slight decrease in the proportion of females to males.

A range of ethnicities is represented in the TEC's workforce. Māori representation has increased slightly from eight percent (30 June 2012) to nine percent (30 June 2013). Over the same period there has been a reduction in the number of Pacific Island people from nine percent to six percent. The reduction in the Pacific Island people is a direct result of the closure of the TEC's Auckland office in March 2014.

The TEC ethnicity as at 30 June 2014			
Ethnicity	All staff	Female	Male
Asian	8%	9%	7%
Indian	3%	0%	5%
Non-NZ European	12%	13%	13%
Not Advised	9%	8%	10%
NZ European	49%	47%	52%
NZ Māori	9%	12%	5%
Other Ethnic Minority	4%	4%	4%
Pacific Islands	6%	7%	4%

Age and length of service as at 30 June 2014			
Measure	All staff	Female	Male
Average age	43 years	42.9 years	43.1 years
Length of service	3.7 years	4.0 years	3.3 years

The TEC as a good employer

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

Changes to the structure of the TEC have also meant changes to the way we run the organisation. A new strategy and vision has been developed for the TEC. Staff workshops have identified the values and principles that help to support us in delivering our new strategy and this will be rolled out in 2014/15.

A new Leadership Group meets monthly to ensure consistency of leadership and management across the organisation. Monthly organisational health performance information on staff turnover, sick leave, staff numbers, average length of employment and annual leave balances is provided to these managers to support good people management practices.

We are making changes to the way we recruit and induct new members of staff. The Chief Executive has used YouTube video as part of the recruitment to senior positions in the organisation and a new induction process to formally welcome staff to the TEC was introduced in 2013/14.

We have also looked at ways to improve staff development and retention, ensuring that staff and the unions play an active role in the changes we have made. These activities include:

- working collaboratively with other education sector agencies, participating in management and leadership programmes, coaching and mentoring and Te Reo language development courses
- completion of the first staff engagement survey since 2010, with improvement areas identified and plans to improve staff engagement to be implemented in 2014/15
- the Chief Executive recognising staff contributions through staff reference groups and one-to-one engagements, using email and face-to-face conversations, and
- PSA and staff participation on our Advisory Board and Reference Group during the change process.

The TEC takes the health and wellbeing of our staff seriously. In addition to providing regular information to staff and managers on prevention of harassment and bullying, the TEC participated in the State Services Standards of Integrity and Conduct survey.

A health and safety initiative resulted in the TEC running resilience workshops for all staff in both Auckland and Wellington. Elected health and safety representatives attended Stage Two Health and Safety training.

Business Continuity Plans have been reviewed and exercises undertaken with the Senior Management Team and Support Team.

Over the next year the implementation of our People Plan will refine and improve the way we develop and manage our staff.

Managing Risk

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

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

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

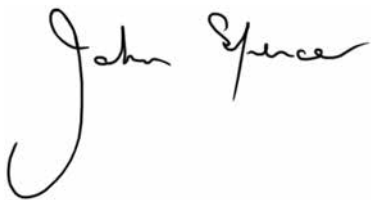
Statement of Responsibility

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

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

In the Board's opinion, these Financial Statements and Statement of Service Performance fairly reflect the financial position and operations of the Tertiary Education Commission for the year ended 30 June 2014.

Signed on behalf of the Board of Commissioners:



JOHN SPENCER
CHAIR, TERTIARY EDUCATION COMMISSION
23 October 2014



NIGEL GOULD
CHAIR, AUDIT AND RISK COMMITTEE, TERTIARY
EDUCATION COMMISSION
23 October 2014



Independent Auditor's Report

To the readers of the Tertiary Education Commission's financial statements and non-financial performance information for the year ended 30 June 2014

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

We have audited:

- the financial statements of the Commission on pages 57 to 79, that comprise the statement of financial position as at 30 June 2014, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and notes to the financial statements that include accounting policies and other explanatory information; and
- the non-financial performance information of the Commission that comprises the statement of service performance on pages 40 to 55 and the report about outcomes and impacts on pages 10 to 29.

Opinion

In our opinion:

- the financial statements of the Commission on pages 57 to 79:
 - comply with generally accepted accounting practice in New Zealand; and
 - fairly reflect the Commission's:
 - ~ financial position as at 30 June 2014; and
 - ~ financial performance and cash flows for the year ended on that date.
- the non-financial performance information of the Commission on pages 40 to 55 and 10 to 29:
 - complies with generally accepted accounting practice in New Zealand; and
 - fairly reflects the Commission's service performance and outcomes for the year ended 30 June 2014, including for each class of outputs:

- ~ its service performance compared with forecasts in the statement of forecast service performance at the start of the financial year; and
- ~ its actual revenue and output expenses compared with the forecasts in the statement of forecast service performance at the start of the financial year.

Our audit was completed on 23 October 2014. This is the date at which our opinion is expressed.

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

Basis of opinion

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

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

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and non-financial performance information. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and non-financial performance information, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the Commission's financial statements and non-financial performance information that fairly reflect the matters to which they relate. We consider internal control in

order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control.

An audit also involves evaluating:

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

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

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

Responsibilities of the Board of Commissioners

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

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

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

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


Responsibilities of the Auditor

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

Independence

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

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

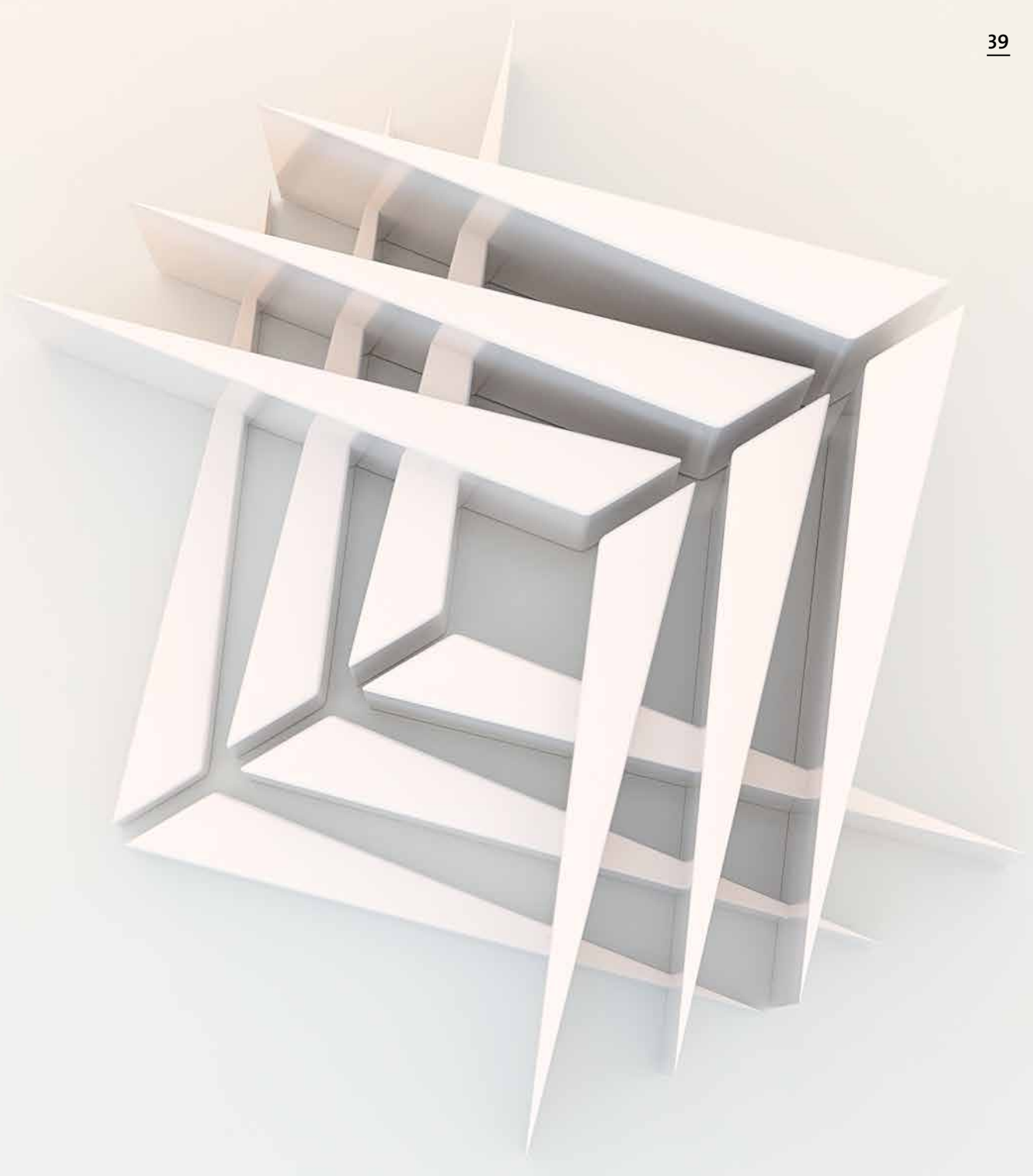


Clare Helm

Audit New Zealand

On behalf of the Auditor-General

Wellington, New Zealand



Statement of Service Performance

Smart investment decisions

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

This output draws on revenue from the appropriation *Managing the Government's Investment in the Tertiary Education Sector*⁵ and contracted funding from the Ministry of Social Development and Immigration New Zealand for programmes the TEC administers on their behalf.

Output Revenue and Expenses

Smart Investment Decisions			
Managing the Government's Investment in the Tertiary Education Sector	Actual 2012/13 \$000	Budget 2013/14 \$000	Actual 2013/14 \$000
Appropriation revenue	33,784	41,082	40,668
Contract – Immigration NZ funding for administration of English for Migrants	81	77	292
Contract – Ministry of Social Development	6,661	–	–
Interest revenue	724	799	1,101
Total revenue	41,250	41,958	42,061
Total expenses	42,612	41,734	40,922
Surplus/(deficit)	(1,362)	224	1,139

The majority of our funding is allocated to tertiary education organisations through Investment Plans. The following funds are allocated through Investment Plans:

- Student Achievement Component
- Training for Designated Groups :
 - Industry Training
 - Modern Apprenticeships
 - Youth Guarantee
 - Gateway
- Performance-Based Research Fund, and
- Community Education.

The key activities in this output are:

- assessing and approving Investment Plans against gazetted content and criteria
- making payments after Investment Plans have been approved

- monitoring Investment Plans, and
- evaluations and quantitative studies of the TEC's key initiatives.

In return for government funding we require tertiary education organisations to demonstrate in their Investment Plans how they will shift their provision and improve their performance in line with government goals and priorities.

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

⁵ This appropriation is limited to developing, implementing and managing an investment system that aligns planning, funding and monitoring.

Measure of Progress

Smart Investment Decisions		
Measure	2013/14 Target	2013/14 Actual
Investment Plans for tertiary education organisations demonstrate evidence of alignment with employer, community and learner needs	100%	100%
Investment Plans for tertiary education organisations include targets for improving achievement rates for Tertiary Education Strategy priority groups	100%	100%
Payments are made to tertiary education organisations as per the agreed contractual terms and conditions	100%	100%
Percentage of Investment Plans that are monitored	100%	100%
Appropriate actions are undertaken in accordance with the Performance Consequence Framework	100%	100%
Number of evaluations and quantitative studies undertaken	3	4
Evaluations and quantitative studies of the TEC initiatives are undertaken in accordance with agreed standards	100%	100%
Evaluations and quantitative studies of the TEC initiatives are completed within agreed timelines	100%	100%

Tertiary education: Student Achievement Component fund

The Student Achievement Component fund is the Government's contribution to the direct costs of teaching, learning and other costs driven by learner numbers for enrolled students in approved courses at tertiary education organisations to achieve recognised tertiary qualifications.

Student Achievement Component funding comprises two elements the:

- programme element, which relates to the types of programmes or courses approved for funding in a tertiary education organisation's Investment Plan and is based on the Student Achievement Component funding categories, and
- volume element, which relates to the number of valid enrolments in those programmes or courses.

Measure of Progress

Investment Plan performance commitments linked to Student Achievement Component funding				
Student Achievement Component funding		2012 Actual	2013 Sector Commitment	2013 Actual
Proportion of Student Achievement Component-funded Māori enrolments at NZQF Level 4 and above		17% ⁶	>15%	18%
Proportion of Student Achievement Component-funded Pasifika enrolments at NZQF Level 4 and above		8% ⁶	>7%	9%
Proportion of Student Achievement Component-funded under-25-year-old enrolments at NZQF Level 4 and above		62% ⁶	>51%	63%
Sector Performance Commitment Shifts Linked to Funding		2012 Sector Commitment (2012-13 Investment Plans)	2013 Sector Commitment (2013-14 Investment Plans)	2013 Actual (2013-14 Investment Plans)
Course Completion	All learners	84%	83%	83%
	Māori learners at NZQF Level 4 and above	78%	78%	78%
	Pasifika learners at NZQF Level 4 and above (see note one)	74%	75%	73%
	Under-25-year-old learners at NZQF Level 4 and above	85%	84%	85%
Qualification completion	All learners	78%	70%	78%
	Māori learners at NZQF Levels 4 and above	65%	63%	71%
	Pasifika learners at NZQF Levels 4 and above	63%	60%	63%
	Under-25-year-old learners at NZQF Level 4 and above	71%	68%	71%
Progression	From NZQF Levels 1-3 to a higher level	37%	36%	39%
Retention	For all learners across all NZQF levels	71%	66%	73%

⁶ 2012 Actuals were updated using revised methodology to enable comparison with the current year. 2012/13 performance based on the previous methodology (reported in the TEC 2012-13 Annual Report) was 14 percent for Māori, 7 percent for Pasifika and 52 percent for under 24 year olds, at NZQF Level 4 and above.

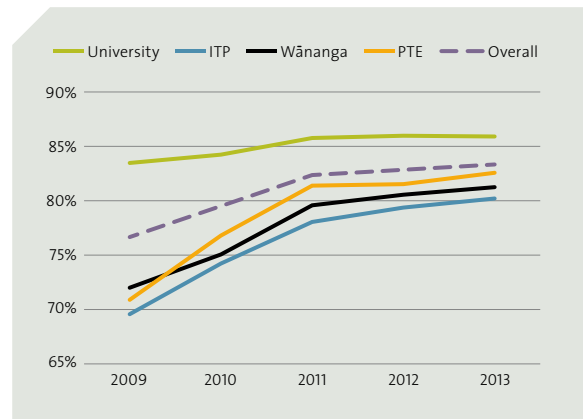
Note one – Course Completion – Pasifika learners at NZQF Level 4 and above

A number of key factors have contributed to the variance in course completions. These include a low attainment of qualifications in the compulsory education sector, low first-year retention rates for Pasifika, Pasifika learners not achieving relative to non-Pasifika learners and TEOs not achieving the performance commitment target of improving the course qualification rate for Pasifika. Funding decisions for 2015-2017 will include an assessment of how well Investment Plans contribute to the Tertiary Education Strategy’s priority of improving course and qualification rates for Pasifika.

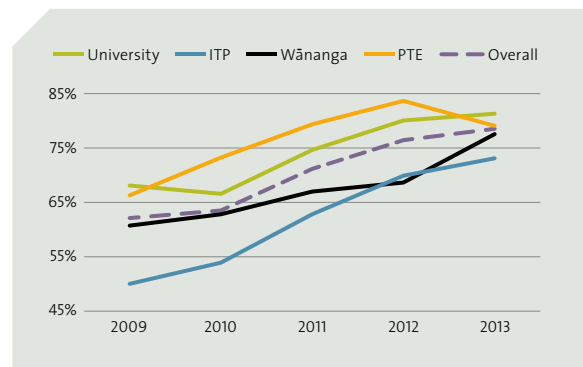
Changes over time

The graphs below provide further information on Student Achievement Component funding over time. Overall, performance in course completion rates, qualification completion rates and student retention rates has improved since 2009.

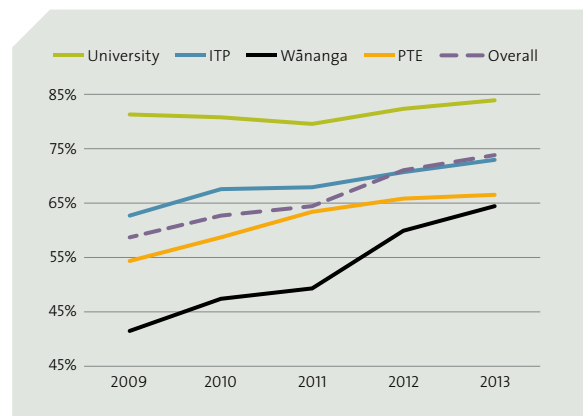
Course completion trends since 2009



Qualification completion rates since 2009



Student retention rates since 2009



Measure of Progress

These measures were developed in 2013/14 and no performance standards were set as part of the Information Supporting the Estimates of Appropriations in 2013/14. This information is included to give a broader picture of the performance of this output in 2013/14.

Investment Plan performance commitments linked to industry training funding		
Industry Training funding – Participation		2013 Actual
Māori trainees enrolled at NZQF Level 4 and above as a proportion of all trainees enrolled at Level 4 and above		14%
Pasifika trainees enrolled at NZQF Level 4 and above as a proportion of all trainees enrolled at Level 4 and above		4%
Trainees aged under 25 enrolled at NZQF Level 4 and above as a proportion of all trainees enrolled at Level 4 and above		43%
Educational Performance		2013 Actual
Credit completion	All learners	72%
	Māori learners at NZQF Level 4 and above	67%
	Pasifika learners at NZQF Level 4 and above	66%
	Under-25-year-old learners at NZQF Level 4 and above	65%
Programme completion	All learners	74%
	Māori learners at NZQF Level 4 and above	70%
	Pasifika learners at NZQF Level 4 and above	66%
	Under-25-year-old learners at NZQF Level 4 and above	60%

The Industry Training sector has undergone significant change in recent years, including ITO mergers that have reduced the number of funded ITOs from 38 in 2010 to 12 in 2014. The 2013 actuals will form the comparative basis upon which to assess the consolidated sector's performance in future years.

Funding allocated through contract agreements

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

- Centres of Research Excellence
- Tertiary Education Grants and Other Funding⁷
- Secondary-Tertiary Interface (Vote Education)
- Apprenticeships Reboot
- Tertiary Scholarships and Awards

- Tertiary Education Institutions Merger Support, and
- University of Auckland Starpath Project.

The TEC also administers two programmes under contract with the Ministry of Social Development (Foundation-Focused Training Opportunities and Immigration New Zealand (English for Migrants). The key activities include making funding available for applications, receiving and assessing applications for funding, awarding funds and managing delivery against contract.

Measure of Progress

Funding allocated through contract agreements				
Fund	Performance measure	Actual 2012/13	Target 2013/14	Actual 2013/14
Tertiary Education Grants and Other Funding	Funding agreements are consistent with funding rules and objective of fund	100%	100%	100%
Tertiary Education Institutions Merger Support	Merger milestones are met according to funding agreements	Achieved	Achieved	Achieved
University of Auckland Starpath Project	Project milestones are monitored and met according to funding agreement	100%	100%	100%
Foundation-Focused Training Opportunities (Vote Social Development) Funding ceased 31 December 2013. (see note one)	Percentage of learners who complete their course of study (minimum 14 weeks training)	54%	58%	80%
	Percentage of learners who achieve employment outcomes commensurate with their benefit type and aligned job seeking obligations, within 91 days of completion of training (see note one)	29%	38%	21%
	Percentage of learners who move off benefit and progress into further training or education and NZQF Level 2 or above, within 91 days of completion of training (see note one)	17%	26%	17%

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⁷ Some funding from this appropriation is allocated through Investment Plans.

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Funding allocated through contract agreements				
Fund	Performance measure	Actual 2012/13	Target 2013/14	Actual 2013/14
English for Migrants (Vote Immigration)	Effective management of contracts with training providers to deliver English for Speakers of Other Languages training for migrants who have pre-purchased their tuition through Immigration New Zealand (Effective management means management of contracts in accordance with timeframes and rules required by the funding policy)	100%	100%	100%
Centres of Research Excellence	Centres of Research Excellence Annual Plans are assessed against assessment criteria and have been revised, where appropriate, by end of March (The key criteria are compliance with contractual requirements for annual plans and alignment of activities with the generic Centre of Research Excellence's purpose and the individual Centre of Research Excellence's strategy)	100%	100%	100%
	Centres of Research Excellence Annual Reports are reviewed against research plans and meet assessment criteria (The key criteria are compliance with contractual reporting requirements and delivery on, and alignment with, the predecessor annual plan)	100%	100%	100%

Note one – Foundation-Focused Training Opportunities (Vote Social Development)

Performance data reflects the period July to December 2013. There was a shift in focus to learner retention as funding ceased in December 2013.

Measure of Progress

Targets for Investment and Funding Allocations

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

Student Achievement Component				
	2013 Actual		Target Funded 2013	Variance from Target ⁹
	Delivered	Funded (Estimate) ⁸		
Number of equivalent full-time students at NZQF Level 3 and above by subsector				
Universities	116,184	118,508	117,411	0.9%
Institutes of technology and polytechnics	56,959	57,830	57,139	1.2%
Wānanga	17,587	17,648	17,432	1.2%
Private training establishments	26,207	23,977	24,041	-0.3%
Total equivalent full-time students at NZQF Level 3 and above	216,937	217,963	216,023	0.9%
Number of equivalent full-time students at NZQF Levels 1 and 2 (see note one)	15,529	15,294	16,168	-5.4%
Total Student Achievement Component	232,476	233,257	232,191	0.5%

Note one – Number of equivalent full-time students at NZQF Levels 1 and 2

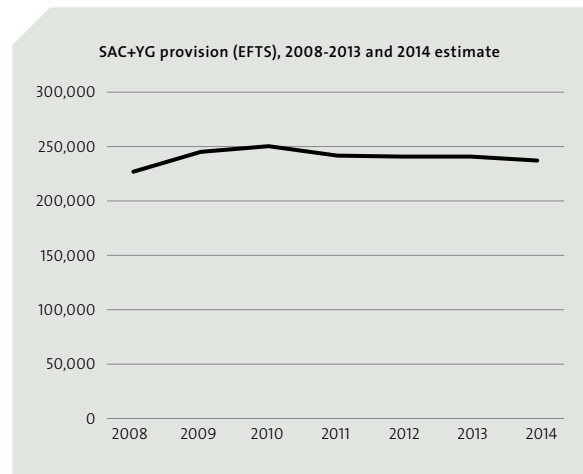
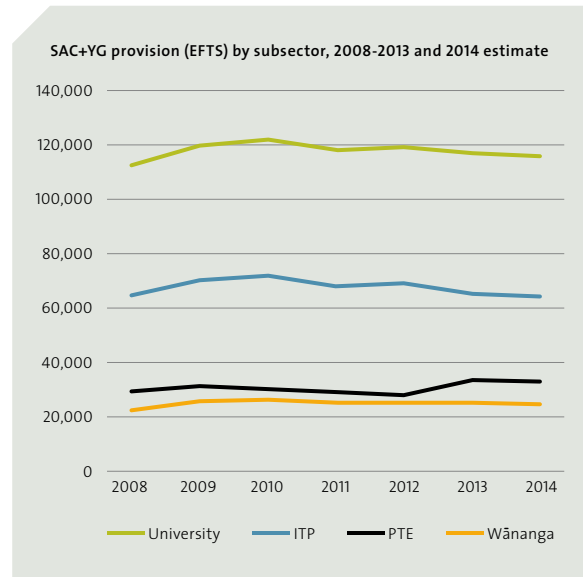
The variance is as expected, as approved appropriation changes came into effect after the original target was set. If these changes are taken into account, the target would be 15,424, which is a variance of less than 1 percent.

⁸ Funded volumes are always an estimate as they are a proportion of total delivery in proportion to actual funding.

⁹ Variance from target is calculated from 2013 Funded (estimate)/Target funded 2013.

The graphs below provide further information on trends in Student Achievement Component provision since 2008.

Student Achievement Component provision by subsector



SAC – Student Achievement Component

YG – Youth Guarantee

EFTS – Equivalent full-time students

Targets for Investment and Funding Allocations

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

Training for Designated Groups – Community Education – Benefits and Unrequited Expenses				
	2013 Actual		Target Funded 2013	Variance from Target ¹¹
	Delivered	Funded (Estimate) ¹⁰		
TRAINING FOR DESIGNATED GROUPS				
Industry Training – funded standard training measures (see note one)	35,263	33,376	48,100	-30.6%
Modern Apprenticeships – total funded standard training measures (see note one)	11,932	11,932	14,000	-14.8%
Youth Guarantee - funded equivalent full-time students (see note two)	7,506	7,380	8,525	-13.4%
Gateway – total funded placements	14,086	13,121	13,000	0.9%
COMMUNITY EDUCATION				
Adult and community education (ACE)				
Participation by learners in school-based programmes	22,503	n/a	24,000	n/a
Total number of school-based ACE hours funded (see note three)	493,433	377,069	395,000	-4.5%
From the priority groups identified in the Tertiary Education Strategy Percentage of learners identified:				
as Māori or Pasifika	35%	n/a	All-50%	n/a
with English language needs, and	30%	n/a		
as having low or no formal qualifications.	61%	n/a		
Number of funded equivalent full-time students in TEIs (see note three)	1,824	1,721	1,808	-4.8%

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¹⁰ Funded volumes are always an estimate as they are a proportion of total delivery in proportion to actual funding.

¹¹ Variance from target is calculated from 2013 Funded (Estimate)/Target Funded 2013.

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Training for Designated Groups – Community Education – Benefits and Unrequited Expenses				
	2013 Actual		Target Funded 2013	Variance from Target ¹¹
	Delivered	Funded (Estimate) ¹⁰		
COMMUNITY EDUCATION (continued)				
Literacy and numeracy number of funded learner places				
Intensive literacy and numeracy (see note three)	5,913	4,627	5,100	-9.3%
Workplace Literacy Fund – total	6,071	5,402	5,465	-1.1%
Tertiary education organisations led	2,970	2,767	2,841	-2.6%
Employee targeted	2,004	1,724	1,724	–
Employer led	1,097	912	700–1,100	1.3%
English for Speakers of Other Languages (ESOL) – total	1,710	1,370	not set	n/a
Intensive literacy and numeracy ESOL	1,206	894	not set	n/a
Intensive literacy and numeracy Refugee English	504	476	not set	n/a
BENEFITS AND UNREQUITED EXPENSES				
Number of medical intern places funded	385	385	365	5.3%

Note one – Industry Training Modern Apprenticeships

The variance to target represents planned under-allocation against the full appropriation value owing to a change in priorities throughout the year. A standard training measure (STM) is a unit of a quantity of training. One STM is the amount of training that is required for a trainee to achieve 120 register credits (or its equivalent) in an approved structured training programme.

Note two – Youth Guarantee

The variance for this fund is attributable to the fund increasing significantly in 2013 and also the requirement for all providers to deliver NZQA-approved qualifications. Delays in the qualification approvals for some providers, coupled with improved retention of learners at secondary schools, have contributed to the low uptake in 2013. Now that the qualification approvals are in place, and with the expansion of the scheme to 18- and 19-year-olds, higher uptake is expected in 2014, although in 2013 providers reported there was a decline in young people enrolling in Youth Guarantee programmes.

Note three – Community Education

The funding allocations are sufficient to fund the target volumes. The negative variance to target for the funded volumes is owing to under-delivery by a number of providers. The retention of learners in adult and community education and literacy and numeracy programmes is challenging. This results in many providers enrolling more learners than they have funding for. This is reflected in the numbers actually delivered. This over-delivery is not funded.

¹⁰ Funded volumes are always an estimate as they are a proportion of total delivery in proportion to actual funding.

¹¹ Variance from target is calculated from 2013 Funded (Estimate)/Target Funded 2013.

Provision of information and advisory services

This output class includes our work to provide information and advisory services to the Minister, the sector, students, other government agencies and external stakeholders.

Providing relevant information about learner outcomes and tertiary education organisations' performance is a key means by which we support student choice and incentivise improvements in the performance of tertiary education organisations.

This output draws on the TEC's operational appropriation Tertiary Education and Training Advice.

The key activities in this output are:

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

Output Revenue and Expenses

Provision of information and advisory services			
Tertiary Education and Training Advice	Actual 2012/13 \$000	Budget 2013/14 \$000	Actual 2013/14 \$000
Appropriation revenue	3,837	3,837	3,837
Interest revenue	82	-	-
Total revenue	3,919	3,837	3,837
Total expenses	2,295	3,789	3,394
Surplus/(deficit)	1,624	48	443

Measure of Progress

Provision of information and advisory services		
Measure	2013/14 Target	2013/14 Actual
Percentage of ministerial items provided to ministers requiring redraft	<5%	4%
Percentage of ministerial items provided to ministers within agreed and/or statutory timeframes	95%	95%
Publications that are produced in accordance with agreed standards and timelines	100%	100%
Number of reports published	6	7

Monitoring sector performance and capability

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

A key role of the TEC is to monitor and provide independent advice on the financial and organisational risk of tertiary education institutions, which are Crown entities. This helps protect the Crown's ownership interests in the governance, accountability and operation of these organisations. Ownership interest occurs where the Crown holds the responsibility to meet any residual liabilities of tertiary education institutions and exercises (or can exercise) a range of actions that reflect this, such as the appointment of council members and the application of the interventions framework.

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

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

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

Output Revenue and Expenses

Monitoring sector performance and capability			
Ownership Monitoring of Tertiary Education Institutions	Actual 2012/13 \$000	Budget 2013/14 \$000	Actual 2013/14 \$000
Appropriation revenue	2,567	2,567	2,567
Interest revenue	55	-	-
Total revenue	2,622	2,567	2,567
Total expenses	3,114	2,508	2,627
Surplus/(deficit)	(492)	59	(60)

Measure of Progress

Monitoring sector performance and capability		
Measure	2013/14 Target	2013/14 YTD
Ownership risks are: <ul style="list-style-type: none"> assessed and appropriate mitigation strategies are put in place, and reported annually to the Minister 	100%	100%
Percentage of tertiary education institutions where close monitoring and engagement is taken after having received high-risk rating under Financial Monitoring Framework	100%	100%
Recommendations on ministerial appointments to tertiary education institutions' councils are made two months prior to the appointment expiring and the appointments process is managed effectively	100%	100%
Number of tertiary education organisations audited by the TEC.	30	40
Percentage of audits completed within 70 days according to audit compliance standards	95%	95%
Percentage of tertiary education organisations where an appropriate action plan is initiated on the basis of an identified material breach of TEC's rules or requirements	100%	100%

Our key achievements

Council appointments and governance changes to tertiary education institutions

The Minister for Tertiary Education, Skills and Employment has a statutory duty to appoint four members to each tertiary education institution's council and to appoint the Chair and Deputy Chair of industry training providers' councils. The TEC provides advice to the Minister on governance matters, including ministerial appointments, and manages the process of appointment. In the search for suitable candidates, the TEC liaises with nominating agencies and the Minister consults with his ministerial and parliamentary colleagues.

During the 2013/14 financial year the Minister made 58 appointments to tertiary education institution councils: 13 were to university councils, 35 to industry training provider councils and 10 to the whakahaere of the wānanga. The new appointees reflect the priority being given to governance and financial skills and also contribute knowledge and understanding of stakeholders and the local community.

The TEC provides induction and briefing days for new council members. A total of 70 council members attended the last two sessions. The TEC organised a day for council secretaries, held on 11 August 2014, with the aim of sharing good practice across the sector.

Also during the year the TEC revised the Governance Guide for Council Members of Tertiary Education Institutions, which is available on the TEC's governance webpages: <http://www.tec.govt.nz/Tertiary-Sector/Governance/>

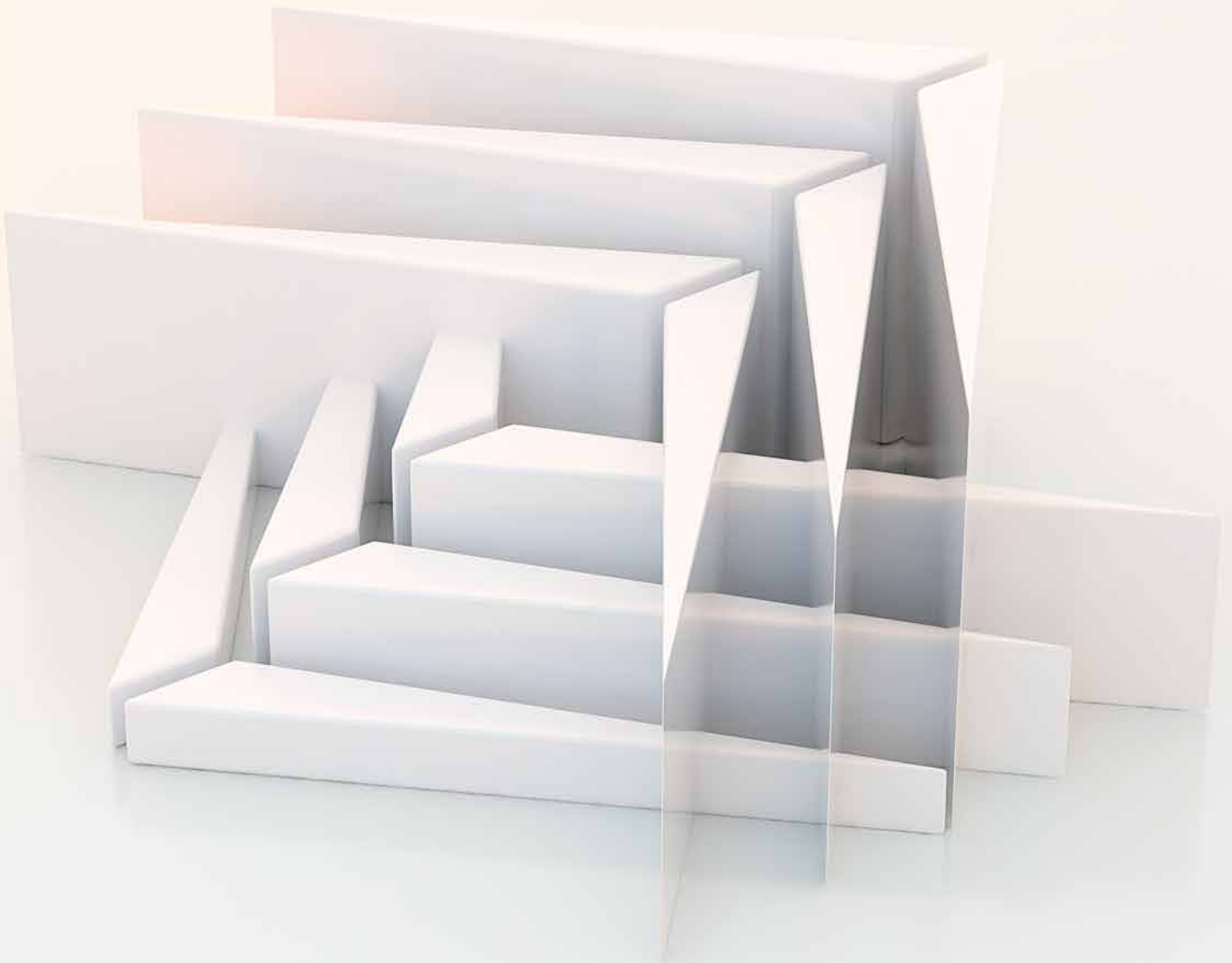
The TEC is undertaking research into the impact of the 2010 institutes of technology and polytechnics governance reforms. During the year the TEC interviewed all institutes of technology and polytechnics council chairs and is following this with indepth research into a selection of institutes of technology and polytechnics initiatives to gain an insight into the relationship of governance to institutional performance.



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

Revenue and expenses for non-operational funding				
Revenue from Appropriations: Vote Tertiary Education and Vote Education	Actual Revenue 2013/14 \$000	Actual Expenditure 2013/14 \$000	Surplus/ (Deficit) \$000	Statement of Intent \$000
Adult and Community Education	61,754	61,187	567	61,219
Centres of Research Excellence	32,754	32,754	–	31,690
Performance-Based Research Fund	268,750	268,750	–	268,750
Tertiary Education Grants and Other Funding	24,021	24,221	(200)	24,097
Tertiary Education: Student Achievement Component	2,029,434	2,025,922	3,512	2,040,201
Training for Designated Groups:				
Industry Training Fund	150,808	147,756	3,052	149,921
Modern Apprenticeships	21,399	20,927	472	50,215
Youth Guarantee	101,361	100,487	874	112,748
Gateway	18,325	18,287	38	19,013
Tertiary Scholarships and Awards	10,923	10,916	7	11,091
Apprenticeships Reboot	16,153	15,441	712	13,150
Auckland University Starpath Project	995	1,010	(15)	1,000
Tertiary Education Institutions Merger Support	1,500	1,500	–	1,500
Secondary Tertiary Interface (Vote Education)	13,534	13,534	–	15,247
Contract Revenue				
Foundation-Focused Training Opportunities (Ministry of Social Development)	23,392	22,964	428	46,784
English for Migrants (pre-paid by migrants through Immigration New Zealand)	1,337	1,337	–	849
Total	2,776,440	2,766,993	9,447	2,847,475

Annual Financial Statements



STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2014

	Notes	2014 Actual \$000	2014 Budget \$000	2013 Actual \$000
REVENUE				
Operating Revenue:				
Vote Tertiary Education – Ministry of Education (MoE)		47,061	47,486	40,177
Contract Revenue – Ministry of Social Development (MSD)		–	–	6,661
Contract Revenue – Immigration New Zealand (INZ)		292	77	81
Gain on Sale of Property, Plant and Equipment		–	–	11
Other Revenue		11	–	–
Total Operating Revenue		47,364	47,563	46,930
Grants Revenue:				
Vote Education/Tertiary Education – MoE		2,751,711	2,799,842	2,661,955
Contract Revenue – MSD		23,392	46,784	47,974
Contract Revenue – INZ		1,337	849	896
Total Grants Revenue		2,776,440	2,847,475	2,710,825
Finance Revenue:				
Interest Income on Bank Deposits – Operating		1,101	799	861
Interest Income on Bank Deposits – Grants		795	–	–
Total Finance Revenue		1,896	799	861
TOTAL REVENUE		2,825,700	2,895,837	2,758,616
EXPENSES				
Operating Expenses:				
Personnel	2	23,596	23,681	24,197
Operating	3	18,186	18,946	18,567
Depreciation	4	916	789	1,099
Amortisation	5	4,245	4,615	4,157
Total Operating Expenses		46,943	48,031	48,020
Grants Expenses:				
Grants Expenses – MoE		2,742,692	2,799,842	2,657,056
Contract Expenses – MSD		22,964	46,784	46,439
Contract Expenses – INZ		1,337	849	896
Total Grants Expenses		2,766,993	2,847,475	2,704,391
TOTAL EXPENSES		2,813,936	2,895,506	2,752,411
Operating Surplus/(Deficit)				
Operating Surplus/(Deficit)		421	(468)	(1,090)
Grants Surplus		9,447	–	6,434
Finance Income Surplus		1,896	799	861
Total Operating Surplus		11,764	331	6,205
Total Comprehensive Income for the Year		11,764	331	6,205

Explanations of major variances against budget are provided in Note 16.
The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2014

	Notes	2014 Actual \$000	2014 Budget \$000	2013 Actual \$000
Balance at 1 July		22,000	20,915	21,685
Capital Contribution		250	250	250
Total Comprehensive Income		11,764	331	6,205
Provision For Repayment of Grant Surplus	6	(10,242)	-	(6,434)
Capital Withdrawal		(300)	-	-
Other Movements		-	-	294
Balance at 30 June		23,472	21,496	22,000

Explanations of major variances against budget are provided in Note 16.
The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

	Notes	2014 Actual \$000	2014 Budget \$000	2013 Actual \$000
Current Assets				
Cash and Cash Equivalents	7	47,478	20,947	35,386
GST Receivable		–	–	434
Prepayments		589	700	547
Debtors and Other Receivables	8	755	2,000	2,819
Total Current Assets		48,822	23,647	39,186
Non-Current Assets				
Property, Plant and Equipment	9	1,518	2,751	2,164
Intangible Assets (Software)	10	6,824	12,697	9,631
Work in Progress	11	1,569	–	756
Total Non-Current Assets		9,911	15,448	12,551
Total Assets		58,733	39,095	51,737
Current Liabilities				
Creditors and Other Payables	12	11,789	5,010	10,017
GST Payable		104	1,000	–
Employee Entitlements	13	1,832	1,800	1,663
English for Migrants – Revenue in Advance		1,671	1,189	3,265
Provisions for Lease	14	598	–	204
Repayment of Grants Surplus	6	6,480	–	7,489
Total Current Liabilities		22,474	8,999	22,638
Non-Current Liabilities				
English for Migrants – Revenue in Advance		12,303	7,800	6,501
Employee Entitlements	13	484	800	598
Total Non-Current Liabilities		12,787	8,600	7,099
Total Liabilities		35,261	17,599	29,737
Net Assets		23,472	21,496	22,000
Equity				
General Funds		23,472	21,496	22,000
Total Equity		23,472	21,496	22,000

Explanations of major variances against budget are provided in Note 16.
The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 30 June 2014

	Notes	2014 Actual \$000	2014 Budget \$000	2013 Actual \$000
Cash Flows from Operating Activities				
<i>Cash was provided from:</i>				
– Operating MoE		47,061	47,486	40,177
– Operating MSD		–	–	6,661
– Operating INZ		673	77	305
– Operating Other		11	–	–
– Grants MoE		2,751,711	2,799,842	2,661,955
– Grants MSD		23,392	46,784	47,974
– Grants INZ		6,724	849	2,917
		2,829,572	2,895,038	2,759,989
<i>Cash was applied to:</i>				
– Grants Payments		(2,763,528)	(2,847,474)	(2,688,167)
– Payments to Employees		(24,309)	(23,781)	(24,382)
– Other Operating Payments		(14,576)	(17,165)	(15,610)
– Capital Charge		(1,832)	(1,660)	(1,686)
– GST – Net		1,565	–	135
		(2,802,680)	(2,890,080)	(2,729,710)
Net Cash flows from Operating Activities	15	26,892	4,958	30,279
Cash Flows from Investing Activities				
<i>Cash was provided from:</i>				
Sale of Property, Plant and Equipment		–	–	30
Interest Income on Bank Deposits – Grant		796	156	1,064
Interest Income on Bank Deposits – Operating		1,039	799	861
		1,835	955	1,955
<i>Cash was applied to:</i>				
Purchase of Property, Plant and Equipment		(266)	(690)	(657)
Purchase of Intangible Assets (Software)		(2,481)	(4,215)	(3,248)
		(2,747)	(4,905)	(3,905)
Net Cash flows from Investing Activities		(912)	(3,950)	(1,950)
Cash Flows from Financing Activities				
<i>Cash provided from:</i>				
Capital contribution MoE		250	250	–
<i>Cash was applied to:</i>				
Repayment of Capital – MoE		(300)	–	–
Repayment to Crown – INZ		(1,560)	(500)	–
Repayment of Grants Surplus (net) – MSD		(2,625)	–	(1,418)
Repayment of Grants Surplus (net) – MoE		(9,653)	(11,530)	(35,486)
Net Cash flows from Financing Activities		(13,888)	(11,780)	(36,904)
Net Increase/(Decrease) in Cash and Cash Equivalents		12,092	(10,772)	(8,575)
Cash and Cash Equivalents at the Start of the Year		35,386	31,719	43,961
Cash and Cash Equivalents at the End of the Year	7	47,478	20,947	35,386

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: STATEMENT OF ACCOUNTING POLICIES

REPORTING ENTITY

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

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

The financial statements for the TEC are for the year ended 30 June 2014 and were approved by the Board on 23 October 2014.

BASIS OF PREPARATION

Statement of compliance

The financial statements of the TEC have been prepared in accordance with the requirements of the Education Act 1989 and Crown Entities Act 2004 and Crown Entities Amendment Act 2013, which include the requirement to comply with Generally Accepted Accounting Practice in New Zealand (NZ GAAP).

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

Basis of measurement

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

Functional and presentation currency

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

Changes in accounting policies

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

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

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

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

The Minister of Commerce has approved a new Accounting Standards Framework (incorporating a Tier Strategy) developed by the External Reporting Board (XRB). Under this Accounting Standards Framework, the TEC is classified as a Tier 1 reporting entity and it will be required to apply full Public Benefit Entity Accounting Standards (PAS). A complete set of Accounting Standards for Public Benefit Entities (PBE Standards) have been developed by XRB based on current International Public Sector Accounting Standards (IPSAS). The effective date for the new standards for public sector entities is 1 July 2014. This means the TEC expects to transition to the new standards in preparing its 30 June 2015 financial statements. Though the impact of these new standards does not bring major changes to accounting policies, there are some potentially significant differences and also a range of smaller differences between the PBE standards and NZ IFRS.

SIGNIFICANT ACCOUNTING POLICIES

Revenue

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

Revenue from the Crown

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

Interest income on bank deposits – operating

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

Interest income on bank deposits – grants

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

Capital charge

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

Grant expenditure

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

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

Leases**Operating leases**

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

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

Cash and cash equivalents

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

Debtors and other receivables

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

Bank deposits

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

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

Property, plant and equipment

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

Additions

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

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

Disposals

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

Subsequent costs

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

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

Depreciation

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

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

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

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

Intangible assets

Software acquisition

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

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

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

Amortisation

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

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

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

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

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

Creditors and other payables

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

Employee entitlements

Short-term employee entitlements

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

A liability for sick leave is recognised to the extent that absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year. The amount is calculated based on the unused sick leave entitlement that can be carried forward at balance date, to the extent that it will be used by staff to cover those future absences.

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

Long-term employee entitlements

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

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

Presentation of employee entitlements

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

Superannuation schemes

Defined contribution schemes

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

Provisions

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

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

Goods and Service Tax (GST)

The financial statements are stated exclusive of GST with the exception of debtors, other receivables, creditors and other payables, which are stated GST inclusive. Where GST is irrecoverable as an input tax, then it is recognised as part of the related asset or expense. The TEC is not required to account for GST on its Vote Tertiary Education grants revenue and expense.

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

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

Commitments and contingencies are disclosed exclusive of GST.

Income tax

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

Budget figures

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

Cost allocation

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

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

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

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

For the year ended 30 June 2014 indirect costs accounted for 57 percent (2013: 60 percent) of the TEC's total costs.

Critical accounting estimates and assumptions

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

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

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

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

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

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

Retirement and long service leave

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

Critical judgements in applying accounting policies

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

Leases classification

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

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

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

Comparative information

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

NOTE 2: PERSONNEL EXPENSES

	2014 Actual \$000	2013 Actual \$000
Salaries	18,766	19,258
Contributions to Defined Benefit and Contribution Plans*	543	417
Increase/(Decrease) in Employee Entitlements	118	170
Training and Development	230	93
Other Personnel Expenses	3,220	4,201
Redundancy Cost	719	58
Total Personnel Expenses	23,596	24,197

*Contributions to Defined Benefit and Contribution Plans include contributions to Kiwi Saver and the Government Superannuation Fund.

NOTE 3: OPERATING EXPENSES

	Notes	2014 Actual \$000	2013 Actual \$000
Property Rental		2,058	1,707
Motor Vehicles		5	13
Computer Operations		3,406	3,865
Consultants		1,430	1,159
Audit Fees for Financial Statements Audit		156	159
Other Fees Paid – Assurance Services*		–	130
Restructuring		1,089	–
Travel		431	877
Insurance		200	180
Legal Fees		475	293
Capital Charge		1,832	1,686
Managing Third Party Contracts		5,490	4,743
Bank Fees		5	5
Telephone, Tolls and Postage		223	256
Other Supplies and Services		1,078	1,199
Commissioners' Fees	18	155	142
PBRF Panel Members' Fees		–	723
Loss on Disposal of Property, Plant and Equipment/Software and Write Off		153	1,430
Total Operating Expenses	16	18,186	18,567

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

NOTE 4: DEPRECIATION

	2014 Actual \$000	2013 Actual \$000
Leasehold Improvements	164	210
Computer Equipment	628	719
Office Equipment	56	56
Furniture and Fittings	68	111
Motor Vehicles	–	3
Total Depreciation	916	1,099

NOTE 5: AMORTISATION

	2014 Actual \$000	2013 Actual \$000
Intangible Amortisation (Software)	4,245	4,157
Total Amortisation	4,245	4,157

NOTE 6: PROVISION FOR REPAYMENT OF GRANTS SURPLUS

	Grants MoE Surplus \$000	Grants MSD Surplus \$000	Total \$000
Balance at 30 June 2013	5,749	1,740	7,489
Grants Surplus for the Year	9,653	589	10,242
GST Adjustment	731	296	1,027
Surplus Repaid During the Period	(9,653)	(2,625)	(12,278)
Balance at 30 June 2014	6,480	–	6,480

NOTE 7: CASH AND CASH EQUIVALENTS

	2014 Actual \$000	2013 Actual \$000
Cash on Hand	1	1
Cash at Bank	11,227	12,385
Term Deposits with Maturities Less than three Months	36,250	23,000
Total Cash and Cash Equivalents	47,478	35,386

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

NOTE 8: DEBTORS AND OTHER RECEIVABLES

	Note	2014 Actual \$000	2013 Actual \$000
Tertiary Grants Receivables		1,059	5,045
Other Accounts Receivable		76	43
Provision for Impairment (Doubtful Debts)		(380)	(2,269)
Total Debtors and Other Receivables	16	755	2,819

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

The carrying value of receivables approximates their fair value.

As at 30 June 2014 and 2013 all overdue receivables have been assessed for impairment and appropriate provisions applied as detailed below:

As at 30 June 2014

	Gross \$000	Impairment \$000	Net \$000
Not Past Due	96	–	96
Past Due 1-30 days	99	–	99
Past Due 31-60 days	238	–	238
Past Due 61-90 days	295	–	295
Past Due > 91 days	407	(380)	27
Total	1,135	(380)	755

As at 30 June 2013

Not Past Due	43	–	43
Past Due 1-30 days	731	(358)	373
Past Due 31-60 days	2,357	–	2,357
Past Due 61-90 days	80	(69)	11
Past Due > 91 days	1,877	(1,842)	35
Total	5,088	(2,269)	2,819

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

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

	2014 Actual \$000	2013 Actual \$000
Balance at 1 July	2,269	3,959
Increase/(Decrease) in Provision	(588)	(771)
Receivables Written Off During the Year	(1,301)	(919)
Balance at 30 June	380	2,269

NOTE 9: PROPERTY, PLANT AND EQUIPMENT

	Leasehold Improvements \$000	Computer Equipment \$000	Office Equipment \$000	Furniture and Fittings \$000	Motor Vehicles \$000	Total \$000
Cost						
Balance at 1 July 2012	3,442	7,366	703	1,610	90	13,211
Additions	38	771	6	23	–	838
Disposals	–	(36)	–	–	(69)	(105)
Balance at 30 June 2013	3,480	8,101	709	1,633	21	13,944
Balance at 1 July 2013	3,480	8,101	709	1,633	21	13,944
Additions	–	421	2	–	–	423
Disposals	(955)	(242)	–	–	–	(1,197)
Balance at 30 June 2014	2,525	8,280	711	1,633	21	13,170
Accumulated Depreciation						
Balance at 1 July 2012	2,804	6,072	587	1,244	66	10,773
Depreciation Expenses	210	719	56	111	3	1,099
Disposals	–	(44)	–	–	(48)	(92)
Balance at 30 June 2013	3,014	6,747	643	1,355	21	11,780
Balance at 1 July 2013	3,014	6,747	643	1,355	21	11,780
Depreciation Expenses	164	628	56	68	–	916
Disposals	(802)	(242)	–	–	–	(1,044)
Balance at 30 June 2014	2,376	7,133	699	1,423	21	11,652
Carrying Amounts						
At 1 July 2012	638	1,294	116	366	24	2,438
At 30 June and 1 July 2013	466	1,354	66	278	–	2,164
At 30 June 2014	149	1,147	12	210	–	1,518

NOTE 10: INTANGIBLE ASSETS (INTERNALLY GENERATED AND PURCHASED SOFTWARE)

	\$000
Cost	
Balance at 1 July 2012	24,013
Additions	5,045
Impairment	(138)
Balance at 30 June 2013	28,920
Balance at 1 July 2013	28,920
Additions	1,438
Impairment	–
Balance at 30 June 2014	30,358
Accumulated Depreciation	
Balance at 1 July 2012	15,260
Depreciation Expenses	4,157
Impairment	(128)
Balance at 30 June 2013	19,289
Balance at 1 July 2013	19,289
Depreciation Expenses	4,245
Impairment	–
Balance at 30 June 2014	23,534
Carrying Amounts	
At 1 July 2012	8,753
At 30 June and 1 July 2013	9,631
At 30 June 2014	6,824

NOTE 11: WORK IN PROGRESS

	Software \$000	Property, Plant and Equipment \$000	Total \$000
Cost			
Balance at 1 July 2012	3,507	398	3,905
Additions	3,307	853	4,160
Transfer to Software/Property, Plant and Equipment	(5,045)	(838)	(5,883)
Written Off	(1,426)	–	(1,426)
Balance at 30 June 2013	343	413	756
Balance at 1 July 2013	343	413	756
Additions	2,445	227	2,672
Transfer to Software/Property, Plant and Equipment	(1,438)	(421)	(1,859)
Balance at 30 June 2014	1,350	219	1,569

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

NOTE 12: CREDITORS AND OTHER PAYABLES

	Note	2014 Actual \$000	2013 Actual \$000
Grants			
Creditors		143	2,731
Accrued Expenses		8,831	4,876
		8,974	7,607
Operations			
Creditors		669	349
Accrued Expenses		2,146	2,061
		2,815	2,410
Total Creditors and Other Payables	16	11,789	10,017

MATURITY GROUPING

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

NOTE 13: EMPLOYEE ENTITLEMENTS

	2014 Actual \$000	2013 Actual \$000
Current portion		
Salaries and Wages	667	509
Annual Leave	900	963
Severance Provision	100	40
Sick Leave	51	42
Retirement and Long Service Leave	114	109
Total Current Portion	1,832	1,663
Non-Current Portion		
Retirement and Long Service Leave	484	598
Total Non-Current Portion	484	598
Total Employee Entitlements	2,316	2,261

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

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

CHANGES IN ASSUMPTIONS

	Long Service Leave \$000	Retiring Leave \$000	Total \$000
No Change	307	291	598
Salary Growth: 2% per year	292	276	568
Salary Growth: 4% per year	324	307	631
Resignation rates: 150% of Assumed	293	288	581
Resignation rates: 50% of Assumed	324	293	617

NOTE 14: PROVISIONS FOR LEASE

	Provision for Lease Make Good Actual \$000	Provision for Onerous Lease Actual \$000	Total \$000
Balance at 1 July	204	–	204
Increase/(Decrease) in Provision	–	394	394
Balance at 30 June	204	394	598

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

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

Under the restructure the TEC's Service Centre operations in Auckland were wound up and brought to the Wellington office. This resulted in an onerous lease agreement on Auckland premises, which is to expire on 30 September 2015. The cost of meeting the obligation, as per lease agreement, has been provided as onerous lease in compliance with Accounting Standard 'PBE IPSAS 19 Provisions, Contingent Liabilities and Contingent Assets'.

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

	2014 Actual \$000	2013 Actual \$000
Total Comprehensive Income	11,764	6,205
Add Non-Cash Items:		
Depreciation of Property, Plant and Equipment	916	1,099
Amortisation of Intangibles	4,245	4,157
(Gain)/Loss on Disposal of Property, Plant and Equipment	153	(11)
Loss on Disposal/Write off of Software	–	1,430
Total of Non-Cash Items	5,314	6,675
Add/(Deduct) Movement in Working Capital Items		
(Increase)/Decrease in Debtors and Other Receivables	2,126	23,721
GST Payable/(Receivable)	1,565	135
Increase/(Decrease) in Creditors and Other Payables	1,845	(7,480)
Increase/(Decrease) in Accrued Salaries and Wages	54	(197)
Increase/(Decrease) in Received in Advance from English for Migrants	5,768	2,245
(Increase)/Decrease in Prepayment	(42)	(103)
Increase/(Decrease) Provisions	394	(61)
Net Movement in Working Capital	11,710	18,260
Add/Deduct Items Classified as Investing Activities		
Interest Income	(1,896)	(861)
Total of Investing Activities	(1,896)	(861)
Net Cash Flows from Operating Activities	26,892	30,279

NOTE 16: EXPLANATION OF MAJOR VARIANCES AGAINST BUDGET

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

STATEMENT OF COMPREHENSIVE INCOME

Grants revenue

Grants revenue was less than budgeted by \$71 million to reflect the reduced funding drawdown arising from 2013 recoveries and provider plan variations. Refer to the table on page 55: Funding provided by the TEC for tertiary education organisations to deliver teaching and learning for more detail.

Grants expenses

Grants expenses were less than budgeted by \$81 million. The majority of this variance relates to plan variation in Level three and above Student Achievement Component and Training for Designated Groups as a result of changes made to improve the efficiency of industry training and lower demand. Refer to the table on page 55: Funding provided by the TEC for tertiary education organisations to deliver teaching and learning for more detail.

Operating expenses

Operating expenses are \$1.1 million under budget owing to a combination of delayed expenditure in third party contract expenses and savings associated with implementing all-of-government contracts, lower depreciation and personnel costs.

STATEMENT OF FINANCIAL POSITION

Cash and cash equivalents

Cash is over budget mainly owing to a higher level of creditors and other payables as at 30 June 2014 and an increase in the level of prepaid funds received from migrants for English language courses.

Debtors and other receivables

Debtors and other receivables are \$1.2 million below budget owing to improved debt management and the write off of some prior year debts that were determined to be uncollectable.

Creditors and other payables

Creditors and other payables are \$6.8 million over budget primarily as a result of some payments, particularly in relation to new initiatives that commenced during the year, being paid in arrears and accrued for at 30 June 2014.

NOTE 17: RELATED PARTY DISCLOSURE

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

The TEC is a wholly owned entity of the Crown.

Significant transactions with government-related entities

- The TEC has been provided with funding from the Crown of \$2.8 billion (2013: \$2.8 billion) for specific purposes as set out in its founding legislation and the scope of the relevant government appropriations.

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

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

The TEC purchases goods and services from entities controlled, significantly influenced, or jointly controlled by the Crown. Purchases from these government-related entities for the year ended 30 June 2014 totalled \$0.4 million (2013: \$0.7 million). These purchases include the purchase of electricity from Genesis, air travel from Air New Zealand, and postal services from New Zealand Post.

The following transactions were entered into during the year:

Past

- The TEC contracted with Te Wānanga O Raukawa, an organisation in which Commissioner Robin Hapi is Council Chair and Chair of the Paihere Tangata subcommittee, for the provision of education, training and other services of \$10,315,000 (2013: \$10,495,922). Funding for the period until which Robin Hapi was a commissioner was \$1,767,624. There were no amounts outstanding at year end (2013: \$nil).
- The TEC contracted with Te Aute College Trust Board, an organisation in which Commissioner Robin Hapi is Co-Chair, for the provision of education, training and other services of \$12,444 (2013 : \$22,888). Funding for the period until which Robin Hapi was a commissioner was \$2,074. There were no amounts outstanding at year end (2013: \$nil).

TOTAL GRANTS EXPENSES RELATING TO TERTIARY EDUCATION INSTITUTIONS

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

	Year ended 30 June 2014 \$000	Year ended 30 June 2013 \$000
Universities		
Auckland University of Technology	150,411	141,824
Lincoln University	43,502	46,502
Massey University	192,852	191,324
The University of Auckland	406,580	390,177
University of Canterbury	144,634	145,286
University of Otago	276,198	274,319
University of Waikato	86,711	88,019
Victoria University of Wellington	164,700	161,780
	1,465,588	1,439,231
Polytechnics		
Aoraki Polytechnic	8,129	14,515
Bay of Plenty Polytechnic	23,877	23,617
Christchurch Polytechnic Institute of Technology	56,579	54,882
Eastern Institute of Technology	38,536	36,897
Manukau Institute of Technology	61,926	61,927
Nelson Marlborough Institute of Technology	17,895	19,575
Northland Polytechnic	25,784	26,123
Otago Polytechnic	34,858	33,065
Southern Institute of Technology	29,663	29,296
Tai Poutini Polytechnic	18,513	18,398
The Open Polytechnic of New Zealand	37,681	39,187
Unitec Institute of Technology	74,174	80,692
Universal College of Learning	28,554	29,181
Wairiki Institute of Technology	26,109	26,432
Waikato Institute of Technology	47,369	47,021
Wellington Institute of Technology	29,295	29,280
Western Institute of Technology Taranaki	14,535	15,396
Whitireia Community Polytechnic	26,458	26,575
	599,935	612,059
Wānanga		
Te Wānanga O Aotearoa	136,173	134,579
Te Wānanga O Raukawa	10,315	10,496
Te Whare Wānanga O Awanuiārangi	26,029	24,659
	172,517	169,734
Total Grants Expenses Relating to Tertiary Education Institutions	2,238,040	2,221,024
Grants Expenses for Other Tertiary Education Organisations	528,953	483,367
Total Grants Expenses	2,766,993	2,704,391

MINISTERIAL DISCLOSURES

The Treasury advises that responsible Ministers Hon Steven Joyce and Hon Hekia Parata have certified that they have no related party transactions for the year ended 30 June 2014.

Key Management Personnel Compensation

	2014 Actual \$000	2013 Actual \$000
Salaries and Other Short Term Benefits	1,718	1,815
Other Long Term Benefits	3	16
Termination Benefits	80	40
Total Key Management Personnel Compensation	1,801	1,871

Key management personnel include all commissioners, the Chief Executive, three deputy chief executives, the Chief Advisor, former Deputy Chief Executive and three former general managers (including acting general managers).

NOTE 18: BOARD OF COMMISSIONERS' REMUNERATION

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

		2014 Actual \$	2013 Actual \$
Current Commission members			
John Spencer (Chair)	appointed August 12	42,000	38,500
Nigel Gould	appointed May 13	20,000	3,333
Judith Johnston	appointed August 11	20,000	20,000
Christopher Mace	appointed May 13	20,000	3,333
John Morris	appointed November 12	20,000	13,333
Phil O'Reilly	appointed September 13	15,000	–
Vanessa Stoddart	appointed September 13	15,000	–
Past Commission members			
Robin Hapi	retired August 13	3,333	20,000
Sir Harawira Gardiner (Chair)	retired July 12	–	3,500
Ian Boyd	retired December 12	–	10,000
Jim Donovan	retired April 13	–	16,667
Tony Hall	retired October 12	–	6,667
Pauline Winter	retired October 12	–	6,667
Total Commission Member Fees		155,333	142,000

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

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

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

No commission member received compensation or other benefits in relation to cessation (2013: nil).

NOTE 19: EMPLOYEE REMUNERATION

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

	Number of Employees 2014	Number of Employees 2013
Remunerations		
440,000 to 450,000	–	1
390,001 to 400,000	1	–
300,001 to 310,000	–	1
280,001 to 290,000	–	2
260,001 to 270,000	–	1
250,000 to 260,000	1	–
230,001 to 240,000	1	1
210,001 to 220,000	1	–
190,001 to 200,000	–	1
180,001 to 190,000	1	1
170,001 to 180,000	5	4
160,001 to 170,000	3	4
150,001 to 160,000	1	2
140,001 to 150,000	5	3
130,001 to 140,000	8	4
120,001 to 130,000	12	9
110,001 to 120,000	12	10
100,000 to 110,000	17	12
Total Employees	68	56

During the year ended 30 June 2014, 22 employees (2013: 9) received compensation and other benefits in relation to cessation totaling \$658,727 (2013: \$264,576).

NOTE 20: FINANCIAL INSTRUMENTS

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

CATEGORIES OF FINANCIAL ASSETS AND LIABILITIES

	2014 Actual \$000	2013 Actual \$000
Financial Assets		
Cash and Cash Equivalents	47,478	35,386
Debtors and Other Receivables	755	2,819
Total Financial Assets	48,233	38,205
Financial Liabilities Measured at Amortised Cost		
Creditors and Other Payables	11,789	10,017
Total Financial Liabilities Measured at Amortised Cost	11,789	10,017

CREDIT RISK

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

MARKET RISK**Fair Value Interest Rate Risk**

Interest rate risk is the risk that the value of a financial instrument will fluctuate owing to changes in market interest rates. There were no interest rate options or interest rate swap options in place as at 30 June 2014. The TEC bank deposits are on call and on term deposits with less than or equal to three months' maturities.

CURRENCY RISK

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

LIQUIDITY RISK

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

CONTRACTUAL MATURITY ANALYSIS OF FINANCIAL LIABILITIES

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

As at 30 June 2014

	Carrying amount \$000	Contractual cash flows \$000	Less than 6 months \$000
Creditors and Other Payables	11,789	11,789	11,789
Total	11,789	11,789	11,789

As at 30 June 2013

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

NOTE 21: OPERATING LEASES

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

	2014 Actual \$000	2013 Actual \$000
Non-Cancellable Operating Leases (Rental Agreements)		
Not Later Than One Year	1,333	1,576
Later Than One Year and Not Later Than Two Years	71	1,253
Later Than Two Years and Not Later Than Five Years	–	71
Total Operating Leases	1,404	2,900

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

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

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

The lease for the Auckland office has an expiry date of 1 October 2027 with six-yearly rights of renewal in the interim. The next renewal option is due on 1 October 2015. However, the TEC will terminate its lease agreement on 30 September 2015 as the Auckland operations have been moved to the Wellington office under the restructure.

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

For the year ended 30 June 2014, \$2.058 million (2013: \$1.707 million) was recognised as an expense (including the onerous lease rental provision of \$325,000) in the income statement in respect of operating leases.

NOTE 22: CAPITAL COMMITMENTS

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

	2014 Actual \$000	2013 Actual \$000
Intangible assets	577	674
Total Capital Commitments	577	674

NOTE 23: NON-CANCELLABLE AGREEMENTS AND INVESTMENT PLANS

Commitments under these agreements and Investment Plans are:

	2014 Actual \$000	2013 Actual \$000
Not Later Than One Year	1,487,798	2,437,497
Later Than One Year and Not Later Than Two Years	99,541	1,052,631
Later Than Two Years and Not Later Than Five Years	7,512	–
Total Non-Cancellable Contracts	1,594,851	3,490,128

At 30 June 2014 the TEC had entered into funding agreements for the provision of training services. Investment Plans (2014) contain indicative funding levels. Investment Plans (2015) have not been finalised as at balance date.

NOTE 24: CONTINGENCIES

CONTINGENT LIABILITIES

The TEC is pursuing a recovery of funding for non-performance from a private training establishment (PTE). A statutory demand for the outstanding sum was served. The PTE has applied to the court for an order setting aside the statutory demand. If the TEC is unsuccessful it will be exposed to award approximately \$10,000. However, if the TEC succeeds and the statutory demand is upheld, the Court is likely to award scale costs in favour of the TEC (2013: nil).

CONTINGENT ASSETS

The TEC has a contingent asset which arises from the likelihood of realising recoveries from some tertiary education organisations. The amount relates to grants expenses and is likely to be returned to the Crown if realised (2013: nil). Since the year end we have recovered \$5.9 million out from Te Whare Wānanga o Awanuiārangī.

NOTE 25: EVENTS AFTER THE BALANCE DATE

No event has occurred since the end of the financial period (not otherwise dealt with within the financial statements) that has affected or may significantly affect the TEC's operations or state of affairs for the year ended 30 June 2014.

NOTE 26: PROFESSIONAL INDEMNITY INSURANCE

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

- Professional Indemnity, and
- Directors' and Officers' Liability.

NOTE 27: CAPITAL MANAGEMENT

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

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

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

The Tertiary Education Commission's Annual Report is published online at www.tec.govt.nz/About-us/Publications

ISBN: 978-0-478-32033-6 (print)

ISBN: 8-0-478-32034-3 (online)

www.tec.govt.nz

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Photos: A special thanks to the tertiary education organisations who contributed to the vignettes and images included in this report.