Tertiary Education Commission
Te Amorangi Mātauranga Matua

Annual Report

FOR THE YEAR ENDED 30 JUNE 2015

WHO WE ARE

The Tertiary Education Commission

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

Invest government funding through Investment Plans and contracts with tertiary education organisations

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

Monitor and manage the performance of tertiary education organisations

WHAT WE ACHIEVED IN 2014/2015

1

Increased proportion of the population with a tertiary qualification

- 8% increase in Youth Guarantee qualification completion rates, now at 60%
- 1% decrease in proportion of 20- to 24-year olds who are not in employment, education or training, now at 14.6%

2

High-quality and more relevant research

- Four new Centres of Research Excellence will receive funding from 2016 until 2020

WHAT WE DID

WE INVESTED APPROXIMATELY

$2.8 BILLION

TO

- **8** UNIVERSITIES
- **18** INSTITUTES OF TECHNOLOGY AND POLYTECHNICS
- **3** WĀNANGA
- **241** TEC-FUNDED PRIVATE TRAINING ESTABLISHMENTS
- **11** INDUSTRY TRAINING ORGANISATIONS
- **400** OVER 400 OTHER ORGANISATIONS *

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

3

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

- 387 more priority engineering equivalent full-time students (8,615 engineering equivalent full-time students in 2014)
- $28.6 million being invested over the next four years in three Information Communication and Technology Graduate Schools in Auckland, Wellington and Christchurch
- 1,189 learners in Māori and Pasifika Trades Training Programme
- 20,374 apprentices received assistance towards the cost of tools and training through the Apprenticeship Re-boot initiative

4

Contributed to the education sector Better Public Services results

- 1.5% increase in the proportion of 18-year olds who have achieved National Certificate of Educational Achievement Level 2 or an equivalent qualification, now at 81.2%
- 1.5% increase in proportion of 25- to 34-year olds who have a qualification at New Zealand Qualifications Framework Level 4 or above, now at 54.6%

The Tertiary Education Commission Annual Report for the year ended 30 June 2015

This Annual Report provides information to enable Members of Parliament to assess the operations and performance of the Tertiary Education Commission (the TEC).

The report covers what we set out to do, what we have done and how we have contributed to the strategic priorities and targets set by the Government. We report on progress against our *Statement of Intent 2014-2018* impacts and the performance measures in our *Statement of Performance Expectations 2014/15.*

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Chair’s Foreword

This Annual Report provides an overview of what we have achieved during the 2014/15 financial year. This report also sets out how we have contributed to delivering on the *Tertiary Education Strategy 2014-2019*, Better Public Services targets and the Business Growth Agenda.

In 2014/15 we invested approximately $2.8 billion into the tertiary education system. Our investments in tertiary education supported high-quality education, training and research.

This year we continued to see improvements in the tertiary education system. A greater proportion of New Zealanders have a tertiary qualification and more are attaining higher-level qualifications. The tertiary education system is also responding well to labour market needs, ensuring learners have the knowledge and skills that employers need. Research quality remains high and has made a greater contribution to economic innovation and transformation.

Our forecasts show that demand for tertiary education is changing. In some areas of the country demand is increasing, but in other areas it’s declining. Learner expectations of tertiary education are changing and developments in technology and delivery models present opportunities for tertiary education organisations to innovate.

To respond to these opportunities and challenges we need a tertiary education system that is flexible, relevant and responsive. This year we made changes to our strategic focus to support the changing tertiary education system. Our strategy has three key pillars:

- Champion aspiration – by promoting the value of tertiary education and success for all
- Build partnerships – to better leverage our role and to support the sector
- An investment approach – to refocus the way we invest across the sector to ensure a better return and greater impact.

To support this we need to make sure that we develop:

- A strong knowledge base – so we have the right tools and information to guide our investment decisions and help learners make the right choices about tertiary education
- Our internal capability – attracting, retaining and growing great people that will help us deliver our strategy.

An area where all of the elements of our strategy are visible and where the various parts of the tertiary system are pulling together to make a difference is Engineering – Education to Employment (E2E). The aim of this initiative is to increase the number of graduate engineers, with the right knowledge and skills, to support our economy. To do this we are working in partnership with tertiary education organisations, employers, the engineering profession and partner agencies to coordinate our efforts and promote engineering as a career.

Engineering is just one area that demonstrates that when we work in partnership we can deliver better outcomes for learners and employers. This is a key element in our refreshed approach to investment. We are engaging with tertiary education organisations, employers and other agencies to keep shifting focus towards improving learner outcomes. We are also looking to simplify the way we invest to ensure that the system is flexible, relevant and responsive to the needs of learners and employers. This may mean looking at new ways of funding tertiary education organisations to encourage innovation. It also means changing the way we operate.

Our updated approach to investment is in development and will continue to be our key focus over the next three years. I know that the changes we are making will build on the progress we have made to date.

John Spencer
Chair
Tertiary Education Commission
2 February 2016

Chief Executive's Message

The 2014/15 year represents another year of progress for both the Tertiary Education Commission and the tertiary education system. Our investments in tertiary education organisations have supported more New Zealanders to succeed in tertiary education.

Over the last six years the focus of the system has been on improving the quality of outputs but there are some areas where the results are not meeting our expectations. There is still more work to be done to ensure that all learners can succeed in tertiary education regardless of who they are, and at what level their journey in tertiary education needs to start. This means that our approach to investment needs to change to support better social, economic and cultural outcomes for all New Zealanders.

This is not something we can do alone and change needs to be delivered in partnership with tertiary education organisations, employers and our colleague agencies. This is where I believe we have made the greatest progress this year. While much of what we are doing is work in progress it is beginning to make a difference. For example, the way we have set up information and communications technology graduate schools means that learners will benefit from tertiary education organisations and employers working closely together and have skills that industry needs.

Changing the way we approach making our investment decisions has started to take shape this year. We have started to engage with tertiary education organisations, employers, and other agencies to see how the system can be more relevant, flexible and responsive to learners. We have also started to build a stronger knowledge base so that we, tertiary education organisations and learners can make more informed investment decisions.

We are also changing the way we operate. This year we looked at how we work with fresh eyes and considered the changes needed to improve the way we do business. Even the small changes we make, like simplifying our language or speeding up our processes, go a long way towards making it easier for tertiary education organisations to do business with us. The improvements we are making internally are starting to make a difference. Staff engagement results have improved this year and our stakeholders are happier with the way we work. This is just the beginning and I expect to see more improvement over the next year as we embed some of our new ways of working.

When I think about what we have achieved and what lies ahead I look to the values our staff created for the TEC: we aim high, we partner for success, we work as one, and we learn and innovate. I know that by living these values we will be well placed to make sure that all learners have the knowledge and skills they need for lifelong success.

Tim Fowler
Chief Executive
Tertiary Education Commission
2 February 2016

Who we are and what we do

Each year we invest approximately $2.8 billion in tertiary education so that New Zealanders are equipped with the knowledge and skills needed for lifelong success. Our investments are shaped by the priorities set out in the *Tertiary Education Strategy 2014-2019.*

Our role is to:

- **invest government funding** through Investment Plans and contracts with tertiary education organisations
- **provide information and advice** to the Government (including ownership monitoring advice) about tertiary education organisations and the tertiary education sector
- **monitor and manage** the performance of tertiary education organisations.

As a Crown entity we are jointly monitored by the Ministry of Education and the Ministry of Business, Innovation and Employment. This arrangement reflects our role in contributing to both education and the economy.

We invest in all forms of post-secondary school education and training, including foundation education, adult and community education and research. We also fund some programmes that link schools with tertiary education, including Gateway and Trades Academies.

Tertiary education organisations include:

- eight universities
- 18 institutes of technology and polytechnics
- three wānanga
- 241 TEC-funded private training establishments
- 11 industry training organisations
- over 400 other organisations, 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 and we monitor them on behalf of the Crown.

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 the Government's priorities and contribute to national outcomes, as expressed in the Tertiary Education Strategy and Plan Guidance.

The Plan-based investment process begins with our publication of Plan Guidance, which outlines its expectations of tertiary education organisations in general. In engaging with tertiary education organisations and approving their Investment Plans, we shift funding from lower-performing to higher-performing tertiary education organisations and ensure adequate investment occurs in high-priority areas.

In our Plan Guidance for 2015 and 2016 Investment Plans, we asked that tertiary education organisations:

- outline their performance stories, including:
  - their mission and distinctive role within the tertiary education system
  - their strategic direction, including intended outcomes and the activities and outputs that will contribute to these
  - how they will measure success
- explain how they intend to respond in the coming three years to each of the Government's six priorities in the *Tertiary Education Strategy 2014-2019*.

Our strategic context

The Tertiary Education Strategy

Our strategic direction is underpinned by the *Tertiary Education Strategy 2014-2019*, which sets out the Government's current to long-term strategic direction priorities for tertiary education.

The strategy emphasises the opportunity for New Zealand to develop a tertiary system that is more flexible, outward-facing, engaged and focused on improving outcomes for learners and employers. It presents six priorities that shape what we do:

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

We work towards wider government commitments that complement the priorities set out in the *Tertiary Education Strategy 2014-2019*.

The Business Growth Agenda

The Business Growth Agenda is central to the Government's priority of building a more productive and competitive economy.

Lifting productivity and competitiveness is critical to creating business opportunities, more jobs and higher wages and ultimately the higher living standards to which New Zealanders aspire. Our role is to support the Ministry of Business, Innovation and Employment to match skills training to employers' needs by investing in tertiary knowledge and skills that meet employers' needs.

Better Public Services

To sharpen the public sector's focus on high-quality delivery, the Government has set Better Public Services targets.

For tertiary education the priority is to boost skills and employment by increasing educational achievement. We contribute towards these two targets:

- by 2017, 85 percent of 18-year-olds will have achieved a National Certificate of Educational Achievement Level 2 or an equivalent qualification
- by 2018, 60 percent of 25- to 34-year-olds will have a qualification at Level 4 and above on the New Zealand Qualifications Framework.

Supporting Māori and Pasifika participation and achievement

Supporting Māori and Pasifika participation and achievement is a key priority for the Government. Our focus is to boost achievement for Māori and Pasifika toward achieving at least as well as other learner groups.

Tū Māia e te Ākonga outlines the initiatives we will undertake to implement both the *Māori Education Strategy: Ka Hikitia Accelerating Success 2013-17* and *Tau Mai Te Reo – The Māori Language in Education Strategy 2013-2017*. Our *Pasifika Framework 2013-2017* is our contribution to implementing the *Pasifika Education Plan 2013-17*.

International Education Priorities

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

Our role is to encourage tertiary education organisations to grow their international revenue in a way that:

- supports their 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
- maximises collaborative activities.

The Tertiary Education System

We recognise we cannot deliver these strategic objectives alone. We work collaboratively with the Ministry of Education and other education sector Crown entities to create a world-leading education system.

Education system leadership teams are establishing a work programme to ensure greater alignment of the activities that support delivering the *Tertiary Education Strategy 2014-2019*.

We also work closely with the Ministry of Business, Innovation and Employment to ensure the tertiary education system responds to the needs of employers and delivers the skills and knowledge that contributes to economic growth.

The TEC strategy

In 2014 we introduced a new strategy. This strategy aims to ensure that the tertiary education system can respond to change and continue to improve outcomes for learners and industry.

Our strategy has three key pillars:

- **Champion aspiration** – by promoting the value of tertiary education and success for all
- **Build partnerships** – to better leverage our role and to support the sector
- **An investment approach** – to refocus the way we invest across the sector to ensure a better return and greater impact.

Our foundations for achieving our aims are:

- **A strong knowledge base** – so we have the right tools and information to guide our investment decisions and help learners make the right choices about tertiary education
- **Internal capability** – attracting, retaining and growing great people will help us deliver our strategy.

Our Performance Framework

The outcomes we are seeking to achieve are shaped by the Government's strategic goals and the opportunities that exist in our operating environment. We need a tertiary education system that delivers better outcomes for New Zealand and for every learner.

GOVERNMENT AND NATIONAL OUTCOMES

- A more highly skilled, adaptive, innovative and productive workforce
- More New Zealand citizens fully participating in society and contributing to New Zealand's social and cultural well-being

With other government agencies, this contributes to:
Education-wide Outcome
A WORLD LEADING EDUCATION SYSTEM THAT EQUIPS ALL NEW ZEALANDERS WITH THE KNOWLEDGE, SKILLS AND VALUES TO BE SUCCESSFUL CITIZENS IN THE 21ST CENTURY

OUR PRIORITIES

THE TERTIARY EDUCATION STRATEGY 2014-2019

- Getting at-risk young people into a career
- Boosting achievement for Māori and Pasifika
- Delivering skills for industry
- Improving adult literacy and numeracy
- Growing international linkages
- Strengthening research-based institutions

TEC IMPACTS

An increased proportion of the population with a tertiary qualification

- Higher levels of educational achievement
- Increased participation and qualification rates in higher level qualifications particularly by priority learner groups
- More graduates with skills valued by employers

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

- 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 regional levels and government priority areas
- More tertiary education organisations aligning their activities with their expected role within the system
- Tertiary education organisations are well managed and financially sustainable

Higher-quality and more relevant research

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

TEC STRATEGY

- Champion Aspiration Whakangākau
- Build Partnerships Mahi Ngātahi
- An Investment Approach Tautoko
- A Strong Knowledge Base Mōhiotanga
- Build our Capability Whakapakari

TEC OUTPUTS

- Smart investment decisions
- Monitoring sector performance and capability
- Provision of information and advisory services

What we have achieved

An increased proportion of the population with a tertiary qualification

Tertiary education drives better economic, social, cultural, and environmental outcomes for all New Zealanders. It provides learners with the knowledge and skills they need for lifelong success.

Increasing the proportion of the population with a tertiary qualification is vital to ensuring further prosperity for all.

Key focus and priorities

We have focused our effort on delivering:

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

These focus areas are aimed at supporting Better Public Services targets and four of the priorities in the *Tertiary Education Strategy 2014-2019*.

- Proportion of 18-year-olds who have achieved National Certificate of Educational Achievement Level 2 or an equivalent qualification (Better Public Services).
- Proportion of 25- to 34-year-olds who have a qualification at New Zealand Qualifications Framework Level 4 or above (Better Public Services).
- Delivering skills for industry (Priority 1).
- Getting at-risk young people into a career (Priority 2).
- Boosting achievement of Māori and Pasifika (Priority 3).
- Improving adult literacy and numeracy (Priority 4).

What we did

Investing in higher levels of educational achievement for all

Through Investment Plans and performance-linked funding we focus our funding on those organisations that deliver quality provision for learners. Investment Plans set out tertiary education organisations' commitment to improving participation and achievement for all learners. We also directly link a proportion of our funding to the educational performance indicators through performance-linked funding.

Through 2014/15 Investment Plans we invested nearly $2.5 billion in tertiary education organisations to support a wide range of levels of tertiary education in different locations. Our investment has contributed to:

- increasing the proportion of 18-year-olds who have achieved National Certificate of Educational Achievement Level 2 or an equivalent qualification from 79.7 percent in 2013 to 81.2 percent in 2014
- increasing the proportion of 25- to 34-year-olds who have a qualification at New Zealand Qualifications Framework Level 4 or above from 52.7 percent in 2013 to 54.6 percent in 2014.

Supporting priority learners to progress to higher levels of education and to have skills valued by employers

Over the last year our investments supported opportunities for all learners to progress to higher levels of educational achievement. We focused on ensuring learners who are under 25-years old, or those who need to boost their literacy and numeracy skills, have access to the right courses and tools.

For some learners the journey to achieving higher levels of education needs to start with foundation level qualifications. **Youth Guarantee** provides fees-free tertiary places for learners who are 16 to 19 years old. Youth Guarantee learners study towards National Certificate of Educational Achievement Levels 1-2 or other qualifications at Levels 1-3 on the New Zealand Qualifications Framework. Learners who complete Youth Guarantee programmes can go into further study or into work.

In 2014 we expanded the programme and 128 education providers delivered 2,090 (28 percent) more equivalent full-time students than in 2013. This means that in 2014 there were more than 13,300 learners participating in Youth Guarantee programmes across New Zealand. More learners are also succeeding through Youth Guarantee programmes. Qualification completion rates increased from 52 percent in 2013 to 60 percent in 2014.

> "The improvement in completion rates for Youth Guarantee learners is a good result as these are hard to reach learners who either have disengaged or are at risk of disengaging from conventional schooling. This Government remains committed to providing a range of learning opportunities that ensure all young New Zealanders have the skills they need to prosper and contribute to their communities."
>
> **Tertiary Education, Skills and Employment Minister Steven Joyce**
> **Improving results for Youth guarantee Learners – Press release, 4 August 2015**

Boosting literacy and numeracy skills is one of the key ingredients that contribute to New Zealanders achieving lifelong success. Improved skills can remove barriers, allowing some learners to access tertiary education and ensures that employees have skills valued by employers. Over the last year we made it easier for learners and employers to access funds, increased awareness of the available options and expanded our tools.

The **Workplace Literacy Fund** supports employers to provide literacy and numeracy study or training in the workplace. We made it easier to access the fund by streamlining application forms and processes. Changes to funding rules lowered the minimum number of employees for an eligible business from 50 to 20. This has increased the number of learners improving their literacy and numeracy from 6,071 in 2013 to 6,534 learners in 2014.

The **Skills Highway** programme aims to raise the profile of adult literacy and numeracy with employers. The programme addresses productivity problems caused by low literacy and numeracy skills. We improved the tools available to employers, including new self-audit tools which are available on the Skills Highway website. A new Skills Highway brokerage service will be provided through the Industry Training Federation. Skills Highway champions results through business-led panel events and the Equal Employment Opportunities Trust Diversity Awards.

> "We have a team philosophy now that encourages shift members to make suggestions and participate in discussions."
>
> **A supervisor from Goodman Fielder, a large distribution company with around 180 employees, the winners of the 2015 Trust Diversity Awards: Skills Highway Award**

The **Literacy and Numeracy Assessment Tool** continues to support a wide range of learners to improve their skills. Usage of the Literacy and Numeracy Assessment Tool has grown significantly over the last three years (114,927 learners in 2014 compared to 77,661 learners in 2011).

We know that the tool works best when it is tailored to meet the needs of different learners. Four new options in the Assessment Tool were launched during 2014/15 for Youth, Māori learners, and two for English for speakers of other languages.

New online tool to learn the road code

A new addition to Pathways Awarua, our online literacy and numeracy resource, has the added benefit of helping students confront gaps in reading and writing skills as well as pass their learner licence theory test.

The New Zealand Transport Agency, who collaborated on the road code pathway, found it gives learners an applied context for literacy and numeracy. “The road code pathway users are likely to include people embarking on vocational training,” says Dr Gill Thomas, Pathways Awarua project director.

“Low adult literacy and numeracy skills are a major obstacle to young people achieving a driver’s licence. These modules provide a very attractive incentive to help potential learners to improve their literacy and numeracy skills,” says the TEC’s tertiary education strategy implementation group manager Frannie Aston.

Source: Pathways Awarua Website

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Boosting the achievement of Māori learners

Māori are going to make up an increasingly large proportion of the workforce. In order to realise the more productive and competitive economy envisaged by the Business Growth Agenda, we need to ensure Māori attain higher levels of achievement in subject areas valued in the future labour market, alongside areas of social and cultural value.

Our role is to support tertiary education organisations to focus and achieve this goal. Through our regular meetings with them, we know that there is heightened awareness about the critical need to boost results for Māori learners. Most tertiary education organisations are actively working to address this.

During the year we trialled a **Māori Assessment Framework** with eight tertiary education institutions. The Framework is a tool designed to assess the likely effectiveness of provisions in Investment Plans on improving outcomes for Māori learners and builds on our earlier research findings published in *'Doing Better for Māori in Tertiary Education'* (2012).

The Framework identified that most tertiary education institutions demonstrated organisational commitment, and had plans in place, to improve Māori learner outcomes. The tool helped us work with the institutions to develop and improve the strategies they use, while also highlighting ways in which we can improve on the Framework and its implementation across the tertiary education system. Further development of the Framework is underway, along with tools and training, to support our investment managers to implement the Framework for the 2017 Investment Round.

We partnered with Ako Aotearoa to create new professional development workshops for tertiary educators. These led to the development of **Hei Toko I te Tukunga**, a set of sector-specific good practice exemplars, which highlight how to embed kaupapa Māori principles into the learning environment. The workshop resources and ongoing professional development were rolled out mid-year.

Boosting the achievement of Pasifika learners

In 2014 we developed a **Pasifika Assessment Framework** for the 2015 Investment Round to assess the likely effectiveness of tertiary education organisations' Investment Plans to meet the needs of Pasifika. This will be tailored for the 2017 Investment Round.

We commissioned Pasifika research reports on improved transitions and achievement to increase understanding of Pasifika needs in the tertiary system. The findings from the reports will inform our operational decisions. Investment managers will use the findings when engaging with education providers on how to do better for Pasifika.

We hosted workshops with the key stakeholders in the university and institutes of technology and polytechnic sectors to discuss opportunities that can make a difference for Pasifika. The feedback from the workshops will inform our refinement of the Pasifika Assessment Framework to be used for the 2017 Investment Round.

Measure of Progress

Measure	2012 Actual (Note 1)	2013 Actual (Note 1)	2014 Target	2014 Actual
Higher levels of educational achievement				
Proportion of 20- to 24-year-olds who are not in employment, education or training (TES Priority 1 and 2)	16.9%	15.6%	Decrease	14.6% (annual average to December 2014)
Proportion of 18-year olds who have achieved National Certificate of Educational Achievement Level 2 or an equivalent qualification (Better Public Services target) (Note 1)	77.2%	79.7%	81.0%	81.2%
Proportion of full-time students studying at New Zealand Qualifications Framework Levels 1 – 3 progressing to study at higher levels within 2 years (TES Priority 2)	36.4%	36.7%	36.9%	33.1%
Increased participation rates in higher-level qualifications, particularly by priority learner groups				
Proportion of 19-year-olds who have studied at New Zealand Qualifications Framework Level 4 or above (Note 1)	48.0% (47.0%)	48.0% (47.0%)	50.0%	48.0%
Proportion of Māori 19-year-olds who have studied at New Zealand Qualifications Framework Level 4 or above (Note 1)	29.0%	29.0% (28.0%)	45.0%	29.0%
Proportion of Pasifika 19-year-olds who have studied at New Zealand Qualifications Framework Level 4 or above	36.0%	37.0%	50.0%	37.0%

Measure	2012 Actual (Note 1)	2013 Actual (Note 1)	2014 Target	2014 Actual
Increased qualification completion rates in higher-level qualifications, particularly by priority learner groups				
Proportion of 22-year-olds who have completed a qualification at New Zealand Qualifications Framework Level 4 or above (Note 1)	36.0% (34.0%)	37.0% (35.0%)	35.0%	36.0%
Proportion of Māori 22-year-olds who have completed a qualification at New Zealand Qualifications Framework Level 4 or above (Note 1)	22.0%	25.0% (24.0%)	25.0%	26.0%
Proportion of Pasifika 22-year-olds who have completed a qualification at New Zealand Qualifications Framework Level 4 or above (Note 1)	25.0% (26.0%)	27.0% (28.0%)	27.0%	30.0%
Proportion of 25- to 34-year-olds who have a qualification at New Zealand Qualifications Framework Level 4 or above (Better Public Services) (Note 1)	52.3% (52.6%)	53.1% (53.8%)	54.1%	54.6% (annual average to December 2014)
More graduates with the skills valued by employers (Note 1)				
Proportion of graduates who are employed two years after completing a qualification at Level 4 or above (Tertiary Education Strategy Priority 1) (Note 2)	57.0% (2009 graduates)	57.0% (2010 graduates)	increase	Information not available until 2016
Earnings of graduates who are employed two years after completing a qualification at Level 4 or above (Tertiary Education Strategy Priority 1) (Note 2)	$40,142	$40,955	Maintain or increase differential with overall	Information not available until 2016

Note 1 – The 2012 and 2013 results for some measures differ from those reported in previous Annual Reports. Where there are differences the updated figures are reported in the table above with the original 2013/14 Annual Report figures in brackets below. The changes in the 19- and 22-year-old figures are due to revised population estimates and projections being available from Statistics New Zealand following the 2013 census. The changes in the Level 4 or above figures for 25- to 34-year-olds are due to Statistics New Zealand rebasing the population in the Household Labour Force Survey following the 2013 census.

Note 2 – The graduates results in this table are not official statistics, they have been created for research purposes, by the Ministry of Education, from the Integrated Data Infrastructure (IDI), managed by Statistics New Zealand. The opinions, findings, recommendations, and conclusions expressed in this paper are those of the author, not Statistics New Zealand.

What's next

This year the tertiary education system continued to provide more graduates with high-quality qualifications. Our education performance indicators show that course participation and completion rates have improved since 2009. This trend is beginning to plateau. We need the tertiary education system to make bigger strides in improving outcomes for all learners. Our strategy has two key elements to help deliver this improvement: champion aspiration and our investment approach.

In championing aspirations for all learners we will:

- promote the value of tertiary education in delivering success for all
- create a clear expectation within the tertiary system, with learners and their supporters, that all can and should participate in tertiary education
- work across government to highlight what is needed to succeed, encouraging students and their influencers to aim for, and achieve, a tertiary qualification.

We are working with some tertiary education organisations to pilot the publication of more comparable and useful information to support learner decisions. This project forms part of the cross-agency information for learners project within the Skilled and Safe Workplaces programme.

Our work to ensure that learners can make informed decisions on their tertiary pathway will be complemented by Rate My Qualification. In delivering this project we will support learners, their families, whānau and advisors to make informed study and career decisions.

We are also refreshing our Literacy and Numeracy Implementation Strategy in 2015, working with tertiary education organisations and employers. The refreshed strategy sets out how we will work with tertiary education organisations, employers and across government to continue to lift literacy and numeracy skills.

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

Tertiary education drives better economic, social, cultural and environmental outcomes for New Zealand.

For the tertiary education system to meet the skills and research needs of the economy, it needs to be flexible and responsive.

Tertiary education organisations need to be able to respond quickly and effectively to the changing needs of learners and employers at a local and national level. Tertiary education organisations also need to be well managed and financially sustainable to ensure that high-quality and relevant provision meets the needs of learners and employers.

Key Focus and Priority

Over the last year our focus has been on:

- 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 the Government's priority areas
- more tertiary education organisations aligning their activities with their expected roles within the system
- tertiary education organisations that are well managed and financially sustainable.

Our focus on these areas is aimed at supporting the priorities set out in the *Tertiary Education Strategy 2014-2019* in delivering skills for industry (Priority 1) and the priorities set out in the Government's Business Growth Agenda.

We also support Education New Zealand to improve international linkages (Priority 6). By investing in well-managed and quality tertiary education providers we support making New Zealand an attractive place for international students.

What we did

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

In our Plan Guidance for 2015 and 2016 Investment Plans, we asked tertiary education organisations to set out how they intend to respond to each of the Government's six priorities in the *Tertiary Education Strategy 2014-2019* over the next three years.

Investing in graduates with skills valued by employers

We worked with tertiary education organisations to reprioritise provision toward labour market need without additional funding. Through our Investment Plan process we increased our investment in priority areas, such as science, information and communications technology (ICT), engineering, and primary industries. We also reduced investment in low-priority or over-supplied areas.

The Government has set a goal of increasing the number of engineering graduates by 500 per annum by 2017. To support the achievements of this goal, we initiated the **Engineering – Education to Employment (E2E)** project.

The project is a collaborative work programme between providers of engineering education and employers to:

- raise awareness of engineering as a career
- develop pathways into tertiary education from secondary school by linking with employers to ensure that the skills being taught are those needed by industry.

This initiative is delivered in partnership with institutes of technology and polytechnics, Business New Zealand, the Institution of Professional Engineers New Zealand and a number of employers.

A key part of the project is sharing information and best practice. We commissioned research on pathways into engineering *'Stepping into One Another's World: Apprenticeships – Transforming Engineering Technologist Education in New Zealand'*. The findings of the research and key actions for the programme have been circulated to engineering employers and education providers. The project's website, www.engineeringe2e.org.nz, has a growing number of case studies of good practice by employers and tertiary providers.

Another area which is increasingly important to New Zealand's economic success is ICT. Our aim is to produce graduates with work-relevant and business-focused skills, provide more direct pathways from education into employment and help grow New Zealand's ICT talent to support business growth, innovation and productivity.

To support these aims we are investing $28.6 million over the next four years in three **ICT Graduate Schools** in Auckland, Wellington and Christchurch. The new schools will deliver industry-focused education and research and development, built on connections between tertiary education providers and high-tech firms.

Together with the Ministry of Business, Innovation and Employment we undertook a tender process through 2014-15 to select the operators of the ICT Graduate Schools. The successful respondents will establish the schools and start education delivery during 2015-16.

The **Māori and Pasifika Trades Training** programme supports Māori and Pasifika learners aged 18-34 to get the skills needed to complete New Zealand Apprenticeships and go on to employment. This training is fees-free for learners and includes employment support and grants for tools.

Training is delivered through regional consortia that deliver a wide range of trades such as construction, carpentry, electrical, motor industry and engineering. Consortia bring together employers, community groups and tertiary education organisations to ensure that learners are equipped with skills which meet the needs of their communities and local economy.

In 2014 the Māori and Pasifika Trades Training programme supported 1,189 learners and 12 consortia. Some of the first graduates from 2014 have already transitioned into employment and New Zealand Apprenticeships.

In 2015 we have increased investment in this area to fund the delivery of 1,908 learners; through 14 consortia.

Kids up North – strengthening the education to employment pathway

Students leaving school can go directly into work while studying at NorthTec. The majority of a pilot group of unemployed young people moved straight into jobs after completing a forestry course.

NorthTec, employers and iwi are approaching career pathways in a way that integrates educational options with business. It means there are more options for learners to progress from relatively low-level jobs by bringing together the forestry industry, the log transport industry, primary industry science and engineering, in particular, mechanical. It motivates learners with high aspirations to stay on track.

"The idea of reorganising my business to give young kids options in careers and education rather than a single industry option has demonstrated that it can really work for both business and the student," says Andrew Chalmers (of Ngāti Pu) Executive Director and Chairman Kiwi Forestry International Limited.

Source: Kick for the Seagulls (case study, TEC)

Ngāti Hine Forestry Moerewa:

"The tutor was the best part of the course. He promised us he would help us get through and stay motivated – and he did. He's a real cool guy and he has the industry connection to help us."

Kyle Durack, Forestry Student, NorthTec

Our range of investment also provides opportunities for learners to train while working.

The **Direct Funding Scheme** started in 2014 and allows employers to apply for funding directly from the Industry Training Fund to support formal training in the workplace. Four organisations were selected for funding in 2014. Early lessons from the evaluation of the first year of operation are being considered as more employers join the scheme.

> "We intend to use the direct funding scheme for a national sales qualification. We will be closely monitoring the impact and see if it is demonstrating value-add for business. We hope to be able to expand and use this funding to further develop our training programme and also hope to be able to simplify this process by working with SkillsOrg and make a difference to individuals."
>
> **Learning Partner – Technology and Specialist Functions, Vodafone.**
> **Vodafone supported TEC's idea of a sub-contracting model with their industry training organisation**
>
> "Great opportunity to source funding and to influence training for our people. For the company it is better – we have more control over it. The funding linked to it motivates us to be more committed to training. There is a sense of satisfaction."
>
> **Training and Education Manager, Ryman Healthcare.**
> **Ryman Healthcare has seen a significant increase in training activity tailored to their skill needs**

To raise the profile of apprenticeships and the opportunities for careers trades the **Apprenticeship Re-boot** ran between March 2013 and December 2014. Through this initiative 20,374 apprentices received a payment of $1,000, or $2,000 for priority trades, towards the cost of tools, equipment or off-course related expenses. Employers were also eligible to receive the same payment.

Well-managed tertiary education institutions

We work with tertiary education institutions to ensure that they have access to the right governance arrangements and to share best practice.

The introduction of the Education Amendment Act 2015 in July 2015 significantly changed the governance arrangements of universities and wānanga. The main changes reduced the size of university and wānanga councils and refocused the recruitment of council members on skills and experience.

To support tertiary education institutions through the new arrangements we published guidance on the governance changes. We also revised our *Governance Guide for Council Members of Tertiary Education Institutions* to take account of the changes.

We published case studies of council-led initiatives in the institutes of technology and polytechnics. These case studies are part of a project to review the 2010 governance changes to institutes of technology and polytechnics and include:

- Students First: the strategic partnership between WelTec and Whitireia. The purpose of Students First is to strengthen the provision of vocational tertiary education in the Wellington region. Working strategically in partnership, the two institutions' intent is to increase student access to a diverse range of programmes to give students education choices that matter.

> "The Students First initiative would not have happened without the governance changes and without shared members across councils. Common membership and good strategic leadership with the right people involved were critical."
>
> **Chris Gosling, Chief Executive, Whitireia New Zealand**

We also provide advice to the Minister on governance matters, including ministerial appointments, and manage the appointment process to tertiary education institution councils. In 2014/15 we supported the Minister in making 20 appointments and reappointments to councils. Council members bring strong governance and financial skills to the council table, as well as knowledge and understanding of the local community. We provided induction and briefing days for 33 new council members and hosted our annual meeting of council secretaries to share best practice across the sector.

Monitoring our investment in tertiary education

In 2014/15 a series of focused reviews into a small number of tertiary education organisations identified issues concerning programme quality and financial accountability. Together with the New Zealand Qualifications Authority, we commissioned Deloitte to carry out a review of the quality assurance, delivery and financial monitoring activities of both the New Zealand Qualifications Authority and the TEC. The review also looked at any improvements that could be made. The review found that both of our monitoring frameworks were well designed and contained the principal elements expected of a comprehensive framework. It told us that we have the right system for the job and validates the robustness of the quality assurance systems we have in the tertiary education sector.

The review recommended some improvements, such as a joint approach to monitoring programmes and to data analysis and to better identify risk factors. We have set out a joint programme of work to address each of the recommendations and changes are already under way. We are working in partnership with the New Zealand Qualifications Authority using pattern recognition software and analytics more extensively to signal possible issues when tertiary education organisation data shows particular features.

In 2014 we jointly commissioned with the New Zealand Qualifications Authority, further focused reviews in tertiary education organisations that had some features in common with the organisations that had issues. Five of the six found no cause for concern. Work is not yet completed on the final focused review.

Assisting Canterbury tertiary education institutions

We continued to support the University of Canterbury, Lincoln University and the Christchurch Polytechnic Institute of Technology recover from the earthquakes. Demand for places across the region varies as the institutions rebuild their facilities. We are beginning to see demand improve in some areas.

The University of Canterbury has made good progress on its rebuild programme. Redevelopment of its engineering and science facilities is under way. The redevelopment of its registry and main information technology facilities is complete.

The redevelopment of Christchurch Polytechnic Institute of Technology is continuing and they have opened a number of new facilities. Demand for skilled workers has meant trades learner numbers have improved since the earthquakes.

At Lincoln University many of its major rebuild projects are under way, including the demolition of the main science building. Student enrolments for 2015 show increased first year enrolments for the first time since the earthquakes. The Government also announced capital funding in principle of up to $107.5 million for Lincoln University to redevelop its major science facilities as part of the Lincoln Hub developments.

Measure of Progress

Measure		2012 Actual	2013 Actual	2014 Target	2014 Actual
Increased delivery in priority areas – New Zealand Qualifications Framework Levels 4 and above, Māori, Pasifika, engineering and information communications technology	Percentage of equivalent full-time students funded through Student Achievement Component fund that were Māori at New Zealand Qualifications Framework Level 4 and above (Note 1)	17%	18%	Increase	18%
	Percentage of Student Achievement Component funded equivalent full-time students that were Pasifika at New Zealand Qualifications Framework Level 4 and above (Note 1)	8%	9%	Increase	9%
	Percentage of equivalent full-time students funded through Student Achievement Component fund that were under the age of 25 at New Zealand Qualifications Framework Level 4 and above (Note 1)	62%	63%	Increase	64%
	Number of Engineering equivalent full-time students	7,907	8,228	Increase	8,615
Proportion of investment in tertiary education organisations with category 1 and 2 External Evaluation and Review rating		95.4%	92.9%	Increase	99%
Tertiary education institution asset management is steady or improves, as measured by the Asset Management Maturity Assessment tool		New measure	47	Increase	55

Note 1 – 2012 Actuals were updated using revised methodology to enable comparison with performance data from 2013/14 onwards.

What's next

We have started to see improvements in the responsiveness of tertiary education providers to delivering skills for industry. We are also seeing student achievement for priority learners beginning to plateau or not meet expectations. To deliver further improvements we need the system to focus on quality learner outcomes, as well as quality qualifications.

Changing our approach to investment is our top priority for 2015/16. It is about us getting a clear view on where and how we should apply investment to get great outcomes for graduates and for New Zealand – and what information we need to do that well.

Through our Investment Approach Project, we aim to shift our investment focus onto the outcomes of tertiary education, directing the attention of both ourselves and of tertiary education organisations outward toward learners and the labour market.

The Investment Approach is focused on responding to the teaching and learning priorities (1-4) in the *Tertiary Education Strategy 2014-2019* through the following goals:

- better outcomes for learners
- better economic and social outcomes for New Zealand
- more effective system stewardship.

We are engaging with the sector on the overall value proposition and associated opportunities and barriers. We are working with the Ministry of Education, Ministry of Business, Innovation and Employment and the Treasury to deliver:

- better information (evidence) about learner and employer demand and labour market outcomes
- the right incentives for actors in the system to be more responsive to information about demand and outcomes and to encourage greater innovation
- more funding flexibility in the system to allow responses and innovation to happen quickly, enabling us and tertiary education organisations to do innovative work that will contribute to the Government's priorities.

The next step is to report back to the sector on its feedback and our proposed approach. We will then follow this with further collaboration with sector representatives and tertiary education organisation staff on specific issues.

Our approach will also look at how the tertiary education system can do more for priority learners. We have already started work in this area in relation to improving outcomes for Māori learners. *Tū Māia e Te Ākonga* is our implementation framework to ensure Māori learners are equipped with the knowledge and skills they need to thrive equally well in Te Ao Māori and Te Ao Hurihuri.

We expect to introduce a range of operational changes in 2016. Larger changes that require policy development and ministerial decisions will be introduced in investment rounds in 2017, 2018 and 2019.

Higher-quality and more relevant research

Building tertiary education's contribution to economic growth requires us to have strong, internationally respected and competitive universities and other research-based institutions.

Research-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.

Tertiary education research should maintain and increase its contribution in these areas. To do this, 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.

We want to see

Our focus is on delivering:

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

Our work supports the *Tertiary Education Strategy 2014-2019* key priority to strengthen research-based institutions (Priority 5). This priority focuses on seeking a stronger contribution from New Zealand's research, science, and innovation systems to our wider economic objectives.

What we did

Our role is to invest in and influence improvements in the quality and relevance of research and research-led teaching. We do this through the Performance-Based Research Fund, the Centres of Research Excellence fund and the Investment Plan process.

Through the Investment Plan process the research-based tertiary education organisations are required to include information in their Investment Plans on 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.

Excellent, relevant and collaborative research

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 supports tertiary education organisations to build New Zealand's future research workforce.

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. They also build research capacity and capabilities through postgraduate programmes and the training of new researchers.

> "Centres of Research Excellence provide our students with training from New Zealand's best thinkers in their chosen fields – lifting their vision of what's possible in their careers, and what they can contribute to the country."
>
> **Professor Rod Dunbar**
> **The Maurice Wilkins Centre**

The six current Centres of Research Excellence funded through to 2020 are:

- Brain Research New Zealand – Rangahau Roro Aotearoa, co-hosted by Brain Research Centre – Otago University and Centre for Brain Research – Auckland
- the Dodd-Walls Centre for Photonic and Quantum Technologies, hosted by University of Otago
- MacDiarmid Institute for Advanced Materials and Nanotechnology, hosted by Victoria University of Wellington
- the Maurice Wilkins Centre, hosted by University of Auckland
- the Medical Technologies Centre of Research Excellence, hosted by University of Auckland
- Te Pūnaha Matatini Centre of Research Excellence, hosted by University of Auckland.

Two Centres of Research Excellence are also funded through to 31 December 2015:

- Allan Wilson Centre for Molecular Ecology and Evolution, hosted by Massey University
- Gravida: National Research Centre for Growth and Development, hosted by University of Auckland.

The 2014/15 selection round increased the range of research by adding four Centres of Research Excellence, including one dedicated to Māori research. The new Māori Centre of Research Excellence will contribute to Māori social, cultural and economic advancement.

We partnered with The Royal Society of New Zealand to manage the process to select the three general Centres of Research Excellence on our behalf. We developed and managed the Māori Centre of Research Excellence selection process ourselves. Some important distinctive elements that captured Māori dimensions in the criteria were developed as well as consideration of other Government Māori strategies. Panel members were also selected to represent the interests of the research community, as well as the community groups who contribute to the research process and for which the research is, ultimately, intended to support. This approach of acknowledging the importance of kaupapa Māori in our work gives us a good basis for future decision making.

The four new Centres of Research Excellence to be funded from 2016 to 2020 are:

- Bio-Protection Research Centre, hosted by Lincoln University
- Ngā Pae o te Māramatanga – New Zealand's Indigenous Centre of Research Excellence, hosted by University of Auckland
- QuakeCore: Centre for Earthquake Resilience, hosted by University of Canterbury
- Riddet Institute, hosted by Massey University.

From left to right: Professor Donghai Wu (*GIBH), Professor Ke Ding (GIBH), Dr Jeff Smaill (UoA), Associate Professor Adam Patterson (*UoA) and Dr Lu (GIBH).

* GIBH – Guangzhou Institutes of Biomedicine and Health, Chinese Academy of Sciences/UoA – Auckland Cancer Society Research Centre, University of Auckland

Developing scientific relationships between New Zealand and China

The Maurice Wilkins Centre (MWC) is playing an increasing role in developing the scientific relationship between NZ and China.

Chinese President Xi Jinping visited New Zealand in November 2014 and highlighted co-operation in biomedicine as one of the new bright spots in relations between the two countries. Amongst the bilateral agreements President Xi confirmed during his visit was one between the MWC and the Guangzhou Institutes of Biomedicine and Health, part of the Chinese Academy of Sciences. Through the agreement, New Zealand and China will work jointly on drug discovery, stem cells, and immune therapy for cancer.

As a Centre of Research Excellence, the MWC has been able to present a single shop window for New Zealand research into human therapeutics and achieve a high level of recognition and co-operation from both leading Chinese research institutes and the government agencies that support them. This has allowed the MWC to act as a conduit into China for New Zealand researchers. In 2013 MWC investigators were awarded two research grants to develop anti-cancer drugs through the inter-government Strategic Research Alliance. A sustained series of exchanges visits and joint symposia has stimulated broad engagement and a pipeline of new projects for future investment.

“Our interactions with China are focused on fields of bio-medicine that are advancing very rapidly, and it’s important for both countries to leverage each other’s expertise to stay at the forefront of global research in those areas,” says MWC Deputy Director, Peter Shepherd. “We’re very grateful for such strong support from both governments.”

Words and picture provided by the Maurice Wilkins Centre

Encouraging and rewarding excellent research

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 involves assessing the research performance of tertiary education organisations and then funding them based on their performance. The Performance-Based Research Fund is accessed by universities, institutes of technology and polytechnics, wānanga and private training establishments through Investment Plans.

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 education organisations to build their human research capability through higher-level skills development. It is an annual measurement of the number of Performance-Based Research Fund-eligible postgraduate research-based degrees completed at participating tertiary education organisations
- the External Research Income measure rewards organisations for undertaking high-quality research funded through external sources. It is an annual measurement of the amount of income received by participating tertiary education organisations from external sources for research purposes.

"The Performance-Based Research Fund is critically important in ensuring research excellence and in enabling us to provide stellar research-based teaching"

Professor Harlene Hayne
Vice Chancellor of Otago University

Following the review of the Performance-Based Research Fund by the Ministry of Education and the decisions made by Cabinet in February 2014, we are working with a Sector Reference Group to develop detailed operational guidelines for the 2018 Quality Evaluation.

The Sector Reference Group has released a number of consultation papers covering a range of topics, including staff eligibility, the content of Evidence Portfolios, the establishment of a new peer review panel focusing on Pacific research and other operational aspects of the 2018 Quality Evaluation. These papers seek feedback from the sector and other stakeholders on various proposals and recommendations for potential change.

We made decisions on the Sector Reference Group's recommendations for changes to the staff eligibility criteria, the proposed operational guidance for the Research Contribution component of Evidence Portfolios and have agreed to establish a Pacific Research peer review panel for the 2018 Quality Evaluation. These decisions form the basis of the operational guidelines to be released in June 2016.

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.

Measure of Progress

Measure	2012 Actual	2013 Actual	2014/15 Budget Standard	2014 Target	2014 Actual
Research quality	n/a	New measure in development	n/a	n/a	New measure in development
Increase in external research income	-0.1%	-3.5%	4%	2%-4%	3.4%
Number of research degree completions (Note 1)	3,853	4,023	3,350	3,916	3,946

Note 1 – The 2014 actual figure is based on the most recent data from the April 2015 Single Data Return and is subject to change as more completions data becomes available from tertiary education organisations. Past year figures have been updated as more completions data became available. These differ from the point in time data published in the 2013/14 Annual Report (3,766 research degree completions in 2012 and 3,971 in 2013).

What's next

We want tertiary education organisations to produce high-quality research. The research needs to focus on innovation, economic and social development and environmental sustainability in New Zealand.

Encouraging high-quality and relevant research is not something we can achieve alone. Building partnerships and collaborating with our colleagues across the broader education system is crucial in working towards these outcomes.

We will continue to invest in research-based institutions that demonstrate how they make a greater contribution to economic growth, by describing how they will:

- build research capability in areas of strength and how that leads to economic and social value for New Zealand
- collaborate with other tertiary education organisations, industry and research organisations to increase valued knowledge exchange to and from end-users for innovation purposes
- develop strategies and monitoring systems to measure progress against these aims.

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 we make 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.

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, in particular, to support our approach to investment.

What we did

We are committed to being a good employer to ensure our people have the opportunity to achieve and contribute to the organisation's goals. As part of our business transformation project, Te Kahurangi, we reviewed our policies, procedures, systems and processes. From this we developed our people plan Mā Tātou, Mō Tātou. This plan aims to ensure that we have the people capability required to implement our strategy.

Leadership, accountability and culture

A number of organisational initiatives, as well as culture change, have taken place in the last 12 months. We launched our values, painted a clearer picture of our purpose and vision and provided opportunities for development and growth to lift our people and cultural capability to support the new investment approach. Our 2015 Engagement Survey highlighted that we had made a significant shift in these areas.

Our Values

During Te Kahurangi, staff developed the values they felt best reflected how the TEC should work.

We aim high – Whaia te iti Kahurangi

We feel passionate about making sure everyone has access to the life-changing opportunities of tertiary education.

We partner for success – Hononga

We listen to the providers and seek to build trust.
We are all aiming for the best possible outcomes for learners.

We work as one – Kotahitanga

We pull together the right resources for the job and are flexible in working with others across the organisation.

We learn and innovate – Ngaiotanga

We are always looking for ways to do things better and make more of an impact. We have freedom to make changes and focus on what really matters.

As part of building our people, systems and process capability, we have carried out the following activities:

- a leadership development programme, with the first of three workshops held in April 2015, for 35 managers/leaders. Managers/leaders are supported by action learning groups and coaching between workshops
- an aspiring leadership development programme for those people thinking of becoming leaders, which is part of an education sector-wide initiative
- a new Māori Cultural Competency was introduced. Toolkits were developed with ongoing training supported by online e-learning Te Rito Bi-Cultural Competency modules
- a quality writing programme to improve the efficiency and effectiveness of our writing against a set of standards
- business improvement process training that introduces tools and techniques using lean principles.

Health and Safety

We take the health and wellbeing of our staff seriously. We updated the Flexible Working Arrangements policy and Harassment and Bullying Prevention policy to reflect legislative changes and guidelines.

A recent internal audit will provide us with a roadmap as to what we need to do to prepare for changes to the Health and Safety legislation.

We continue to provide a number of wellness initiatives with an online tool called Tracksuit that is available for staff and their families to access.

Employment conditions

We concluded bargaining for a two-year collective employment agreement. The changes made to the employment agreement highlighted our commitment to developing our people through the performance management system and making this process more transparent and visible to staff so that they know what is expected of them.

We have also invested in developing our leaders to ensure we have the right people with the right skills to support the Investment Approach. Over the last year our Leadership Development Programme has focused on enhancing the skills of our leaders to better support our staff to deliver our business strategy.

Measure of Progress

Measure	Actual 2012/13	Actual 2013/14	Target 2014/15	Actual 2014/15
Core unplanned turnover	20.2%	13.7%	16%	13.3%
Level of staff engagement (engagement survey) (Note 1)	New measure	66.7%	Above the NZ State sector average by 2017	71% (above the State sector average of 69)
Staff stability – turnover of staff with less than two years' tenure	New measure	New measure	16% (Note 2)	6.06%

Note 1 – 2013/14 was the first year we conducted an employee engagement survey since 2010.

Note 2 – Human Resource Capability Survey 2013 public service mean turnover in staff with less than two years' tenure was 16 percent.

Our workforce: Our profile

As at 30 June 2015 we had a total of 208 staff made up of 205.1 full-time equivalent staff. The table below provides a breakdown of our workforce.

As at 30 June 2015, 46 percent of our staff were male and 54 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 our workforce. Māori representation has remained at nine percent for the past three years. Over the same period there has been a reduction in the number of Pacific Island people from six percent to five percent. The reduction in the Pacific Island people is a result of the closure of our Auckland office in March 2014.

Our ethnicity as at 30 June 2015

Ethnicity	All staff	Female	Male
Asian	7%	9%	5%
Indian	2%	1%	4%
Non-NZ European	13%	13%	12%
Not Advised	9%	6%	11%
NZ European	52%	49%	57%
NZ Māori	9%	14%	3%
Other Ethnic Minority	3%	3%	3%
Pacific Islands	5%	5%	5%

Age and length of service as at 30 June 2015

Measure	All Staff	Female	Male
Average age	42 years	42 years	43 years
Length of service	4 years	4 years	4 years

What's next

The next phase of Ma Tatou, Mo Tatou is to build on our leadership development programme and focus on developing all our staff to ensure they have the right skills to succeed.

Recruitment and Selection, Induction

We are making changes to ensure that our recruitment process reflects our values and culture. We are focused on attracting and retaining great staff.

Our Equal Employment Opportunity programme

We are undertaking a review of our Equal Employment Opportunity programme, with a focus on gender pay, in partnership with the Public Service Association. The initial analysis is complete and findings will form the basis of recommendations and an action plan for 2015/16.

We reviewed our Equal Employment Opportunity statistical information, collected at time of appointment, for the number of people who identified as living with a disability. This data has only been captured since 1 July 2014. We will continue to capture this information.

Wellington Office Consolidation project

In July 2014 we initiated work to consolidate our entire Wellington-based staff into a single building that is fit for purpose for the next 12 to 15 years. In moving to one location in Wellington we aim to create a more collaborative environment for staff to work in. The consolidation will also support the delivery of the Government's strategy for reducing property costs by:

- reducing the space per employee from $24m^2$ to $15m^2$
- sharing our reception floor and meeting rooms with the Commerce Commission.

The office consolidation is scheduled for completion in August 2016.

Working with others

We work with a wide range of tertiary education organisations, industry training organisations and employers on a daily basis. We also work closely with colleagues across government – the education agencies, as well as the Ministry of Business, Innovation and Employment and the Ministry of Social Development to realise the Government's expectations of better public services.

What we want to see

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

What we did

Business friendly TEC

We started to make changes to make it easy for our partner agencies and tertiary education organisations to work with us. These changes include simplifying some of our information, guidance and processes. To assess the progress we have made in this area, we have conducted two surveys.

We have made particular progress in making it simple and easy to work with us. We increased our overall rating from 3.02 in 2014 to 3.36 in 2015.

Survey result across all questions

	2014	2015
Average score (Note 1)	3.00	3.27

Note 1 – Respondents were asked to indicate their level of agreement for each statement: strongly disagree, disagree, neutral, agree and strongly agree. The ratings are given a score of one to five, one representing strongly disagree and five representing strongly agree. The result is the average score across all questions asked.

The results showed that we have started to make progress with tertiary education organisations in providing clear, consistent and accurate advice. The survey also identified areas for improvement in the way we work with our partner agencies.

The improvements we identify from the survey will inform our work on our new approach to investment.

Achieving more through effective collaboration

There are eight separate agencies in New Zealand with responsibilities for our education sector – the Ministry of Education, the Education Review Office, the New Zealand Qualifications Authority, the Tertiary Education Commission, Careers New Zealand, Education New Zealand, the New Zealand Teachers Council/ Education Council and Te Ako o Te Kura Pounamu – the Correspondence School. Each of these agencies holds responsibility for a part of education in New Zealand.

The Secretary for Education has established the Education System Stewardship Forum, comprising these eight agencies, to develop a more collaborative and strategic approach to stewardship of the education system.

The Chief Executives of the agencies meet regularly and are working as a team to improve the system. Around four times a year, all of the Leadership Teams of the agencies meet for a day to work on the system together. As the relationships have strengthened we have seen increasing examples of multi-agency responses, with:

- agencies taking more collective responsibility for the Better Public Sector Goal for 85 percent of 18-year-olds to have a National Certificate of Educational Achievement Level 2 or equivalent in 2017, and in particular aiming to achieve the goal for every population group
- joint datasets regularly being used to provide a bigger and more sophisticated picture of the education landscape – along with combined analytical power being applied to find patterns and solutions
- emerging risks identified at the senior levels and the management of these distributed amongst those that can contribute mitigating actions.

For 2015 the collective agencies agreed to place their energies behind three key priorities for the education sector:

- addressing the disparity of outcomes for Māori and Pasifika visible within the Better Public Services measures
- progressing work on digital assessment and tools that support the harnessing of technology to the benefit of learners
- Māori-medium pathways.

Looking ahead, the group will be working together to develop a ten-year vision and four-year excellence horizon for a learner-centric education system, using a Performance Improvement Framework approach. This is the first time the Performance Improvement Framework has been used for a multi-agency system.

A greater use of shared services

We continue to liaise with the education sector agencies to identify operating synergies in areas such as property, health and safety, business continuity and procurement. One area where shared services have made organisational improvements is in the agreement we have with the New Zealand Qualifications Authority for internal audit services. This arrangement has allowed us to increase our internal audit work programme, share best practice and to work closer together in areas of joint risk.

We have signed up to all-of-government contracts as they have become available. During the 2014/15 year we joined three contracts. These were the Common Capability Contract for Office Furniture and syndicated contracts for Construction, Consultancy and Cabling Services.

Systems, processes and technology

One of our key priorities is to improve our information systems and processes to ensure that we can carry out our core functions and support an investment approach to tertiary education. We also want to enable students, providers and employers to make informed choices.

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
- Improved information capability to accurately measure education outcomes
- Better informed decision-making by all players in the tertiary education system.

What we did

Making technology work for us and the tertiary education sector

A key component of our strategy is to develop a strong knowledge base. Over 2014/15 we started to lay the foundations to make significant improvements to the way we collect, collate and provide information. We have initiated new projects, such as the introduction of new business intelligence tools and a portal to improve access to our information. The new tools will enable staff, partner agencies and providers to access more and better quality information, supporting a more informed and responsive system.

Early in 2014/15 we developed the next iteration of our information technology development plan, covering 2014/15 and 2015/16 focusing on building the systems and capabilities required to support our business strategy.

As a part of our information technology development plan:

- the new Integrated Provider Information system has streamlined the collection of commitment, forecast and actual performance data from tertiary providers. This is also enabling us to retire a number of legacy systems
- we are working with the Ministry of Education on a joint project to update the Single Data Return system
- underlying data processing within our data warehouse has continued to be improved
- we are part way through the creation of a new web portal through which we will present information held in our data warehouse to providers and sector agencies in an easy to access manner
- we are working with the sector to agree a key set of information to be published by providers that will allow learners and their families to more easily compare qualifications across providers
- we are supporting the Investment Approach by improving the breadth of information available to investment teams
- new hardware has been installed to improve processing performance and enhance the security of our information.

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 our Board of Commissioners.

Our focus through to 2018 will be to continue to build the organisation's risk-management capability. We will align risk management with our core business and embed an organisational mind-set 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 Performance and for the judgements made in them.

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

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

In the Board's opinion, these Financial Statements and Statement of Performance fairly reflect the financial position and operations of the Tertiary Education Commission for the year ended 30 June 2015 except as outlined in the statement of compliance on page 79 for grant expenditure.

Signed on behalf of the Board of Commissioners:

John Spencer
Chair
Tertiary Education Commission
2 February 2016

Nigel Gould
Chair, Audit and Risk Committee
Tertiary Education Commission
2 February 2016

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Independent Auditor's Report

To the readers of the Tertiary Education Commission's financial statements and performance information for the year ended 30 June 2015

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

We have audited:

- the financial statements of the Commission on pages 75 to 103, that comprise the statement of financial position as at 30 June 2015, the statement of comprehensive revenue and expenses, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the performance information, included in the statement of performance, of the Commission on pages 12 to 30 and 44 to 73.

Qualified opinion – Our work was limited because the Commission has not applied the requirements of the new Public Benefit Entity accounting standards to its grant expenditure

Reason for our qualified opinion

As outlined on page 79, the Commission has not applied the requirements of the new Public Benefit Entity accounting standards to its grant expenditure and has been unable to determine a reliable estimate of the impact of doing so. We have been unable to obtain sufficient audit evidence to quantify the effects of this limitation.

Had the Commission applied the requirements of the new Public Benefit Entity accounting standards, the items likely to be affected include:

- grants expense in the statement of comprehensive revenue and expenses;
- assets, liabilities and equity in the statement of financial position;
- total comprehensive revenue and expense and opening and closing equity in the statement of changes in equity; and
- grants expense in the statement of performance.

The limitation also affects the 2014 comparative information which has been presented by the Commission.

Qualified opinion on the financial statements (other than the statement of cash flows) and the statement of performance

In our opinion, except for the effect of the limitation described in "Reason for our qualified opinion" paragraph above:

- the financial statements of the Commission:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2015;
    - its financial performance for the year then ended; and
  - comply with generally accepted accounting practice in New Zealand and have been prepared in accordance with Public Benefit Entity accounting standards.

- the performance information:
  - presents fairly, in all material respects, the Commission's performance for the year ended 30 June 2015, including:
    - for each class of reportable outputs:
      - its standards of performance achieved as compared with forecasts included in the statement of performance expectations for the financial year;
      - its actual revenue and output expenses as compared with the forecasts included in the statement of performance expectations for the financial year;
    - what has been achieved with the appropriations;
    - the actual expenses or capital expenditure incurred compared with the appropriated or forecast expenses or capital expenditure; and
  - complies with generally accepted accounting practice in New Zealand.

Unmodified opinion on the statement of cash flows

In our opinion, the statement of cash flows complies with generally accepted accounting practice in New Zealand and has been prepared in accordance with Public Benefit Entity accounting standards, and presents fairly, in all material respects, the Commission's cash flows for the year ended 30 June 2015.

Our audit was completed on 2 February 2016. 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 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 the 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 the performance information. We are unable to determine whether there are material misstatements arising from the accounting for grant expenditure because the scope of our work was limited, as we referred to in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the performance information. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and the 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 performance information 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 performance information within the Commission's framework for reporting performance;
- the adequacy of the disclosures in the financial statements and the performance information; and
- the overall presentation of the financial statements and the performance information.

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

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

Responsibilities of the Board of Commissioners

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

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

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

The Board of Commissioners is responsible for such internal control as it determines is necessary to enable the preparation of financial statements and 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 the performance information, whether in printed or electronic form.

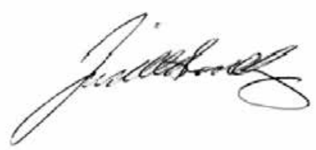
Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and the performance information and reporting that opinion to you based on our audit. Our responsibility arises from the Public Audit Act 2001.

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.



Chong Lim
Audit New Zealand

On behalf of the Auditor-General
Wellington, New Zealand

Statement of Performance

Smart investment decisions

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

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
- evaluations and quantitative studies of our 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. We monitor and analyse performance against Investment Plans and track the degree to which the desired shifts in performance have occurred. These results influence our investment decisions.

This output draws on revenue from our operational appropriation, Managing the Government's Investment in the Tertiary Education Sector and contracted funding from Immigration New Zealand for the English for Migrants programme that we administer.

Managing the Government's Investment in the Tertiary Education Sector

This appropriation is limited to developing, implementing and managing an investment system that aligns planning, funding, monitoring and quality assurance of tertiary education in accordance with the provisions of the Education Act 1989 and other relevant legislation.

This appropriation is intended to achieve effective investment in the tertiary education sector by ensuring that education, training and research activities align with Government priorities and outcomes for tertiary education.

Revenue and expenses

Managing the Government's Investment in the Tertiary Education Sector	Actual 2014/15 $000	Budget 2014/15 $000	Actual 2013/14 $000
Revenue			
Appropriation revenue *			
• Tertiary Education Commission	42,261	40,736	40,668
• Māori Education Trust	109	109	109
Contract – Immigration NZ funding for administration of English for migrants	231	76	292
Interest revenue	1,646	1,043	1,101
Other	87	99	–
Total revenue	**44,334**	**42,063**	**42,170**
Expenses			
• Tertiary Education Commission	38,606	40,455	40,922
• Māori Education Trust	109	109	109
Total expenses	**38,715**	**40,564**	**41,031**
Surplus/(deficit)	**5,619**	**1,499**	**1,139**

* The appropriation revenue received by the TEC equals the Government's actual expenses incurred in relation to the appropriation.

Measure of Progress

	Dimension	2012/13 Actual	2013/14 Actual	2014/15 Target	2014/15 Actual
Plans for tertiary education organisations demonstrate evidence of alignment with employer, community and learner needs	Quality	100%	100%	100%	100%
Plans for tertiary education organisations include targets for improving achievement rates for priority groups in the Tertiary Education Strategy	Quality	100%	100%	100%	100%
Payments are made to tertiary education organisations as per the agreed contractual terms and conditions	Quantity	98.6%	100%	100%	100%
Percentage of Investment Plans that are monitored	Quantity	100%	100%	100%	100%
Appropriate actions are undertaken in accordance with the Performance Consequences Framework	Quality	100%	100%	100%	100%
Evaluations and quantitative studies of TEC initiatives are undertaken in accordance with agreed standards	Quality	100%	100%	100%	100%
Evaluations and quantitative studies of TEC initiatives are completed within agreed timeframes	Timeliness	100%	100%	100%	100%
Number of evaluations and quantitative studies of TEC initiatives undertaken	Quantity	4 evaluations and studies completed	4 evaluations and studies completed	3 evaluations and studies completed	3 evaluations and studies completed
Number of tertiary education organisations audited by the Tertiary Education Commission	Quantity	30	40	30	36
Percentage of audits completed within 70 days according to audit compliance standards	Quantity	100%	95%	100%	100%
Percentage of TEOs where an appropriate action plan is initiated (as per the TEC performance consequences framework) on the basis of an identified material breach of TEC's rules or requirements	Quantity	100%	100%	100%	100%

Funding through Investment Plans

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

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

Performance-Based Research Fund

This appropriation is limited to funding research and research-based teaching on the basis of measured research quality in tertiary education organisations.

This appropriation is intended to achieve an increase in, or maintain the quality of, research and research-based teaching and learning and to improve investment in research within the tertiary sector.

Revenue and expenses

Performance-Based Research Fund	Actual 2014/15 $000	Budget 2014/15 $000	Actual 2013/14 $000
Revenue			
Appropriation revenue*			
Quality Evaluation element	168,750	168,750	161,250
Research Degree Completions element	70,312	70,312	67,187
External Research Income element	42,188	42,188	40,313
Total revenue	**281,250**	**281,250**	**268,750**
Expenses			
Quality Evaluation element	168,750	168,750	161,250
Research Degree Completions element	70,312	70,312	67,187
External Research Income element	42,188	42,188	40,313
Total expenses	**281,250**	**281,250**	**268,750**
Surplus/(deficit)	–	–	–

* The appropriation revenue received by the TEC equals the Government's actual expenses incurred in relation to the appropriation.

Measure of Progress

Measure	2012 Actual	2013 Actual	2014/15 Budget Standard	2014 Target	2014 Actual
Research quality	n/a	New measure in development	n/a	n/a	New measure in development
Increase in external research income	-0.1%	-3.5%	4%	2%-4%	3.4%
Number of research degree completions (Note 1)	3,853	4,023	3,350	3,916	3,946

Note 1 – The 2014 actual figure is based on the most recent data from the April 2015 Single Data Return and is subject to change as more completions data becomes available from tertiary education organisations. Past year figures have been updated as more completions data became available. These differ from the point in time data published in the 2013/14 Annual Report (3,766 research degree completions in 2012 and 3,971 in 2013).

Tertiary Education: Student Achievement Component

This appropriation is limited to funding for teaching and learning services for enrolled students in approved courses at tertiary education organisations to achieve recognised tertiary qualifications.

This appropriation is intended to achieve learners’ attainment of recognised tertiary qualifications by funding education and training opportunities.

Revenue and expenses

Tertiary Education: Student Achievement Component	Actual 2014/15 $000	Budget 2014/15 $000	Actual 2013/14 $000
Revenue			
Appropriation revenue*			
• Provision at levels 1 and 2	99,560	103,106	105,085
• Provision at levels 3 and above	1,922,210	1,950,850	1,912,479
– Universities	1,161,843	1,151,772	1,144,039
– Institutes of Technology and Polytechnics	471,997	487,355	473,608
– Wānanga	120,542	128,990	121,939
– Private Training Establishments	167,828	182,733	172,894
• Skills for Canterbury	3,504	7,312	11,870
– Institutes of Technology and Polytechnics	2,790	5,704	9,227
– Private Training Establishments	714	1,608	2,643
• MoE Quality Teaching Agenda	1,025	2,123	209
Total revenue	**2,026,299**	**2,063,391**	**2,029,643**
Expenses			
• Provision at levels 1 and 2	99,035	103,106	105,091
• Provision at levels 3 and above	1,921,726	1,950,850	1,908,644
– Universities	1,161,843	1,151,772	1,142,865
– Institutes of Technology and Polytechnics	470,872	487,355	475,612
– Wānanga	120,542	128,990	121,812
– Private Training Establishments	168,469	182,733	168,355
• Skills for Canterbury	3,504	7,312	12,187
– Institutes of Technology and Polytechnics	2,790	5,704	9,544
– Private Training Establishments	714	1,608	2,643
• MoE Quality Teaching Agenda	1,025	2,123	209
Total expenses	**2,025,290**	**2,063,391**	**2,026,131**
Surplus/(deficit)	**1,009**	–	**3,512**

* The appropriation revenue received by the TEC equals the Government's actual expenses incurred in relation to the appropriation.

The Student Achievement Component Fund is allocated through Investment Plans. The fund covers the direct costs of teaching, learning and other costs driven by the number of learners. Tertiary education organisations must show that learners are enrolled on approved courses to achieve recognised tertiary qualifications to access this funding.

Measure of Progress

The tables below show Investment Plan commitments linked to our investments and funding appropriations. These tables exclude funds for which performance measures are not volume related.

	2013 Actual		2014/15	2014	2014 Actual		Variance from Investment Plan (Note 2)
Measure	Delivered	Funded	Budget Standard	Investment Plan commitment	Delivered (Note 1)	Funded (Note 1)	
STUDENT ACHIEVEMENT COMPONENT Estimated funded domestic equivalent full-time students							
Number of equivalent full-time students at New Zealand Qualifications Framework Level 3 and above by subsector							
Universities	116,184	118,508	110,900 ±5%	117,288	115,684	117,438	0.1%
Institutes of technology and polytechnics	56,959	57,830	53,563±5%	57,113	55,371	55,640	-2.6%
Wānanga	17,587	17,648	17,140±5%	18,537	18,280	18,162	-2.0%
Private training establishments	26,207	23,977	22,292±5%	23,713	25,016	22,066	-6.9%
Total equivalent full-time students at New Zealand Qualifications Framework Level 3 and above	**216,938**	**217,962**		**216,651**	**214,351**	**213,306**	**-1.5%**
Number of equivalent full-time students at New Zealand Qualifications Framework Levels 1 and 2	15,529	15,294	13,390±3%	13,952	13,452	13,516	-3.1%
Total Student Achievement Component	**232,467**	**233,256**	**228,016**	**230,603**	**227,803**	**226,822**	**-1.6%**

Note 1 – TEC-funded equivalent full-time students data represents a proportion of the total equivalent full-time students delivered. Some of the equivalent full-time students are not funded due to funding caps.

Note 2 – Variance from Investment Plan commitment is calculated from 2014 Funded/2014 Investment Plan commitment.

Overall, delivery continued to reduce in 2014 across all sectors, particularly in the private training establishment sector. In 2014 fewer private training establishments met the delivery commitments in their Investment Plans, as demand for their courses reduced.

Reducing learner demand can be difficult for private training establishments to manage, as they generally have a narrower range of programmes. This means that they are less able to offer programmes in other areas where demand exists.

The retention of learners in private training establishment programmes is also challenging. This can result in some providers enrolling more learners than they have funding for. This is reflected in the numbers actually delivered. This over-delivery is not funded.

In 2014, 59 private training establishments delivered less than 99 percent of their planned volume of equivalent full-time students. This equates to approximately 1,250 equivalent full-time students. The majority of the under-delivery came from 34 private training establishments that were below 90 percent delivery (estimated at 1,000 equivalent full-time students under their funding allocations). This compares with 23 private training establishments with under-delivery, 652 equivalent full-time students, in 2012.

Private training establishments that did not meet their delivery commitments in previous years also experienced higher levels of under-delivery in 2014. As a result, we reduced funding to some providers on a one-year plan in the 2016 Investment Plan process. Those providers who have a two-year plan will be engaged with in future investment rounds. Funding removed from providers that under deliver, is reallocated to high performing providers that can show demand.

Across all sectors, the application of our funding rules may result in funded volumes being above actual delivery. For example, the estimated funded equivalent full-time students for universities for 2013 and 2014 are higher than actual delivery. This is owing to the exemption from funding recoveries given to Christchurch-based institutions as a result of the earthquakes in 2010 and 2011.

Measure of Progress

The table below sets out the performance commitments linked to Student Achievement Component funding for priority learners.

Measure	2012 Actual	2013 Actual	2014 Target	2014 Actual
Percentage of equivalent full-time students funded through Student Achievement Component fund that were Māori at New Zealand Qualifications Framework Level 4 and above	17%	18%	Increase	18%
Percentage of Student Achievement Component funded equivalent full-time students that were Pasifika at New Zealand Qualifications Framework Level 4 and above	8%	9%	Increase	9%
Percentage of equivalent full-time students funded through Student Achievement Component fund that were under the age of 25 at New Zealand Qualifications Framework Level 4 and above	62%	63%	Increase	64%

Measure of Progress

The following table sets out tertiary education sector performance commitment linked to Student Achievement Component funding.

Sector performance commitment linked to funding		2012 Actual	2013 Actual	2014 Sector commitment (Note 1)	2014 Actual
Course completion	All learners	84%	83%	84%	83%
	Māori learners at New Zealand Qualifications Framework Levels 4 and above	78%	78%	80%	78%
	Pasifika learners at New Zealand Qualifications Framework Levels 4 and above	74%	73%	77%	74%
	Under-25-year-old learners at New Zealand Qualifications Framework Levels 4 and above	85%	85%	85%	85%
Qualification completion	All learners	78%	78%	71%	78%
	Māori learners at New Zealand Qualifications Framework Levels 4 and above	65%	71%	65%	67%
	Pasifika learners at New Zealand Qualifications Framework Levels 4 and above	63%	63%	62%	62%
	Under-25-year-old learners at New Zealand Qualifications Framework Levels 4 and above	71%	71%	69%	73%
Progression	From New Zealand Qualifications Framework Levels 1-3 to a higher level for all learners	37%	39%	38%	39%
Retention	For all learners across all New Zealand Qualifications Framework. All Levels and all learners	71%	73%	67%	74%

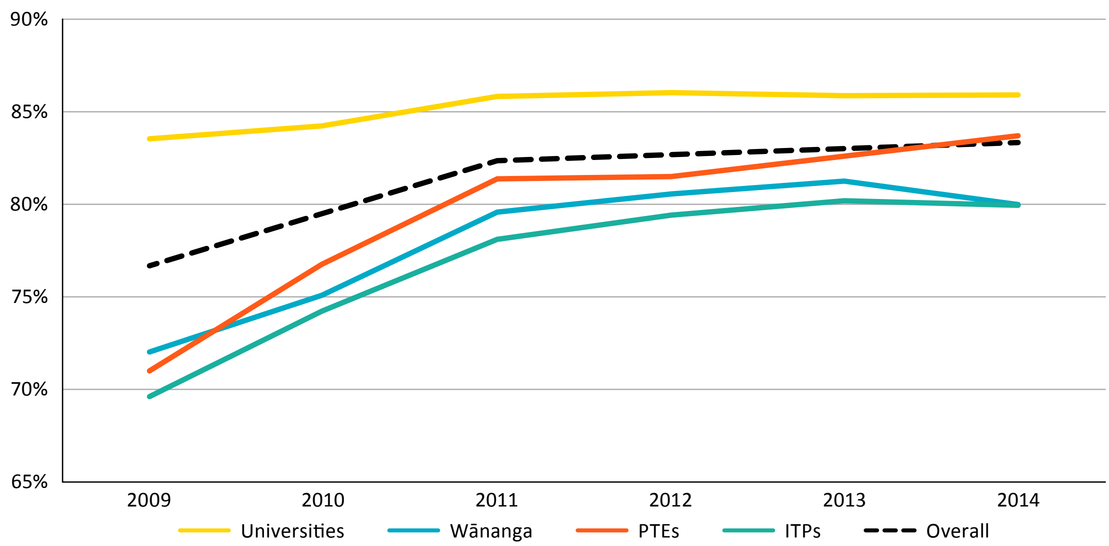
Note 1 – Sector Commitments are the aggregation of individual commitments submitted by the tertiary education organisations as part of their Investment Plans.

Changes over time

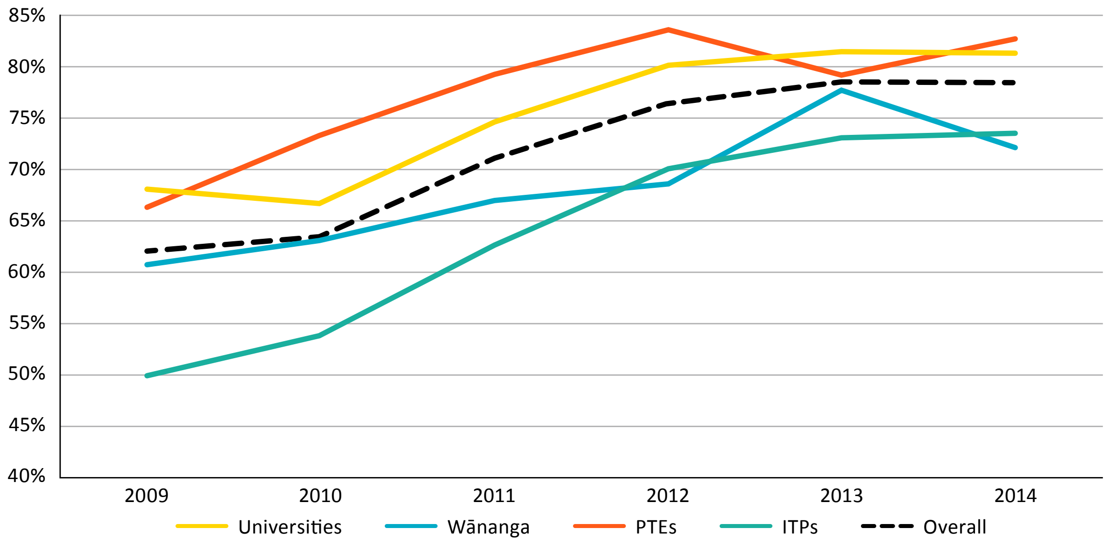
The graphs below provide further information on student achievement component funding over time. Overall, course completion rates, qualification completion rates and student retention rates have improved since 2009.

Course completion rates across Student Achievement Component providers are now averaging over 80 percent for universities, institutes of technology and polytechnics (ITPs), wānanga and private training establishments (PTEs). Private training establishments have made significant improvements in this area. Qualification completions improved from 79.1 percent in 2013 to 82.6 percent in 2014 and student progression rates improved from 27.8 percent in 2013 to 31.6 percent in 2014.

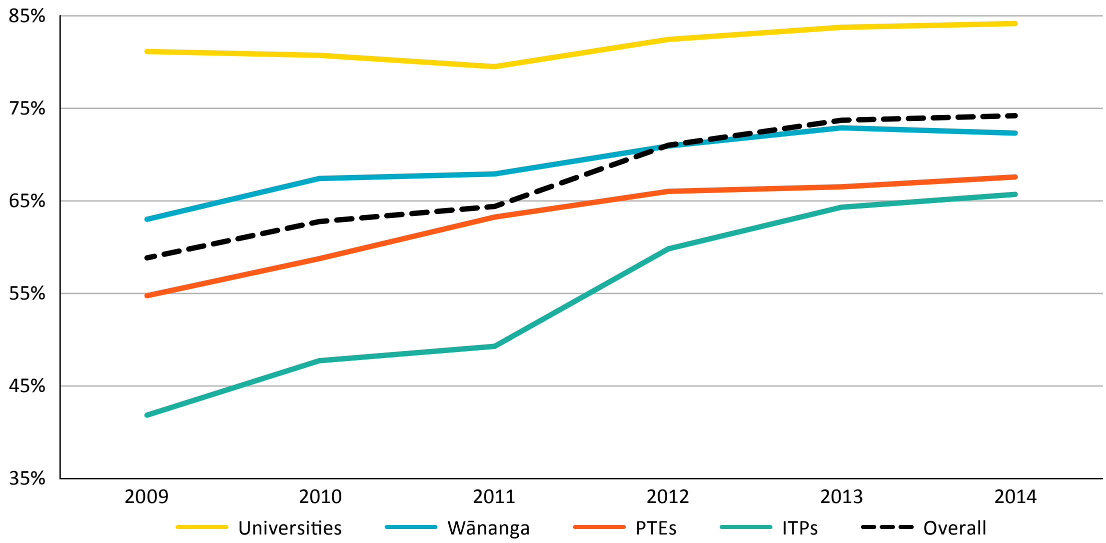
Course completion trends since 2009



Qualification completion rates since 2009



Student retention rates since 2009



Training for Designated Groups

This appropriation is limited to the purchasing and arranging of training linked to the New Zealand Qualifications Framework and the purchase of both on-job and off-job training places, including delivery of fully or partially funded training places and other industry-training related projects.

This appropriation is intended to achieve an increase in the number of young people and employees with qualifications valued by employers through investing in training.

Revenue and expenses

Training for Designated Groups	Actual 2014/15 $000	Budget 2014/15 $000	Actual 2013/14 $000
Revenue			
Appropriation revenue*			
Industry Training Fund	162,283	170,345	130,516
Industry Training Fund – Industry Training Organisation Literacy Pilots	–	–	1,348
Industry Training Fund – Direct Access Scheme	814	10,000	969
Youth Training/Youth Guarantee	110,061	123,730	101,361
Modern Apprenticeships	–	–	21,399
Gateway	18,599	19,013	18,325
Apprenticeships Re-boot (Employer)	18,518	8,000	16,151
Industry Training Fund Ring-fenced amounts	608	1,600	908
Māori and Pacific Trades Training (Brokerage)	892	1,723	916
Total revenue	**311,775**	**334,411**	**291,893**
Expenses			
Industry Training Fund	160,253	170,345	128,127
Industry Training Fund – Industry Training Organisation Literacy Pilots	–	–	1,526
Industry Training Fund – Direct Access Scheme	814	10,000	969
Youth Training/Youth Guarantee	109,851	123,730	100,487
Modern Apprenticeships	–	–	20,927
Gateway	18,592	19,013	18,287
Apprenticeships Re-boot (Employer)	18,827	8,000	15,441
Industry Training Fund Ring-fenced amounts	608	1,600	1,016
Māori and Pacific Trades Training (Brokerage)	840	1,723	677
Total expenses	**309,785**	**334,411**	**287,457**
Surplus/(deficit)	**1,990**	**–**	**4,436**

* The appropriation revenue received by the TEC equals the Government's actual expenses incurred in relation to the appropriation.

Measure of Progress

Measure	2013 Actual Delivered	2013 Actual Funded	2014/15 Budget Standard	2014 Investment Plan commitment	2014 Actual Delivered (Note 1)	2014 Actual Funded (Note 1)	Variance from Investment Plan
TRAINING FOR DESIGNATED GROUPS							
Industry Training – funded standard training measures	35,263	33,376					
Industry Training – funded standard training measures (Note 3)			33,087	30,159	27,242	26,949	-10.6%
Modern Apprenticeships – total funded trainees	11,932	11,932					
Apprentices – funded standard training measures			14,122	13,653	13,479	13,301	-2.6%
Youth Guarantee – funded equivalent full-time students (Note 4)	7,506	7,380	9,180	10,106	9,596	9,429	-6.7%
Gateway – total participants	14,086	13,121	12,500 – 14,000 in at least 375 schools	13,911	14,709	13,609 in 371 schools	-2.2%

Note 3 – Industry training and apprentices – New policy settings for industry trainees and apprentices were introduced in 2014. Overall delivery was below the original target, as industry training organisations adapted to changes in reporting requirements and the slower than anticipated economic upturn. Industry training organisations are reporting improved uptake in 2015. A portion of the under-delivery also relates to the Direct Funding Scheme. The Direct Funding Scheme was established in 2014 and allows employers to access funding to support formal training in the workplace. Of the reported under-delivery, 12 percent is owing to employers taking longer than anticipated to establish and deliver contracted training volumes.

Note 4 – Youth Guarantee – While overall delivery is higher than last year, demand remains below anticipated Investment Plan levels. This is the result of a number of factors. For example, secondary schools are retaining more students in school and more students are achieving National Certificate of Educational Achievement Level 2 while at school, including in Trades Academies.

Youth Guarantee

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

Measure of Progress

Measure		2013 Actual	2014 Actual
Course completion	All learners	61%	66%
	Māori learners	57%	61%
	Pasifika learners	66%	68%
Qualification completion	All learners	52%	60%
	Māori learners	48%	55%
	Pasifika learners	56%	62%
Progression	All learners	N/A	39%
Retention	All learners	N/A	59%

No targets were set for these measures in our Statement of Performance Expectations 2014/15

Achievement rates in Youth Guarantee programmes increased in 2014. More learners who left school without foundation education qualifications took the opportunity to engage and achieve in alternative, contextual learning programmes. These Youth Guarantee programmes are an important contributor to reaching the Better Public Services target of 85 percent of 18-year-olds achieving National Certificate of Educational Achievement Level 2 by 2017.

Industry training funding and educational performance

Industry training is a partnership between government and industry and is delivered to people in employment. It is training in skills that will be useful to industry.

Measure of Progress

Industry training funding		2013 Actual	2014 Actual
Māori trainees enrolled at New Zealand Qualifications Framework Level 4 and above as a proportion of all trainees enrolled at Level 4 and above		14%	15%
Pasifika trainees enrolled at New Zealand Qualifications Framework Level 4 and above as a proportion of all trainees enrolled at Level 4 and above		4%	5%
Trainees aged under 25 enrolled at New Zealand Qualifications Framework Level 4 and above as a proportion of all trainees enrolled at Level 4 and above		43%	45%
Educational performance		**2013 Actual**	**2014 Actual**
Credit completion	All learners	72%	76%
	Māori learners at New Zealand Qualifications Framework Level 4 and above	67%	78%
	Pasifika learners at New Zealand Qualifications Framework Level 4 and above	66%	76%
	Under-25-year-old learners at New Zealand Qualifications Framework Level 4 and above	65%	80%
Programme completion	All learners	74%	72%
	Māori learners at New Zealand Qualifications Framework Level 4 and above	70%	64%
	Pasifika learners at New Zealand Qualifications Framework Level 4 and above	66%	52%
	Under-25-year-old learners at New Zealand Qualifications Framework Level 4 and above	60%	59%

No targets were set for these measures in our Statement of Performance Expectations 2014/15.

The Industry Training sector has undergone significant change in recent years, including mergers that reduced the number of funded industry training organisations from 38 in 2010 to 11 in 2015.

Participation rates were steady in 2014, reversing a steady decline over the last few years. Credit completion rates across priority groups increased notably.

The Apprenticeship Re-boot Scheme boosted the number of enrolments in Level 4 qualifications in 2014. Programmes take over one year to complete, so the increase in enrolments has an effect on programme completion rates owing to the way the measure is calculated. The programme completion rate is the proportion of enrolled learners who completed a programme in the 2014 calendar year.

Community Education

The Community Education appropriation is limited to funding for adult and community education and literacy, numeracy and English language provision.

This appropriation is intended to achieve improvement in literacy and numeracy skills for learners who have low skills in these areas by funding foundational learning programmes.

Revenue and expenses

Community Education	Actual 2014/15 $000	Budget 2014/15 $000	Actual 2013/14 $000
Revenue			
Appropriation revenue*			
Adult and Community Education	22,147	22,890	22,213
Literacy and Numeracy Provision	31,827	34,048	30,426
English for Speakers of Other Languages	13,317	13,106	9,115
Emergency Management Pool	755	1,115	–
Total revenue	**68,046**	**71,159**	**61,754**
Expenses			
Adult and Community Education	22,148	22,890	21,913
Literacy and Numeracy Provision	30,892	34,048	30,159
English for Speakers of Other Languages	13,317	13,106	9,115
Emergency Management Pool	405	1,115	–
Total expenses	**66,762**	**71,159**	**61,187**
Surplus/(deficit)	**1,284**	**–**	**567**

*The appropriation revenue received by the TEC equals the Government's actual expenses incurred in relation to the appropriation.

Measure of Progress

Measure	2013 Actual		2014/15	2014	2014 Actual		Variance from Investment Plan
	Delivered	Funded	Budget Standard	Investment Plan commitment	Delivered (Note 1)	Funded (Note 1)	
COMMUNITY EDUCATION							
Adult and community education (ACE)							
Participation by learners in school-based programmes	22,503	n/a	n/a				
Total number of school-based ACE hours funded (Note 5)	493,433	377,069	395,000	388,678	399,245	366,184	-5.8%
From the priority groups identified in the Tertiary Education Strategy: Percentage of learners identified:							
• as Māori or Pasifika	35%	n/a	All – 50%	All – 50%	32%	n/a	–
• with English language needs	30%	n/a			32%	n/a	
• as having low or no formal qualifications	61%	n/a			57%	n/a	
Number of funded equivalent full-time students in tertiary education institutions	1,824	1,721	1,808	1,808	1,763	1,688	-6.6%
Literacy and numeracy provision number of funded learner places							
Intensive literacy and numeracy	5,913	4,627	5,088	5,088	5,318	5,016	-1.4%
Workplace Literacy Fund – total (Note 6)	**6,071**	**5,403**	**6,513**	**6,893**	**6,534**	**6,183**	**-10.3%**
• Tertiary education organisation led	2,970	2,767	3,594	3,729	3,294	3,205	-14.1%
• Employee targeted	2,004	1,724	2,069	2,069	2,331	2,069	0.0%
• Employer led	1,097	912	700 – 1,000	1,095	909	909	-17.0
English for Speakers of Other Languages – total	**1,710**	**1,370**	**3,507**	**3,507**	**4,170**	**3,467**	**-1.1%**
Intensive literacy and numeracy English for Speakers of Other Languages	1,206	894	2,952	2,952	3,627	2,932	-0.7%
Intensive literacy and numeracy Refugee English (Note 7)	504	476	555	555	543	535	-3.6%

Note 5 – Adult and community education in schools – Approximately half of the lower volume was owing to one school withdrawing from adult and community education delivery early in the year. The balance was owing to recoveries from other schools that did not deliver the hours initially funded.

Note 6 – Workplace Literacy Fund – The decrease is owing to the rationalisation of this fund, including a fixed funding rate. As part of this rationalisation, employee targeted provision was incorporated into the tertiary education organisations led part of the Workplace Literacy Fund. This took effect in January 2015.

Tertiary education organisation led – Investment in this area increased by $4.278 million (47 percent) in 2014 to increase the number of learners on the programmes. The majority of tertiary education organisations increased the number of learners enrolled on programmes. For a small proportion of tertiary education organisations, it has taken longer to attract further learners. Of the six tertiary education organisations that were unable to increase delivery, two are no longer in operation and two had a reduction in funding.

Workplace literacy employer-led – The lower delivery compared to commitment is due to a significant number of these contracts being granted extensions. This means that providers have a longer period of time to deliver courses. We count the learners in the year that they complete their programme of study.

Note 7 – Intensive Literacy and Numeracy Refugee English – In 2014 two tertiary education organisations withdrew from providing courses and not all of the funds were redistributed. In 2015 areas of demand (Auckland, Wellington, Palmerston North and Nelson) have been targeted and the fund is now fully allocated.

Funding allocated through contract agreements

We invest the following funds through funding agreements and contracts outside of the Investment Plan process. The key activities include making funding available for applications, receiving and assessing applications for funding, awarding funds and managing delivery against contract. We also administer a programme under contract with Immigration New Zealand (English for Migrants).

Centres of Research Excellence

This appropriation is limited to the purchase of cooperative and collaborative tertiary research in areas of research strength in the tertiary education sector through the contestable Centres of Research Excellence Fund.

This appropriation is intended to achieve delivery of high quality research by purchasing cooperative and collaborative research in areas of research strength in the tertiary education sector.

Revenue and expenses

Centres of Research Excellence	Actual 2014/15 $000	Budget 2014/15 $000	Actual 2013/14 $000
Revenue			
Appropriation revenue*	40,586	40,586	32,754
Total revenue	**40,586**	**40,586**	**32,754**
Total expenses	**40,586**	**40,586**	**32,754**
Surplus/(deficit)	–	–	–

*The appropriation revenue received by the TEC equals the Government's actual expenses incurred in relation to the appropriation.

Measure of Progress

Measure	Actual 2012/13	Actual 2013/14	Target 2014/15	Actual 2014/15
Centres of Research Excellence Annual Plans are assessed against assessment criteria and have been revised, where appropriate, by end of March	100%	100%	100%	100%
Centres of Research Excellence Annual Reports are reviewed against research plans and meet assessment criteria	100%	100%	100%	100%

Secondary-Tertiary Interface (Vote Education)

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

English for Migrants (Vote Immigration)

The TEC administers a programme under contract with Immigration New Zealand (English for Migrants). Immigration New Zealand is responsible for reporting the performance of this appropriation.

Revenue and expenses

English for Migrants (Immigration New Zealand)	Actual 2014/15 $000	Budget 2014/15 $000	Actual 2013/14 $000
Revenue			
Revenue from Immigration New Zealand	1,587	828	1,337
Total revenue	**1,587**	**828**	**1,337**
Total expenses	**1,587**	**828**	**1,337**
Surplus/(deficit)	–	–	–

Apprenticeships Re-boot

This appropriation is limited to payments to eligible apprentices towards their tools and other training related costs.

This appropriation is intended to assist people establishing a career in industry by providing financial assistance.

Revenue and expenses

Apprenticeships Re-boot	Actual 2014/15 $000	Budget 2014/15 $000	Actual 2013/14 $000
Revenue			
Appropriation revenue*			
Apprenticeships Re-boot	18,518	8,000	16,153
Māori and Pasifika Trades Training (Tools)	1,351	2,150	–
Total revenue	**19,869**	**10,150**	**16,153**
Expenses			
Apprenticeships Re-boot	18,827	8,000	15,441
Māori and Pasifika Trades Training (Tools)	8	2,150	–
Total expenses	**18,835**	**10,150**	**15,441**
Surplus/(deficit)	**1,034**	**–**	**712**

*The appropriation revenue received by the TEC equals the Government's actual expenses incurred in relation to the appropriation.

An exemption was granted under s.15D(2)(b)(ii) of the Pubic Finance Act 1989, as additional performance information is unlikely to be informative because this appropriation is solely for payments of Apprenticeships Re-boot subsidy under the Education Act 1989. Performance information relating to the administration of the payment is provided under the Managing the Government's Investment in the Tertiary Education Sector appropriation.

Tertiary Scholarships and Awards

This appropriation is limited to providing scholarships for tertiary students and other awards in the tertiary sector, and the provision of scholarships and bursaries to Māori and Pasifika students. It includes training assistance under Queen Elizabeth Study Awards and recognition of outstanding tertiary education teachers.

This appropriation is intended to provide a stipend for domestic sixth-year medical trainee interns and other scholarships.

The TEC is only responsible for two components of this appropriation. The Ministry of Education is responsible for the other components. The TEC is responsible for:

- Trainee Medical Intern Grant
- Tertiary Teaching Awards.

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

Measures of Progress

Fund	Performance measure	Actual 2012/13	Actual 2013/14	Target 2014/15	Actual 2014/15
Tertiary Scholarships and Awards	Funding is allocated in accordance with the funding agreements and conditions	100%	100%	100%	100%

Measure	2013 Actual		2014	2014 Actual		Variance from Investment Plan
	Delivered	Funded (Estimate)	Investment Plan	Delivered	Funded (Estimate)	
Number of medical intern places funded	385	385	420	402	402	-4.3%

Tertiary Education Institutions Merger Support

This appropriation is limited to providing support toward the additional costs related to the merger of particular tertiary education institutions.

Revenue and expenses

Tertiary Education Institutions Merger Support	Actual 2014/15 $000	Budget 2014/15 $000	Actual 2013/14 $000
Revenue			
Appropriation revenue*	–	–	1,500
Total revenue	**–**	**–**	**1,500**
Total expenses	**–**	**–**	**1,500**
Surplus/(deficit)	**–**	**–**	**–**

*The appropriation revenue received by the TEC equals the Government's actual expenses incurred in relation to the appropriation.

Measure of Progress

Measure	Actual 2012/13	Actual 2013/14	Target 2014/15	Actual 2014/15
Merger milestones are met according to funding agreements	100%	100%	100%	No mergers in 2014/15

Auckland University Starpath Project

This appropriation is limited to funding to support the Starpath initiatives at the University of Auckland.

This appropriation is intended to achieve enhancements in academic achievement among secondary and tertiary students from under-represented groups through multi-faceted educational research and development.

Revenue and expenses

Auckland University Starpath Project	Actual 2014/15 $000	Budget 2014/15 $000	Actual 2013/14 $000
Revenue			
Appropriation revenue*	1,377	1,182	995
Total revenue	**1,377**	**1,182**	**995**
Total expenses	**1,377**	**1,182**	**1,010**
Surplus/(deficit)	**–**	**–**	**(15)**

*The appropriation revenue received by the TEC equals the Government's actual expenses incurred in relation to the appropriation.

Measure of Progress

Measure	Actual 2012/13	Actual 2013/14	Target 2014/15	Actual 2014/15
Project milestones are monitored and met according to funding agreement	100%	100%	100%	100%

Tertiary Education Grants and Other Funding

(some funding from this appropriation is allocated through Investment Plans)

This appropriation is limited to providing contestable funding and miscellaneous funding to tertiary education organisations.

This appropriation is intended to achieve improvement in education outcomes for priority learner groups and enhance the educational capability of tertiary education organisations by investing in activities focused on these groups and organisations.

Revenue and expenses

Tertiary Education Grants and Other Funding	Actual 2014/15 $000	Budget 2014/15 $000	Actual 2013/14 $000
Revenue			
Appropriation revenue*			
National Centre for Tertiary Teaching Excellence	3,556	3,556	3,556
Equity Loading	15,603	15,897	15,447
Other Funding	4,710	4,764	5,018
Total revenue	**23,869**	**24,217**	**24,021**
Expenses			
National Centre for Tertiary Teaching Excellence	3,556	3,556	3,556
Equity Loading	15,503	15,897	15,447
Other Funding	4,711	4,764	5,218
Total expenses	**23,770**	**24,217**	**24,221**
Surplus/(deficit)	**99**	**–**	**(200)**

*The appropriation revenue received by the TEC equals the Government's actual expenses incurred in relation to the appropriation.

Measure of Progress

Measure	Actual 2012/13	Actual 2013/14	Target 2014/15	Actual 2014/15
Funding agreements are consistent with funding rules and objective of fund	100%	100%	100%	100%

Non-departmental Capital Expenditure

Literacy and Numeracy Assessment Tool

This appropriation is limited to development of the online assessment tool for adult and youth literacy and numeracy.

This appropriation is to achieve the delivery of online assessment tools for adult and youth literacy and numeracy to improve literacy and numeracy skills.

Capital Expenditure

	Actual 2014/15 $000	Budget 2014/15 $000	Actual 2013/14 $000
Non-departmental Capital Expenditure on Literacy and Numeracy Assessment Tool	917	920	250

Measure of Progress

Measure	Actual 2012/13	Actual 2013/14	Target 2014/15	Actual 2014/15
Online assessment tools for adult literacy and numeracy are developed on time and are fit for purpose	100%	100%	100%	100%

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.

The key activities in this output are:

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

This output draws on our operational appropriation Tertiary Education and Training Advice.

Tertiary Education and Training Advice

This appropriation is limited to providing advice and support to Ministers on the tertiary sector and tertiary education and training issues.

This appropriation is intended to achieve the delivery of timely and high quality advice and support to Ministers on the tertiary sector and tertiary education and training issues.

Revenue and expenses

Tertiary Education and Training Advice	Actual 2014/15 $000	Budget 2014/15 $000	Actual 2013/14 $000
Revenue			
Appropriation revenue*	3,837	3,837	3,837
Total revenue	3,837	3,837	3,837
Total expenses	5,523	3,868	3,394
Surplus/(deficit)	(1,686)	(31)	443

*The appropriation revenue received by the TEC equals the Government's actual expenses incurred in relation to the appropriation.

Measure of Progress

Performance measures		Actual 2012/13	Actual 2013/14	Target 2014/15	Actual 2014/15
Percentage of ministerial items provided to Ministers requiring redraft	Quality	6%	4%	Less than 5%	4%
Percentage of ministerial items provided to Ministers within agreed and/or statutory timeframes	Timeliness	New measure	95%	95%	98%
Publications that are produced in accordance with agreed standards and timelines	Quality and timeliness	86%	100%	100%	100%
Number of reports published	Quantity	6	7	6	6

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.

One of our key roles 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.

We also monitor and audit the financial and non-financial performance of tertiary education. This work is undertaken to make informed funding allocation decisions for research and teaching activities.

The key activities in this output are:

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

This output draws on our operational appropriation Ownership Monitoring of Tertiary Education Institutions.

Ownership Monitoring of Tertiary Education Institutions

This appropriation is limited to monitoring and advisory services – including interventions – on the Government's ownership interest in tertiary education institutions.

This appropriation is intended to achieve protection of the Crown's ownership interest in tertiary education institutions through monitoring risks and financial viability and providing advice on tertiary education institution council appointments.

Revenue and expenses

Ownership Monitoring of Tertiary Education Institutions	Actual 2014/15 $000	Budget 2014/15 $000	Actual 2013/14 $000
Revenue			
Appropriation revenue*	2,567	2,567	2,567
Total revenue	2,567	2,567	2,567
Total expenses	2,688	2,817	2,627
Surplus/(deficit)	(121)	(250)	(60)

*The appropriation revenue received by the TEC equals the Government's actual expenses incurred in relation to the appropriation.

Measure of Progress

Performance measures	Actual 2012/13	Actual 2013/14	Target 2014/15	Actual 2014/15
Ownership risks (Note 1) • risks are assessed (Note 2) and appropriate mitigation strategies are put in place • risks are reported annually to the Minister	100%	100%	100%	100%
Percentage of TEIs where close monitoring and engagement is taken after having received a high-risk rating under Financial Monitoring Framework	100%	100%	100%	100%
Recommendations on ministerial appointments to TEI councils are made and the appointment process is managed effectively in a timely way	100%	100%	100%	100%

Note 1 – Ownership interest occurs where the Crown holds the residual liability of tertiary education institutions and exercises (or can exercise) a range of actions that reflects this, such as the appointment of council members and the application of the interventions framework.

Note 2 – The assessments are undertaken against legislative requirements or frameworks agreed with tertiary education institutions, such as the Financial Monitoring or Capital Asset Management frameworks.

Annual Financial Statements

Statement of Comprehensive Revenue and Expenses

For the year ended 30 June 2015

	Notes	2015 Actual $000	2015 Budget $000	2014 Actual $000
REVENUE				
Operating revenue:				
Vote Tertiary Education – Ministry of Education (MoE)		48,665	47,140	47,061
Contract Revenue – Immigration New Zealand (INZ)		231	76	292
Other revenue		87	99	11
Total operating revenue		**48,983**	**47,315**	**47,364**
Grants revenue:				
Vote Education/Tertiary Education – MoE		2,798,375	2,850,409	2,751,711
Contract revenue – MSD		–	–	23,392
Contract revenue – INZ		1,587	828	1,337
Prior year recoveries		12,853	–	–
Total grants revenue		**2,812,815**	**2,851,237**	**2,776,440**
Finance revenue:				
Interest income on bank deposits – operating		1,646	1,043	1,101
Interest income on bank deposits – grants		510	–	795
Total finance revenue		**2,156**	**1,043**	**1,896**
Total revenue		**2,863,954**	**2,899,595**	**2,825,700**
EXPENSE				
Operating expense:				
Personnel costs	2	24,516	24,832	23,596
Other expenses	3	15,769	15,285	16,354
Capital charge		1,950	1,833	1,832
Depreciation	4	870	803	916
Amortisation	5	3,712	4,387	4,245
Total operating expense		**46,817**	**47,140**	**46,943**
Grants expense:				
Grants expenses – MoE		2,793,733	2,850,409	2,742,692
Contract expenses – MSD		–	–	22,964
Contract expenses – INZ		1,587	828	1,337
Prior year bad debts written off		2,312	–	–
Total grants expense		**2,797,632**	**2,851,237**	**2,766,993**
Total expense		**2,844,449**	**2,898,377**	**2,813,936**
OPERATING SURPLUS/(DEFICIT)				
Operating surplus/(deficit)		3,812	1,218	1,522
Grants surplus/(deficit)		15,693	–	10,242
Total comprehensive revenue and expense		**19,505**	**1,218**	**11,764**

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 2015

	Notes	2015 Actual $000	2015 Budget $000	2014 Actual $000
CURRENT ASSETS				
Cash and cash equivalents	7	45,983	37,114	47,478
Prepayments		451	487	589
Debtors and other receivables	8	10,139	1,150	755
Total current assets		**56,573**	**38,751**	**48,822**
NON-CURRENT ASSETS				
Property, plant and equipment	9	1,134	1,814	1,518
Intangible assets	10	6,649	9,475	6,824
Work in progress	11	3,639	2,891	1,569
Total non-current assets		**11,422**	**14,180**	**9,911**
Total assets		**67,995**	**52,931**	**58,733**
CURRENT LIABILITIES				
Creditors and other payables	12	10,691	2,198	11,789
GST payable		1,056	366	104
Employee entitlements	13	1,352	2,417	1,832
English for migrants – revenue in advance		3,061	980	1,671
Provisions for lease	14	117	204	598
Repayment of grants surplus	6	6,751	7,530	6,480
Total current liabilities		**23,028**	**13,695**	**22,474**
NON-CURRENT LIABILITIES				
English for migrants – revenue in advance		16,206	14,339	12,303
Employee entitlements	13	557	598	484
Total non-current liabilities		**16,763**	**14,937**	**12,787**
Total liabilities		**39,791**	**28,632**	**35,261**
Net assets		**28,204**	**24,299**	**23,472**
EQUITY				
General funds		28,204	24,299	23,472
Total equity		**28,204**	**24,299**	**23,472**

The accompanying notes form part of these financial statements.

Statement of Changes in Equity

For the year ended 30 June 2015

	Note	2015 Actual $000	2015 Budget $000	2014 Actual $000
Balance at 1 July		23,472	22,161	22,000
Capital contribution		920	920	250
Total comprehensive revenue and expense for the year		19,505	1,218	11,764
Provision for repayment of grants surplus	6	(15,693)	–	(10,242)
Capital withdrawal		–	–	(300)
Balance at 30 June		**28,204**	**24,299**	**23,472**

The accompanying notes form part of these financial statements.

Statement of Cash Flows

For the year ended 30 June 2015

	Notes	2015 Actual $000	2015 Budget $000	2014 Actual $000
Cash flows from operating activities				
Cash was provided from:				
Operating MoE		48,665	47,140	47,061
Operating INZ		713	255	673
Operating other		87	–	11
Grants MoE		2,789,514	2,850,409	2,751,711
Grants MSD		–	–	23,392
Grants INZ		6,399	2,615	6,724
Grant recoveries – prior year		10,541	–	–
		2,855,919	2,900,419	2,829,572
Cash was applied to:				
Grants payments		(2,797,715)	(2,851,237)	(2,763,528)
Payments to employees		(24,914)	(24,857)	(24,309)
Other operating payments		(15,691)	(15,285)	(14,576)
Capital charge		(1,950)	(1,833)	(1,832)
GST – net		3,072	–	1,565
		(2,837,198)	(2,893,212)	(2,802,680)
Net cash flows from operating activities	**15**	**18,721**	**7,207**	**26,892**
Cash flows from investing activities				
Cash was provided from:				
Sale of property, plant and equipment		10	–	–
Interest income on bank deposits – operating		1,525	1,043	1,039
Interest income on bank deposits – grants		510	–	796
		2,045	1,043	1,835
Cash was applied to:				
Purchase of property, plant and equipment		(634)	(1,300)	(266)
Purchase of intangible assets		(5,004)	(6,310)	(2,481)
		(5,638)	(7,610)	(2,747)
Net cash flows from investing activities		**(3,593)**	**(6,567)**	**(912)**
Cash flows from financing activities				
Cash was provided from:				
Capital contribution MoE		920	920	250
Cash was applied to:				
Repayment of capital – MoE		–	–	(300)
Repayment to Crown – INZ		–	–	(1,560)
Repayment of grants surplus (net) – MSD		–	–	(2,625)
Repayment of grants surplus (net) – MoE		(17,543)	(5,325)	(9,653)
Net cash flows from financing activities		**(16,623)**	**(4,405)**	**(13,888)**
Net increase/(decrease) in cash and cash equivalents		(1,495)	(3,765)	12,092
Cash and cash equivalents at the start of the year		47,478	40,879	35,386
Cash and cash equivalents at the end of the year	**7**	**45,983**	**37,114**	**47,478**

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

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 (PBE) for financial reporting purposes.

The financial statements for the TEC are for the year ended 30 June 2015 and were approved by the Board on 2 February 2016.

BASIS OF PREPARATION

Statement of compliance

The financial statements have been prepared in accordance with the Education Act 1989 and Crown Entities Act 2004, which include the requirement to comply with Generally Accepted Accounting Practice in New Zealand (NZ GAAP), except as outlined below in regards to grant expenditure relating to the funding of tertiary education organisations.

The financial statements have been prepared in accordance with NZ GAAP as appropriate for public benefit entities and they comply with Tier 1 PBE standards, except as outlined below in regards to grants expenditure relating to the funding of tertiary education organisations.

These financial statements are the first financial statements presented in accordance with the new PBE accounting standards. While there was no material adjustment on transition to the new PBE accounting standards, the Board has been unable to determine a reliable estimate of the impact of PBE accounting standards in relation to grant expenditure recognised as at the 30 June 2015 financial statements. This is due to the complexity of the application of the new PBE accounting standards in relation to grant expenditure and the need for additional levels of technical review associated with the application of those standards.

The financial impact of its application is unknown at this stage. However, it is expected that the TEC will apply the new PBE accounting standards for grant expenditure as a basis for preparation for the 30 June 2016 financial statements.

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

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 from the accounting policies adopted in the last audited financial statements.

Standards issued and not yet effective and not yet early adopted

In May 2013 the External Reporting Board issued a new suite of PBE accounting standards for application by public sector entities for reporting periods beginning on or after 1 July 2014. The TEC has applied these standards in preparing the 30 June 2015 financial statements except as outlined in the statement of compliance for grant expenditure.

In October 2014 the PBE suite of accounting standards was updated to incorporate requirements and guidance for the not-for-profit sector. These updated standards apply for PBEs with reporting periods beginning on or after 1 April 2015. The TEC will apply these updated standards in preparing its 30 June 2016 financial statements. The TEC expects there will be minimal or no change in applying these updated accounting standards.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue

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

Revenue from Crown
The TEC is primarily funded from the Crown. This funding is restricted in its use for the purpose of the TEC meeting its performance measures as specified in the *Statement of Intent 2014-2018* and *Statement of Performance Expectations 2014/15*. Revenue from the Crown is recognised as revenue when earned and is reported in the financial period it relates.

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

Contract revenue Immigration New Zealand.
As a part of their residency requirements, some migrants are required to pay English language tuition fees. This fee is paid to Immigration New Zealand as an agent for the TEC. The fees are then passed to the TEC to administer. The TEC retains an administration fee of 10%. A migrant can then enrol in an English language course at an approved course provider. The TEC pays the student fees direct to that organisation. If not used within five years the balance is returned to Immigration New Zealand.

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. The 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.

Grants expenditure

Grants expenditure relates to payments to tertiary education organisations for post-secondary school education and training, including foundation education, adult and community education, and research.

Grant expenditure is recognised as an expense in the statement of comprehensive revenue and expenses as post-secondary school education and training, including foundation education, adult and community education, and research is provided.

As outlined above, the TEC has not adopted PBE Standards in relation to grant expenditure.

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 to the lessee.

Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

Cash and cash equivalents

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

Debtors and other receivables

Short-term receivables are recorded at their face value, less any provision for impairment. A receivable is considered impaired when there is evidence that the TEC will not be able to collect the amount 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 carrying amount of the receivable and the present value of the amounts expected to be collected. The carrying amount of the assets is reduced through the use of a provision account and the amount of loss is recognised in the surplus or deficit. When the debt is uncollectable, it is written off against the provision account for receivables. Overdue receivables that have been renegotiated are classified as current (that is not past due).

Bank deposits

Investments in bank term deposits are initially measured at the amount invested.

After initial recognition, these 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, computer equipment, office equipment, furniture and fittings and motor vehicles.

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

Additions
The cost of an item of property, plant and equipment is recognised as an asset only when it is probable that future economic benefits or service potential associated with the item will flow to 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 through a non-exchange transaction, 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 property, plant and equipment. The useful lives and associated depreciation rates of major classes of property, plant and equipment have been estimated as follows:

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

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

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

Intangible assets

Software acquisition and development
Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Costs that are directly associated with the development of software for internal use by the TEC are recognised as an intangible asset.

Direct costs include software development and employee costs directly related to enabling the item of software and an appropriate portion of relevant overheads.

Staff training costs are recognised as an expense when incurred. Costs associated with maintaining computer software are recognised as an expense when incurred. Costs associated with development and maintenance of the TEC's website are recognised as an expense when incurred.

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

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

Computer software	4 years	25% straight line

Impairment of property, plant and equipment and intangible assets

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

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

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

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

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

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 and a reliable estimate of the obligation can be made.

Long-term employee entitlements
Employee benefits that are due to be settled beyond 12 months after the end of the 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
- the present value of the estimated future cash flows.

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

Superannuation schemes

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

Provisions

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

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

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

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

Goods and services tax (GST)

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

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

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

Commitments and contingencies are disclosed exclusive of GST.

Income tax

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

Budget figures

The budget figures are derived from the statement of performance expectations as approved by the Board 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 outputs. Indirect costs are allocated to significant activities based on full-time equivalents and direct labour hours.

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

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

Critical accounting estimates and assumptions

In preparing these financial statements 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. This includes expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are 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. These include the physical condition of the asset, expected period of use of the asset by the TEC and expected disposal proceeds from the future sale of the asset.

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

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

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

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

Critical judgements in applying accounting policies

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

Leases classification

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

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

Classification as a finance lease means the asset is recognised in the statement of financial position as property, plant and equipment, whereas for an operating lease no such asset is recognised.

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

Comparative information

When presentation or classification is amended or accounting policies are changed voluntarily, comparative figures are restated to ensure consistency with the current period unless it is impracticable to do so and as outlined above, except for grant expenditure.

2: Personnel costs

	2015 Actual $000	2014 Actual $000
Salaries	20,158	18,766
Contributions to defined benefit and contribution plans	568	543
Additional provision for leave entitlements	373	118
Training and development	300	230
Other personnel expenses	3,153	3,220
Redundancy cost	(36)	719
Total personnel expenses	**24,516**	**23,596**

Contributions to defined benefit and contribution plans include KiwiSaver and the Government Superannuation Fund.

3: Other expenses

	Notes	2015 Actual $000	2014 Actual $000
Property rental		1,255	2,058
Motor vehicles		10	5
Computer operations		3,260	3,406
Consultants		2,642	1,430
Audit fees for audit of financial statements		159	156
Restructuring		–	1,089
Travel		519	431
Insurance		120	200
Legal fees		233	475
Managing third party contracts		5,813	5,490
Bank fees		4	5
Telephone, tolls and postage		160	223
Other supplies and services		1,373	1,078
Commissioners' fees	18	166	155
PBRF panel members' fees		43	–
Loss on disposal and write off of property, plant and equipment and software		12	153
Total other expenses	**16**	**15,769**	**16,354**

4: Depreciation

	2015 Actual $000	2014 Actual $000
Leasehold improvements	149	164
Computer equipment	650	628
Office equipment	6	56
Furniture and fittings	65	68
Total depreciation	**870**	**916**

5: Amortisation

	2015 Actual $000	2014 Actual $000
Intangible amortisation	3,712	4,245
Total amortisation	**3,712**	**4,245**

6: Provision for repayment of grants surplus

	2015 grants MoE surplus $000	2014 grants MoE surplus $000
Balance at 30 June 2014	6,480	7,489
Grants surplus for the year	15,693	10,242
GST adjustment	2,121	1,027
Surplus repaid during the period	(17,543)	(12,278)
Balance at 30 June 2015	**6,751**	**6,480**

7: Cash and cash equivalents

	2015 Actual $000	2014 Actual $000
Cash on hand	–	1
Cash at bank	4,883	11,227
Term deposits with maturities less than three months	41,100	36,250
Total cash and cash equivalents	**45,983**	**47,478**

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

8: Debtors and other receivables

	2015 Actual $000	2014 Actual $000
Tertiary grants receivables (non-exchange transaction)	1,440	1,059
MoE grants receivable (non-exchange transaction)	8,861	–
Other accounts receivable (exchange transaction)	206	76
Provision for impairment	(368)	(380)
Total debtors and other receivables	**10,139**	**755**

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.

As at 30 June 2015	Gross $000	Impairment $000	Net $000
Not past due	8,033	–	8,033
Past due 1-30 days	1,607	–	1,607
Past due 31-60 days	10	–	10
Past due 61-90 days	482	–	482
Past due over 90 days	375	(368)	7
Total	**10,507**	**(368)**	**10,139**
As at 30 June 2014			
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 over 90 days	407	(380)	27
Total	**1,135**	**(380)**	**755**

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

	2015 Actual $000	2014 Actual $000
Balance at 1 July	380	2,269
Increase/(decrease) in provision	3,159	(588)
Receivables written off during the year	(3,171)	(1,301)
Balance at 30 June	**368**	**380**

9: Property, plant and equipment

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

	Leasehold Improvements $000	Computer Equipment $000	Office Equipment $000	Furniture and Fittings $000	Motor Vehicles $000	Total $000
Cost						
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**
Balance at 1 July 2014	2,525	8,280	711	1,633	21	13,170
Additions	–	507	–	–	–	507
Disposals	(23)	–	(172)	(290)	–	(485)
Balance at 30 June 2015	**2,502**	**8,787**	**539**	**1,343**	**21**	**13,192**
Accumulated depreciation						
Balance at 1 July 2013	3,014	6,747	643	1,355	21	11,780
Depreciation expense	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**
Balance at 1 July 2014	2,376	7,133	699	1,423	21	11,652
Depreciation expense	149	650	6	65	–	870
Disposals	(23)	–	(172)	(269)	–	(464)
Balance at 30 June 2015	**2,502**	**7,783**	**533**	**1,219**	**21**	**12,058**
Carrying amounts						
At 1 July 2013	466	1,354	66	278	24	2,188
At 30 June and 1 July 2014	149	1,147	12	210	–	1,518
At 30 June 2015	**–**	**1,004**	**6**	**124**	**–**	**1,134**

There are no restrictions over the title of the TEC's property, plant and equipment, nor are any property, plant and equipment pledged as security for liabilities.

10: Intangible assets (internally generated and purchased software)

Movements of intangible assets is as follows:

	$000
Cost	
Balance at 1 July 2013	28,920
Additions	1,438
Balance at 30 June 2014/1 July 2014	**30,358**
Additions	3,537
Balance at 30 June 2015	**33,895**
Accumulated amortisation	
Balance at 1 July 2013	19,289
Amortisation expense	4,245
Balance at 30 June 2014/1 July 2014	**23,534**
Amortisation expense	3,712
Balance at 30 June 2015	**27,246**
Carrying amounts	
At 1 July 2013	9,631
At 30 June and 1 July 2014	6,824
At 30 June 2015	**6,649**

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

11: Work in progress

	Software $000	Property, Plant and Equipment $000	Total $000
Cost			
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 July 2014	**1,350**	**219**	**1,569**
Additions	5,403	711	6,114
Transfer to software/property, plant and equipment	(3,537)	(507)	(4,044)
Balance at 30 June 2015	**3,216**	**423**	**3,639**

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

12: Creditors and other payables

	2015 Actual $000	2014 Actual $000
Grants: non-exchange transactions		
Creditors	206	143
Accrued expenses	6,766	8,831
	6,972	**8,974**
Operations: exchange transactions		
Creditors	895	669
Accrued expenses	2,824	2,146
	3,719	**2,815**
Total creditors and other payables	**10,691**	**11,789**

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.

13: Employee entitlements

	2015 Actual $000	2014 Actual $000
Current portion		
Salaries and wages	126	667
Annual leave	1,074	900
Severance provision	–	100
Sick leave	33	51
Retirement and long service leave	119	114
Total current portion	**1,352**	**1,832**
Non-current portion		
Retirement and long service leave	557	484
Total non-current portion	**557**	**484**
Total employee entitlements	**1,909**	**2,316**

The TEC has engaged the services 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	358	318	676
Salary growth: 2% per year	339	302	641
Salary growth: 4% per year	378	336	714
Resignation rates: 150% of assumed	341	315	656
Resignation rates: 50% of assumed	377	321	698

14: Provisions for lease

	Provision for Lease Make Good Actual $000	Provision for Onerous Lease Actual $000	Total $000
Balance at 1 July	204	394	598
Increase/(decrease) in provision	(127)	(354)	(481)
Balance as at 30 June 2015	**77**	**40**	**117**

The provision for lease make good on Auckland and Wellington offices is in respect of its leased premises. At the expiry of the leased term the TEC is required to make good any damage caused and remove any fixtures and fittings installed. The cost is based on the market value of replacement items as specified in the lease agreements.

The TEC's service centre operations in Auckland were wound up in 2013/14. This resulted in an onerous lease agreement expiring on 30 September 2015. The cost of meeting the obligation has been provided in compliance with accounting standard NZ PBE IPSAS 19 Provisions, Contingent Liabilities and Contingent Assets.

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

15: Reconciliation of total comprehensive income with the net cash flows from operating activities

	2015 Actual $000	2014 Actual $000
Total comprehensive income	**19,505**	**11,764**
Add non-cash Items:		
Depreciation of property, plant and equipment	870	916
Amortisation of intangibles	3,712	4,245
(Gain)/loss on disposal of property plant and equipment	12	153
Total of non-cash items	**4,594**	**5,314**
Add/(less) movement in working capital items		
(Increase)/decrease in debtors and other receivables	(9,263)	2,126
GST payable/(receivable)	3,072	1,565
Increase/(decrease) in creditors and other payables	(1,575)	1,845
Increase/(decrease) in accrued salaries and wages	(406)	54
Increase/(decrease) in received in advance from English for migrants	5,293	5,768
(Increase)/decrease in prepayment	138	(42)
Increase/(decrease) provisions	(481)	394
Net movement in working capital	**(3,222)**	**11,710**
Add/(less) items classified as investing activities		
Interest income	(2,156)	(1,896)
Total of investing activities	**(2,156)**	**(1,896)**
Net cash flows from operating activities	**18,721**	**26,892**

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 revenue and expenses

Grants revenue

Grants revenue was less than budgeted by $40.7 million. This includes contributions to the cost of the Government's Budget 2015 initiatives. Additional changes were made to reflect funding carried forward for Apprenticeship re-boot and prior year recoveries reported as revenue.

Grants expenses

Grants expenses were less than budgeted by $55.9 million. Actual expenditure reflects funds allocated to the tertiary sector during the year. The majority of this variance relates to 2014 recoveries and performance linked adjustments.

Operating revenue

The operating revenue variance of $1.6 million is a result of receiving additional funding for tertiary education organisations' focused reviews and funding for the New Zealand benchmarking tool.

Statement of financial position

Cash and cash equivalents

The cash and cash equivalents variance is mainly owing to the higher than budgeted operating surplus and lower capital spend. We also received an increase in the level of English for migrant fees for the year to 30 June 2015.

Debtors and other receivables

Debtors and other receivables are $8.9 million above budget largely owing to additional grant revenue invoiced prior to year end. This is required to fund grant commitments as at 30 June 2015.

Creditors and other payables

Creditors and other payables are $8.5 million over budget as we anticipated that all grants commitments would be settled by 30 June.

17: Related party disclosure

The TEC is a wholly owned entity of the Crown.

Related party disclosures have not been made for transactions with related parties that are within a normal supplier or client/recipient relationship on terms and conditions no more or less favourable than those that it is reasonable to expect the TEC would have adopted in dealing with the party at arm's length in the same circumstances. Further, transactions with other government agencies (for example, Government departments and Crown entities) are not disclosed as related party transactions when they are consistent with the normal operating arrangements between government agencies and undertaken on the normal terms and conditions for such transactions.

The following transactions were entered into by Board members during the year. The transactions are within a normal supplier or client/recipient relationship on terms and conditions no more or less favourable than those that it is reasonable to expect the TEC would have adopted in dealing with the party at arm's length in the same circumstances:

- The TEC contracted with New Zealand Career College Limited (now known as ACG Tertiary and Careers Group Limited) for the provision of education, training and other services of $4,746,239 (2014: $4,969,291). ACG Tertiary and Careers Group Limited is a wholly owned subsidiary of Academic Colleges Group Limited. Commissioner John Morris is an independent director of Academic Colleges Group Limited from 1 December 2014. Funding for the period John Morris was a director in the parent company was $2,703,299. There were no amounts outstanding at year end (2014: $nil).
- The TEC contracted with ACG Yoobee School of Design Limited for the provision of education, training and other services of $6,340,087 (2014: $6,016,754). ACG Yoobee School of Design Limited is a wholly owned subsidiary of Academic Colleges Group Limited. Commissioner John Morris is an independent director of Academic Colleges Group Limited from 1 December 2014. Funding for the period John Morris was a director in the parent company was $3,770,731. There were no amounts outstanding at year end (2014: $nil).
- The TEC contracted with The Sir George Seymour and Travel Career and Training Limited (now known as New Zealand School of Tourism Limited) for the provision of education, training and other services of $9,996,692 (2014: $9,462,685). The New Zealand School of Tourism Limited is a wholly owned subsidiary of Academic Colleges Group Limited. Commissioner John Morris is an independent director of Academic Colleges Group Limited from 1 December 2014. Funding for the period John Morris was a director in the parent company was $5,820,277. There were no amounts outstanding at year end (2014: $nil).
- The TEC contracted with NZMA for the provision of education, training and other services of $7,650,111 (2014: $7,195,589). NZMA is a wholly owned subsidiary of Academic Colleges Group Limited. Commissioner John Morris is an independent director of NZMA from 1 December 2014. Funding for the period John Morris was a director in the parent company was $4,226,684. There were no amounts outstanding at year end (2014: $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 transactions are within a normal supplier or client/recipient relationship on terms and conditions no more or less favourable than those that it is reasonable to expect the TEC would have adopted in dealing with the party at arm's length in the same circumstances. The following table details the amounts paid to each institution.

	Year ended 30 June 15 $000	Year ended 30 June 14 $000
Universities		
Auckland University of Technology	153,466	150,411
Lincoln University	41,054	43,502
Massey University	194,200	192,852
The University of Auckland	423,842	406,580
University of Canterbury	148,191	144,634
University of Otago	287,139	276,198
University of Waikato	87,398	86,711
Victoria University of Wellington	168,602	164,700
	1,503,892	**1,465,588**
Polytechnics		
Aoraki Polytechnic	6,829	8,129
Bay of Plenty Polytechnic	22,551	23,877
Christchurch Polytechnic Institute of Technology	55,811	56,579
Eastern Institute of Technology	37,802	38,536
Manukau Institute of Technology	59,781	61,926
Nelson Marlborough Institute of Technology	18,443	17,895
Northland Polytechnic	25,148	25,784
Otago Polytechnic	35,818	34,858
Southern Institute of Technology	29,739	29,663
Tai Poutini Polytechnic	18,509	18,513
The Open Polytechnic of New Zealand	37,481	37,681
Unitec Institute of Technology	70,561	74,174
Universal College of Learning	28,159	28,554
Waiariki Institute of Technology	26,318	26,109
Waikato Institute of Technology	47,665	47,369
Wellington Institute of Technology	28,591	29,295
Western Institute of Technology Taranaki	14,767	14,535
Whitireia Community Polytechnic	25,756	26,458
	589,729	**599,935**
Wānanga		
Te Wānanga O Aotearoa	133,499	136,173
Te Wānanga O Raukawa	10,344	10,315
Te Whare Wānanga O Awanuiarangi	21,648	26,029
	165,491	**172,517**
Total grants expenses relating to tertiary education institutions	**2,259,112**	**2,238,040**
Grants expenses for other tertiary education institutions	536,208	528,953
Prior year bad debts written off	2,312	–
Total grants expenses	**2,797,632**	**2,766,993**

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 2015.

Key management personnel compensation

	Note	2015 Actual	2014 Actual
Board members			
Remuneration	18	$166,200	$155,333
Full-time equivalent members		0.8	0.8
Leadership team			
Remuneration		$1,444,147	$1,645,871
Full-time equivalent members		5	4.5
Total key management personnel remuneration		**$1,610,347**	**$1,801,204**
Total full-time equivalent personnel		**5.8**	**5.3**

The full-time equivalent for Commissioners has been determined based on the notice of appointment.

Key management personnel include Commissioners, the Chief Executive, three Deputy Executives and Chief Advisor Māori, (2014: include Commissioners, the Chief Executive, three Deputy Chief Executives, the Chief Advisor Māori, former Deputy Chief Executive and former General Managers (including acting General Managers)).

18: Board member remuneration

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

		2015 Actual $	2014 Actual $
Current Board members			
John Spencer (Chair)	appointed August 12	46,200	42,000
Nigel Gould	appointed May 13	20,000	20,000
Judith Johnston	appointed August 11	20,000	20,000
Christopher Mace	appointed May 13	20,000	20,000
John Morris	appointed November 12	20,000	20,000
Phil O'Reilly	appointed September 13	20,000	15,000
Vanessa Stoddart	appointed September 13	20,000	15,000
Past Board members			
Robin Hapi	retired August 13	–	3,333
Total Board member fees		**166,200**	**155,333**

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

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

The TEC has taken out Directors' 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 Board member received compensation or other benefits in relation to cessation (2014: nil).

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 2015	Number of Employees 2014
Total remuneration paid or payable:		
450,001 to 460,000	1	–
390,001 to 400,000	–	1
310,001 to 320,000	1	–
250,001 to 260,000	1	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	5	1
170,001 to 180,000	5	5
160,001 to 170,000	5	3
150,001 to 160,000	2	1
140,001 to 150,000	4	5
130,001 to 140,000	9	8
120,001 to 130,000	15	12
110,001 to 120,000	15	12
100,001 to 110,000	12	17
Total employees	**77**	**68**

During the year ended 30 June 2015, two employees (2014: 22) received compensation and other benefits in relation to cessation totalling $64,208 (2014: $658,727).

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

	2015 Actual $000	2014 Actual $000
Financial assets		
Cash and cash equivalents	45,983	47,478
Debtors and other receivables	10,139	755
Total financial assets	**56,122**	**48,233**
Financial liabilities measured at amortised cost		
Creditors and other payables	10,691	11,789
Total financial liabilities measured at amortised cost	**10,691**	**11,789**

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 2015. The TEC bank deposits are on call and on term deposits with less than or equal to three month 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 2015

	Carrying amount $000	Contractual cash flows $000	Less than 6 months $000
Creditors and other payables	10,691	10,691	10,691
Total	**10,691**	**10,691**	**10,691**

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**

21: Operating leases

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

	2015 Actual $000	2014 Actual $000
Non-cancellable operating leases (rental agreements)		
Not later than one year	1,724	1,333
Later than one year and not later than two years	1,363	71
Later than two years and not later than five years	4,088	–
Later than five years	1,363	–
Total operating leases	**8,538**	**1,404**

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

A development agreement was signed for the Wellington office on 28 May 2015, cancelling the previous lease agreement. The new six-year lease for the Wellington office commences on 1 July 2015 with a further six-year right of renewal.

A significant portion of the non-cancellable operating lease commitments relates to the Wellington office.

The right of renewal for the Auckland office is due on 1 October 2015. The TEC will terminate its lease agreement at this time as the Auckland operations have been moved to the Wellington office.

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 2015, $1.255 million (2014: $2.058 million) was recognised as an expense (after the release of provision for lease made good of $124,000 and onerous lease rental provision of $354,000) in the statement of comprehensive revenue and expense in respect of operating leases.

22: Capital commitments

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

	2015 Actual $000	2014 Actual $000
Intangible assets	920	577
Total capital commitments	**920**	**577**

23: Non-cancellable agreements and investment plans

Commitments under these agreements and Investment Plans are:

	2015 Actual $000	2014 Actual $000
Not later than one year	1,428,677	1,487,798
Later than one year and not later than two years	33,661	99,541
Later than two years and not later than five years	93,395	7,512
Total non-cancellable contracts	**1,555,733**	**1,594,851**

At 30 June 2015 the TEC had entered into funding agreements for the provision of research, and teaching and learning services. Investment Plans for 2015 include agreed funding until 31 December 2015. The TEC also has other longer term contracts, some extending to 2020 (e.g. for Centres of Research Excellence).

24: Contingencies

Contingent liabilities

There are no contingent liabilities for the current year (2014: $10,000).

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. Since the year end Taratahi Agricultural Training Centre has agreed to repay $8.65 million and Agribusiness Training Limited has agreed to repay $8.69 million. Agribusiness Training Limited has subsequently been placed in liquidation and the full amount of the debt has been recognised as doubtful. (2014: The TEC had a contingent asset which arose 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. $5.9 million was recovered from Te Whare Wānanga o Awanuiarangi).

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 2015.

The TEC has entered into a construction contract with LT McGuiness for an office fitout on its leased premises. The contract was signed July 2015 and the construction period is from August 2015 through to June 2016.

26: Professional indemnity insurance

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

- Professional Indemnity
- Directors' and Officers' Liability.

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

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.

28: Breach of legislation

The Tertiary Education Commission was unable to meet the statutory obligation under the Crown Entities Act (section 156) to provide the annual report to the Auditor-General to audit within three months of the end of the financial year. This meant that the Auditor-General was unable to provide an audit report within four months after the end of the financial year. Delivery of information was delayed due to the complexity of the application of new public benefit entity accounting standards in relation to grant expenditure and the need for additional levels of technical review associated with the application of those standards.

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