



THE MINISTRY OF EDUCATION

# Annual Report

2016 *For the year ended 30 June 2016*

New Zealand Government

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THE MINISTRY OF EDUCATION

# Annual Report

2016 *For the year ended 30 June 2016*

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*Presented to the House of Representatives pursuant  
to section 44(1) of the Public Finance Act 1989*

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**Hon Hekia Parata**

Responsible Minister for the Ministry of Education  
Minister of Education

**Hon Steven Joyce**

Minister for Tertiary Education, Skills and Employment  
Minister Responsible for Novopay

**Hon Louise Upston**

Associate Minister for Tertiary Education, Skills and Employment

**David Seymour**

Parliamentary Under-Secretary to the Minister of Education

**Report of the Ministry of Education**

For the year ended 30 June 2016

Pursuant to section 44(1) of the Public Finance Act 1989, I am pleased to present the Annual Report of the operation of the Ministry of Education and our audited financial statements for the year ended 30 June 2016.

A handwritten signature in black ink, appearing to read 'Katrina Casey', with a long, sweeping flourish extending from the bottom.

**Katrina Casey**

Acting Secretary for Education

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## Foreword from the Secretary for Education

All New Zealanders need to be equipped to thrive in the rapidly developing global environment and participate actively in our society. Our education system plays a huge part in this – it enables children, young people and adults to learn and achieve throughout their lives and to build the skills and knowledge for work and life.

A centre piece of our work for 2015/16 has been the implementation of Communities of Learning | Kāhui Ako. They represent the most significant change to the shape of the education system since the introduction of the Education Act 1989. Communities of Learning | Kāhui Ako bring groups of schools, kura/wharekura early learning services and ngā kohanga reo together to raise achievement for all children and young people. They are being set up to provide seamless pathways for children and young people's journey through the education system and to enable strong collaboration at all stages of that journey.

By 30 June 2016, 42% of eligible schools – across every education region – were part of a Community of Learning | Kāhui Ako and starting to agree shared student achievement goals and how they might be achieved.

During the year we have been looking at all the big system settings to make sure they create the right conditions for all children and young people to progress and achieve. This has involved reviewing:

- the Education Act, to provide an education system that is more learner-centred and outcome-focused
- the funding systems for 0-18 year-olds, aiming to ensure they better support student achievement and learning pathways
- learning support services for students with special needs, with changes planned to make them easier to access, child-focused, flexible and better integrated with other social services
- our delivery of professional learning and development for teachers, which are being refocused on a small number of national priorities, including mathematics, science, reading and writing, and digital fluency
- careers advisory services, with Careers New Zealand becoming part of the Tertiary Education Commission to provide better and more consistent careers information to young people.

We recognise the scale of the changes under consideration and will continue to work with the sector to further develop and successfully implement any changes and to realise the benefits they offer.

All of this work will lead us collectively to achieve better educational outcomes for our children and young people. We have ambitious targets and have seen progress over 2015/16. More children are participating in early learning, National Standard results for primary students have been maintained and more young people have NCEA Level 2 or Level 4 qualifications. Slightly fewer young people are not in employment, education or training.

Results for Māori and Pasifika students have improved, but a disparity of achievement still remains. During 2015/16 we have implemented a range of initiatives to boost achievement for Māori and Pasifika students and get at-risk young people into a career. The results are promising but we have more work to do.

Through our core services we continue to provide the sector with the core infrastructure, services and information they need. We finished the year slightly ahead of schedule on our school property work supporting the Canterbury rebuild. Addressing roll growth in Auckland and elsewhere remains a priority. We also provided the sector with support and guidance to enable them to meet their new health and safety responsibilities.

We continue to make more information available to support decision-making:

- helping students know what options are available; and
- enabling the sector to better target effort and resources, nationally and locally.

A significant achievement this year was working with other government education agencies to develop a shared vision for a more learner-centric education system. We agreed priority areas where we can maximise our collective efforts. This has already resulted in development of a shared digital strategy that is now driving a number of system-wide initiatives. We have also been working to improve our own capability and using that to support the wider sector.

Our plans for the future were updated in the Ministry's *Four Year Plan 2016-2020*. Before Peter Hughes left his role as Secretary for Education on 30 June 2016, he noted in that document "I'm confident in the vision for education expressed through this plan. Implementing this plan will take commitment and expertise from staff and partners alike. It is an ambitious and important work programme. Delivering it successfully will improve the system for the future, lift aspiration and raise educational achievement for every New Zealander."

As Acting Secretary for Education, I must acknowledge Peter for his leadership in focusing us to create this vision for education, and thank all those working tirelessly to make this vision a reality from parents and communities, teachers and education system leaders, to Ministry staff.

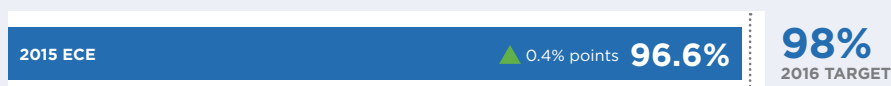


**Katrina Casey**  
Acting Secretary for Education

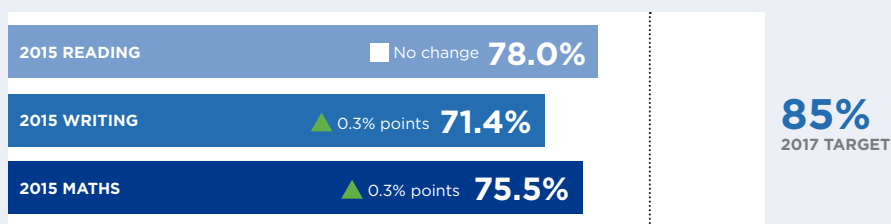
## The year at a glance

### We are making progress

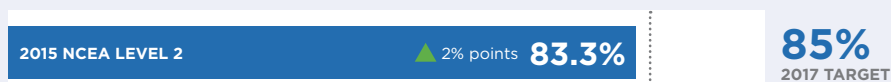
More children have participated in quality early childhood education (ECE) before starting primary school



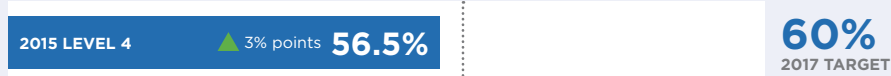
Primary school-age student National Standards are being maintained



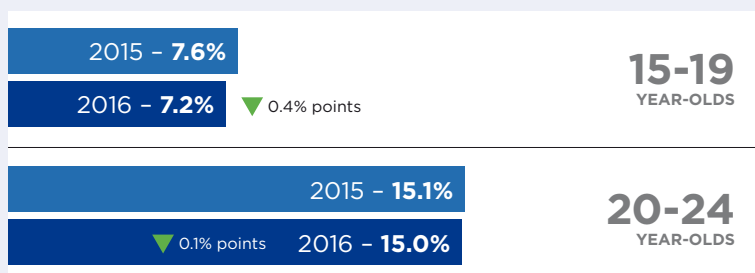
More 18-year-olds are achieving NCEA Level 2 qualifications



More young people have Level 4 qualifications ...

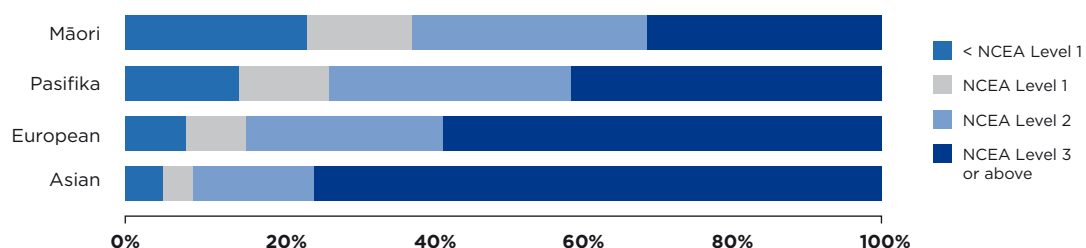


... and slightly fewer young people are not in employment, education or training



### While making some progress on disparity of achievement it remains a challenge

School leaver highest qualification 2015



## EARLY CHILDHOOD EDUCATION

APPROXIMATELY  
**200,000**

children were enrolled in ECE services

Over 5,000 ECE services and playgroups.

## PRIMARY &amp; SECONDARY EDUCATION

OVER  
**770,000**

children and students enrolled in primary and secondary schools

New Zealand's curriculum was taught in over 2,500 schools by over 53,800 teachers.

## TERTIARY EDUCATION

OVER  
**577,000**

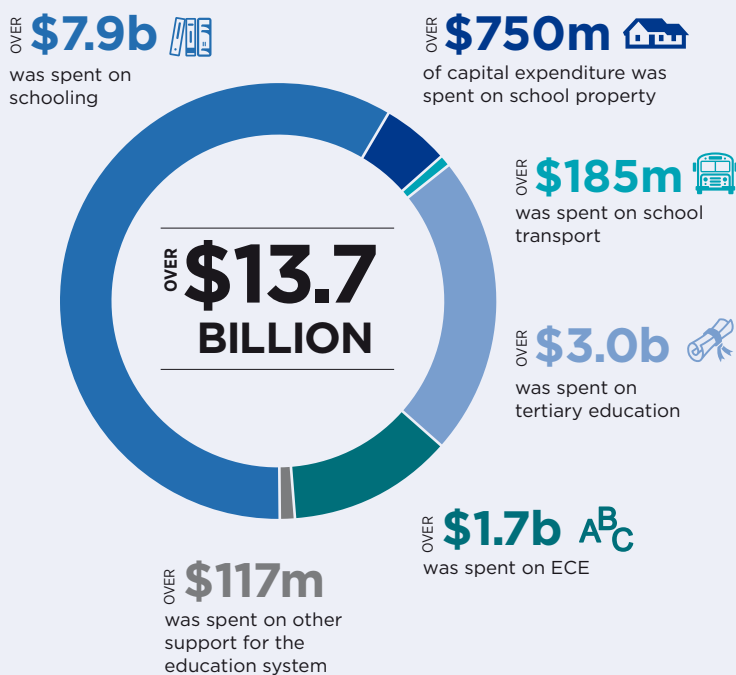
students enrolled in formal tertiary education, including 146,000 in industry-based training

In 2015/16, we were responsible for a budget of over **\$13.7 billion**

to enable over 1.5 million children, young people and adult students to learn and achieve.

We manage a significant property portfolio worth almost **\$14.6 billion**

to provide, upgrade and maintain the physical environment to support children, young people and adult students to achieve educational success.



Our people are passionate about improving education outcomes.

## WE EMPLOYED APPROXIMATELY

**2,600**

people in full-time equivalent roles (as at 30 June 2016).



We work out of about 35 locations around New Zealand, as well as our national office in Wellington, with approximately 70% of our staff directly supporting either children and young people, or educators and education services.

# Guide to this report

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## Part 1

### Our performance story

This section outlines our key achievements during 2015/16 and how our work has delivered against the priorities set out in the Ministry of Education's *Four Year Plan 2015-2019*.

It outlines the performance framework for the year and reports on progress against our three long-term outcomes:

- **The education system is relevant and reaches all children and students**
- **Every child and student achieves educational success**
- **New Zealanders have skills and knowledge for work and life.**

It then reports on progress during 2015/16 in our stewardship role and managing the Ministry itself, through sections on:

- **Effective stewardship of the education system**
- **Building capability and managing responsibly.**

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## Part 2

### Statements of service performance

The statements of service performance set out our service objectives, our actual achievements against our targets and financial information on the costs of the activities undertaken. They are audited and provide end-of-year reporting against the departmental information in the Estimates of Appropriations 2015/16 for Vote Education and Vote Tertiary Education.

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## Part 3

### Annual financial statements

The financial statements cover all financial and human resources used by the Ministry to deliver the goods and services purchased by the Minister of Education and the Minister for Tertiary Education, Skills and Employment.

These statements are followed by a financial commentary, supplementary information and notes to the financial statements that provide more detailed information.



# PART 1

## Our performance story

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This section outlines our key achievements during 2015/16 and how our work has delivered against the priorities set out in the Ministry's *Four Year Plan 2015-2019*.

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- **Effective stewardship of the education system**
- **Building capability and managing responsibly.**

## Introduction

This section outlines our key achievements during 2015/16 and how our work delivered against the priorities set out in the Ministry's *Four Year Plan 2015-2019*. The strategic framework for the organisation is summarised in our 'plan on a page' – set out on the next page. It shows how the work we do will lead to the outcomes we seek for education in New Zealand, illustrating the links between:

- key enablers that need to be in place for educational success
- the Ministry's priorities for ensuring this happens
- the resulting benefits for the education system and all those in education
- how the education system contributes to New Zealand's prosperity and wellbeing.

During 2015/16, our strategic intentions for early childhood and schooling, agreed with the Minister of Education in the Education Work Programme, were updated to highlight the focus on Communities of Learning | Kāhui Ako.

The following sections report on progress against our three desired, long-term outcomes:

- The education system is relevant and reaches all children and students
- Every child and student achieves educational success
- New Zealanders have skills and knowledge for work and life.

We conclude by reporting on progress against our stewardship intentions and provide an update on organisational health and capability.

In the *Four Year Plan 2015-2019*, we identified five key indicators which provide a litmus test of the Ministry's progress in raising achievement:

- Indicator 1: Increase participation in early childhood education (ECE)
- Indicator 2: Increase the proportion of enrolled students at or above National Standards levels
- Indicator 3: Increase the proportion of 18-year-olds with National Certificate of Educational Achievement (NCEA) Level 2 or equivalent qualifications
- Indicator 4: Increase the proportion of 25 to 34-year-olds with advanced trade qualifications, diplomas and degrees (at Level 4 or above)
- Indicator 5: Decrease the proportion of youth not in employment, education or training.

Progress against these is reported under the relevant outcome.

These high-level measures are supported by a comprehensive set of performance measures across all Ministry activity set out in the Information Supporting the Estimates of Appropriations and the Supplementary Estimates. Results for these 2015/16 output performance measures are reported in Part 2 – Statements of service performance.

## Four Year 'Plan-on-a-Page'



## The education system is relevant and reaches all children and students

New Zealand needs an education system that meets the needs of our increasingly diverse population and unique cultures. Education must be accessible and relevant to all, and flexible enough to accommodate different aspects of learners' needs throughout their lives.

### Improving education system performance

New Zealand has a strong well-integrated education system with many successes. However, this system is characterised by relatively high levels of disparity. At every stage, the system is less successful for Māori and Pasifika students, learners with special education needs, and people from low income families.

International studies have shown that achievement in New Zealand is more closely linked to economic and social factors, such as parental education and skills, than in other countries.

International studies also show that achievement for Year 5 students in maths and science declined in the decade following the early 2000s. Similarly, 15-year-olds did not do as well over this time as they had previously done in these subjects or in reading.

We are intent on getting the system working to deliver better outcomes for all students, from entering early childhood education (ECE), through the schooling system, to achievement at the highest levels of tertiary education. We are also seeking to ensure New Zealand remains internationally competitive.

### Improving participation in quality ECE

Participation in quality ECE has positive, long lasting associations with students' literacy, numeracy and social skills, and these impacts can be seen up to 16 years of age.

The Government has set a Better Public Services (BPS) goal to increase participation, with a target that in 2016, 98% of children starting school will have participated in quality ECE.

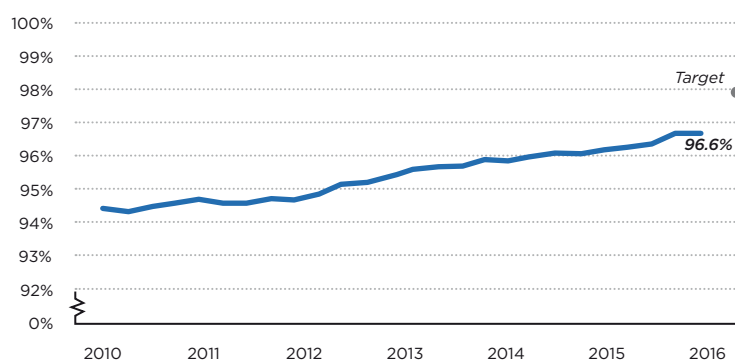
The participation rate<sup>1</sup> has been steadily increasing since 2012 and we are very close to the December 2016 target of 98% nationally. Several Ministry education regions reached the 98% target during 2015/16.

Interim targets are plotted on a trend line of linear progression towards 98%, which gives the impression that change will be cumulative (each quarter building on the results of the previous quarter). However, a completely different group of children starts school every 12 months. Achieving a high rate of prior participation for one group does not guarantee the same rate in the next, which means we need to accomplish more each year for every successive group of children to keep the rate increasing. Our work towards the 98% goal has therefore focused on achieving sustainable social change so that the majority of families and whānau demand and engage with early learning.

The number of children not attending ECE before they start school is small. Weekly snapshots toward the end of 2015/16 indicate that we are closing the gap to reach 98%. For example, the weekly rate reached 97% or higher for 4 weeks during May and June 2016, including 97.3% for the week at the start of Term 2.

Overall we were less than 850 children short of the target for the year ending June 2016.

<sup>1</sup> The participation rate is calculated as a percentage of the total number of children for whom attendance is reported, rather than the total number of children starting school (including those for whom attendance is unknown).

**Indicator 1 Increase participation in early childhood education (ECE)***Better Public Services: Supporting Vulnerable Children, Result 2*

(All numbers %)	Jun 2015	Jun 2016	Change (% points)	Dec 2016 target
All	96.2	96.6	▲ 0.4	98.0
Māori	94.0	94.9	▲ 0.9	98.0
Pasifika	91.2	92.7	▲ 1.5	98.0
Decile 1-3 schools	92.5	93.7	▲ 1.2	98.0

Reaching the target has become more challenging as we seek to engage those at the margin and it is not something we can achieve alone. We are connecting with the hardest to reach children and their families, who often need the most complex interventions for ECE to become a feasible option. Where families are not ready to engage with ECE, we are connecting them with suitable support from other agencies.

Much of the gain to date has been from targeting Māori, Pasifika and low income communities which had the largest number of non-participating children. We continue to focus on lifting ECE participation in these priority groups.

For 2015/16, we used core funding to continue the successful Participation Programme to raise participation by low socio-economic, Māori and Pasifika children and their whānau/families who have not engaged in early learning. As at 30 June 2016, over 15,500 children have been enrolled through Participation Programme initiatives.

During 2015/16, 1,974 licensed ECE services received professional development support through the Strengthening Early Learning Opportunities (SELO) programme. This resulted in 82% of services participating, demonstrating a positive shift in practice.

We have worked with early learning providers, iwi, Māori organisations and Pasifika churches, as well as other government and non-government agencies on various initiatives, to improve participation including:

- identifying and supporting over 150 3½ and 4-year-olds who were not attending any form of early learning through the Puna Kainga programme
- identifying and working with 50 early childhood centres across the country with capacity to take more children to increase enrolments using a quality improvement approach
- working with schools to ensure accurate data collection at the enrolment process
- initiating a referral process from Well Child providers with one District Health Board in Auckland and one in Hamilton
- supporting local health initiatives that impact on regular attendance and participation in early learning.

## Improving student-centred pathways across the education system

The education system needs to encourage student-centred pathways across the system – clear options for getting from each stage of learning to the next and helping all New Zealanders to be successful in their lives and careers. A student-centred pathway provides continuous learning, progression and choice.

We are working to ensure the education system is coherent, encourages collaboration and supports continuity of learning across transitions.

Communities of Learning | Kāhui Ako have been introduced to help achieve more student-centred pathways through the education system and into future work and life. Communities of Learning | Kāhui Ako are groups of schools, kura and ngā kōhanga reo ECE services that come together to raise achievement for children and young people, including creating pathways for students from early learning through primary and secondary school then into tertiary education and work. As reported later in this section, we are also updating the Education Act 1989 and reviewing funding arrangements to support Communities of Learning | Kāhui Ako in their focus on achievement.

During 2015/16, we also undertook a review of the careers system. Our two Ministers announced that Careers New Zealand will become part of the Tertiary Education Commission (TEC) in a reform package designed to deliver better and more consistent careers information for school students. The TEC is best able to work with tertiary providers and employers so that they in turn can provide better careers information to schools, and coordinate with schools on the skill needs of the labour market. The TEC will take responsibility for providing a seamless flow of high-quality careers and training information to students at school, tertiary education and through to employment. The change will consolidate the information that users of careers services need in one place, enable better integration of the online careers planning tools currently offered and establish clear lines of accountability for the delivery of careers information services.

To support decision-makers we are publishing school leaver destination information for each school as part of the 2016 Public Achievement Information release.

We have established smoother pathways from school to work, further study and training, by providing a wider range of learning opportunities, making better use of the education network, and creating clear pathways from school to work and study with initiatives such as Youth Guarantee and Secondary Tertiary Programmes (for example Trades Academies). We are also providing students and their family and whānau with the information they need to make informed decisions on transitioning into tertiary education. This work is being progressed through the *Tertiary Education Strategy 2014-2019* outlined on pages 31 to 39.

## Modernising legislation and governance arrangements

A high-performing education system needs the right legal framework and governance arrangements. The Education Act 1989 provides the legal framework for the education system and sets out the roles, responsibilities and powers of Crown entities and independent statutory bodies in the education sector.

### Updating the Education Act 1989

We undertook an update of the Education Act 1989 (the Act) to support the development of a 21st century education system focused on achievement and learner progress.

During late 2015, we consulted with stakeholders to get their views and inform the update of the Act. This included over 120 national and regional workshops and hui as well as online and targeted consultation. Over 1,800 formal written submissions were received. In early 2016 we held further targeted consultation with the sector on two of the proposals.

The feedback received helped to inform the development of papers we provided to the Minister of Education seeking Cabinet approval for policy proposals and the issuing of drafting instructions. The Education (Update) Amendment Bill was introduced to Parliament on 22 August 2016 and amends the Act to make the achievement and learning of children and young people central to the ECE and compulsory schooling parts of the Act.

### **Education (Update) Amendment Bill Policy Objectives**

The eight public policy objectives underpinning the Bill are to:

- make the achievement and learning of children and young people central to the ECE and compulsory schooling parts of the Act
- strengthen the efficiency, effectiveness and accountability of schools and the schooling network
- enhance collaboration within the schooling network
- increase flexibility in the enrolment and attendance requirements for the first year of learning
- strengthen the legal framework for managing teacher competence issues
- establish a future-focused legislative framework for online learning
- update aspects of the law that have become outmoded and inefficient
- improve the provision of careers services by the government.

We expect the updated legislation to be considered by the Education and Science Committee through the rest of 2016 and the start of 2017, and to come into effect in the first half of 2017.

## **Updating the funding systems for early learning and schooling**

We are also reviewing the funding systems for 0 to 18-year-olds, aiming to ensure they better support student achievement and learning pathways for all children and young people. The early learning and school funding systems set out how, and how much, we allocate to providers of education for children and young people through grants, staffing and property.

We undertook policy work to understand the current funding systems and options for change, which enabled Cabinet to approve engagement on high-level directions for change in April 2016. These changes are designed to create funding systems that are more student-focused and better target resources to students most at risk of under-achievement, while retaining a viable network of providers throughout New Zealand.

We have been working with the education sector on the details of the review. An Advisory Group of education sector leaders was established to work on the details of the review from May to August 2016. Alongside the Advisory Group, we have been talking to the wider education sector, and will continue to engage with them as we test a number of possible directions for change, recognising the implications for the sector.

This is a complex project and we expect working through the process of engagement, design, decision-making, operational planning and implementation to take us through to 2019. The changes to the system are intended to be in place prior to the next decile review due in 2020.

## Championing 21st century practice in teaching and learning

Education must deliver the skills and knowledge which children, young people and adults need to thrive in 21st century New Zealand and a global economy.

### Supporting the establishment of the Education Council of Aotearoa New Zealand

The Education Council of Aotearoa New Zealand (the Education Council) began operating on 1 July 2015 as an independent body. It has been established to provide stronger educational leadership and lift the status of teaching as a profession. We signed a Memorandum of Understanding in December 2015 and have provided funding and other support for the Council in carrying out its leadership and statutory functions.

We worked with the Education Council on a proposal to establish a statutory competence authority to consider complaints about teacher competence. This will formalise competency assessment processes, and will be more efficient for the Council and more robust for teachers. We are also exploring the transfer of Professional Learning and Development (PLD) responsibilities to the Education Council, which would further build its role in supporting the profession.

## Improving professional learning and development

High-quality teaching and leadership are the most important in-school factors that support the achievement of learners. While the workforce is highly regarded internationally, ongoing professional development is essential. Investing in the profession raises the quality of teaching and provides opportunities to improve educational outcomes. We have been working with sector representatives to redesign the PLD system based on changes approved by the Government in 2015. The changes are aimed at making centrally-funded PLD more effective by focusing on three areas:

- leadership – a blended package of support for school leaders and specifically for aspiring principals, beginning principals, and those with more experience
- networks of expertise – professionals supporting professionals in a range of subject specialties
- national priority outcomes – science, maths, literacy (reading and writing) and digital fluency.

The Ministry is running an open tender process for the delivery of centrally-funded PLD services in 2017.

Existing PLD contracts will continue until December 2016. Between now and then, the Ministry will be working to ensure that new contracts, reflecting the new priorities and the focus on Communities of Learning | Kāhui Ako students need help the most, will be in place when the new system comes into effect from Term 1 in 2017.

### Teaching and Learning International Survey (TALIS)

#### NEW ZEALAND YEAR 7-10 TEACHERS

**97%**

report that they had participated in at least one professional development activity during the 12 months prior to the survey

**88%** TALIS average  
**97%** Australia  
**98%** Singapore  
**79%** Finland

#### NEW ZEALAND YEAR 7-10 PRINCIPALS

**12**  
YEARS

Principal  
experience

**9 years** TALIS average  
**8 years** Australia  
**8 years** Singapore  
**11 years** Finland

&

**26**  
YEARS

Teaching  
experience

**21 years** TALIS average  
**27 years** Australia  
**15 years** Singapore  
**17 years** Finland

#### NEW ZEALAND YEAR 7-10 TEACHERS

**92%**

completed university or other equivalent higher education

**91%** TALIS average  
**100%** Australia  
**93%** Singapore  
**96%** Finland

## Improving STEM skills and competencies

We know that STEM education (science, technology, engineering and mathematics) contributes to building creativity, curiosity and innovation, which are critical for economic growth. STEM skills underpin the development of new practices and technologies, the application of existing technologies and the development of new, high-value products and services. We are working to ensure the education system recognises the importance of STEM learning and capability.

We have delivered the education aspects of the initial 3-year plan of action for the Science and Society National Plan *A Nation of Curious Minds: Te Whenua Hihiri i te Mahara* through:

- teachers in industry pilots – providing teachers with practical information to help them support students transition from school to work, apprenticeships or further study
- science skills in education – improving the relevance and delivery of PLD opportunities for science teachers in Years 1 to 8, especially those outside of the main areas
- a review of the content and positioning of digital technologies in the national curriculum with a Ministerial decision in July 2016 to explicitly strengthen digital technologies within the Technology Learning Area by 2018. This will provide a digital technologies learning pathway for every child in every school.
- encourage young women to pursue science and technology careers by engaging with women in STEM careers to showcase the breadth and diversity of opportunities available within a uniquely New Zealand environment.

With the initial plan of action finishing in June 2016, work has begun to ensure that the next iteration of our wider STEM strategy reflects the developments since 2014, including consideration of how to use Communities of Learning | Kāhui Ako for better delivery of STEM participation and achievement, a stronger focus on regional delivery and STEM-focused learning pathways for all our students.

## Building flexible and modern infrastructure

We provide or facilitate the provision of school property, transport and technology to ensure schools have the infrastructure they need for a 21st century learning environment.

### Maintaining and developing the Crown's property portfolio

We manage the Crown's second largest social asset property portfolio, with a carrying value of \$14.6 billion. During 2015/16, capital expenditure of \$731 million was spent on maintaining and/or upgrading the school property portfolio. This included the provision of new schools and additional classrooms to cater for those areas with growing school rolls. In addition, non-departmental capital expenditure was spent on the school support project, and school furniture and equipment.

We continue to replace, renew and rebuild school infrastructure. As at 30 June 2016, the New Schools and Kura Programme included 64 projects:

- two new schools
- three Stage 2 and Stage 3 new schools
- six kura and wharekura
- 16 major redevelopments
- 37 new land acquisition/designation projects for school sites, 11 of which are for the Christchurch Schools Rebuild (CSR) programme.

Construction is continuing at four schools as part of the Ministry's second Public Private Partnership (PPP2). Three of the schools are to be delivered in December 2016 and the fourth in December 2017. Procurement is progressing for the Ministry's third Public Private Partnership (PPP3), which will see the delivery of six schools. All six are planned to be open in 2019.

We have improved our management and monitoring of the school property portfolio. A Treasury review of our asset management maturity rated the Ministry at an intermediate level. Identified areas for improvement included property condition assessment and risk management methodologies, and increasing resources to directly support schools in improving their operational asset management.

We continue to support the provision of flexible learning spaces that can better support a range of teaching and learning practices.

### **New learning environments in Christchurch**

Waitākiri School, in Christchurch, was created by merging Burwood and Windsor Schools following earthquake damage to school land and buildings, and the red zoning of significant areas of their catchments. Waitākiri operated from two sites during 2014 and 2015. It moved into its new buildings at the start of 2016.

Waitākiri School believes that teaching and learning is most effective when it's social and collaborative. The school now operates in 'learning studios'. Students have a 'homeroom' teacher, as well as other teachers and staff that work within their learning space.

This approach is working well for students. "I think it is better having two or more teachers because you get the best of both worlds," says one Year 6 student. "I can go to one teacher for maths extension because I know she is great at that and to another teacher for IT support because he is great at that. Basically having two teachers means we have two times the knowledge to help us learn."

### **Contributing to the Canterbury rebuild**

The Government is investing \$1.137 billion in rebuilding, remodelling and renewing schools in the greater Christchurch area over 10 years, as well as investing close to \$400 million to help rebuild tertiary provision in Canterbury. Through the CSR programme, 115 schools in the greater Christchurch area are undergoing redevelopment ranging from repairs to relocating and building new schools.

Since securing the funding for the programme in November 2013, the Ministry has designed and built seven schools, 11 schools were in construction and 34 were in design as at 30 June 2016. Overall, approximately 37% of funds were committed against an expected 35%, as the programme was slightly ahead of schedule as at 30 June 2016.

Every 6 months between 6 and 10 schools enter the property programme. The last of the schools will enter the programme by July 2020.

### **Investing in digital infrastructure**

With the Government's introduction of a fibre network across the country, we set out to ensure that every student in every school had access to quality ICT infrastructure and high-speed broadband. By partnering with the Ministry of Business, Innovation and Employment and Crown Fibre Holdings, we have improved the digital infrastructure.

By 30 June 2016, the total number of schools on the Network for Learning was 2,369 schools out of 2,446. By the end of 2016 all 2,446 schools will be able to connect to the managed network.

The provision of wireless network upgrades to schools that received their upgrades prior to 2010 continues and will be completed by the end of 2016. Upgrades have been provided to 400 schools and a further 35 will benefit from the project by the end of the calendar year.

In April 2016, provision was made for the 390 schools upgraded between January 2010 and August 2012 to receive a wireless network upgrade. These schools will be completed by December 2017.

### **Delivering an accurate payroll service**

The Ministry meets its obligations to provide the education payroll under a service agreement with Education Payroll Limited (EPL), a Crown-owned company established in October 2014. The payroll is the largest in New Zealand and one of the top 10 in Australasia. It pays around 90,000 teachers and support staff in approximately 2,500 schools every fortnight. EPL has focused solely on providing school payroll services and is expected to deliver an accurate, reliable payroll service.

Through its first full year of operation, the Ministry and EPL have worked together to stabilise payroll processes, reduce risk and provide a better experience for schools. EPL's key performance indicators have been met, and there have been improvements in key areas such as the End of Year/Start of Year (a typically busy time of year for schools with high volumes of payroll instructions to be processed over a short period of time).

The Ministry has been working with EPL on their strategic review to set the direction for the long-term sustainability of the company and the services it provides. This work will culminate in a detailed business case for shareholding Ministers in 2016/17.

### **Supporting the sector with their health and safety responsibilities**

The Health and Safety at Work Act 2015 came into force on 4 April 2016. We have provided extensive support and guidance to the sector to enable it to meet the changes, as well as improving the Ministry's own health and safety systems.

Support for the sector included the production of tailored practical guides (one for schools and one for ECE services) with sample policies and tools. We delivered 76 health and safety workshops to board of trustee chairpersons and school principals, which were attended by over 2,600 people. Our sector-facing health and safety website has had over 160,000 views and we have added a new 'Health and Safety' landing page for school property-related health and safety matters. We also have a trained senior advisor in each region to provide ongoing support to schools and ECE services.

## Every child and student achieves educational success

New Zealand needs an education system that delivers high-quality educational outcomes from early childhood, through schooling and into tertiary education. Every student, no matter their background or needs, should be supported to meet their potential.

### Improving educational achievement results

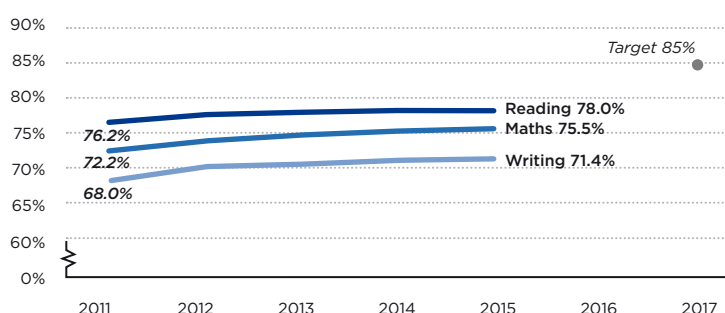
The success of our future society and economy requires getting better educational achievement with less disparity. Equitable achievement for Māori, Pasifika and students from low socio-economic backgrounds is a major priority, and our focus is on ensuring the system settings are in place to support those outcomes.

### Improving performance for National Standards

National Standards measure student achievement against the *New Zealand Curriculum* for English-medium schools in primary and intermediate school for Years 1 to 8.

Achievement levels at or above National Standards for 2015 in reading, writing and maths were consistent with previous years. Overall, however, achievement for Māori and Pasifika across the three standards is lower than for other groups and various initiatives are targeted to address this (see pages 22 to 25).

#### Indicator 2 Increase enrolled students at or above National Standards levels, per 100 students



(All numbers %)		2014	2015	Change (% points)	2017 target
Reading	All	78.0	78.0	-	85.0
	Māori	68.6	68.8	▲ 0.2	85.0
	Pasifika	65.0	66.0	▲ 1.0	85.0
	Decile 1-3	65.0	65.5	▲ 0.5	85.0
Writing	All	71.1	71.4	▲ 0.3	85.0
	Māori	61.2	61.6	▲ 0.4	85.0
	Pasifika	59.7	60.6	▲ 0.9	85.0
	Decile 1-3	57.9	58.7	▲ 0.8	85.0
Maths	All	75.2	75.5	▲ 0.3	85.0
	Māori	65.0	65.4	▲ 0.4	85.0
	Pasifika	61.9	63.3	▲ 1.2	85.0
	Decile 1-3	62.5	63.3	▲ 0.8	85.0

Although evidence from the *National Standards School Sample Monitoring and Evaluation Project* report suggested that overall teachers' judgements lacked dependability in 2014, we know that schools are increasingly addressing achievement relative to the standards and targets. More students rated 'below' or 'well below' the standards are being identified for and receiving targeted teaching interventions.

### Improving performance at NCEA Level 2 or equivalent qualifications

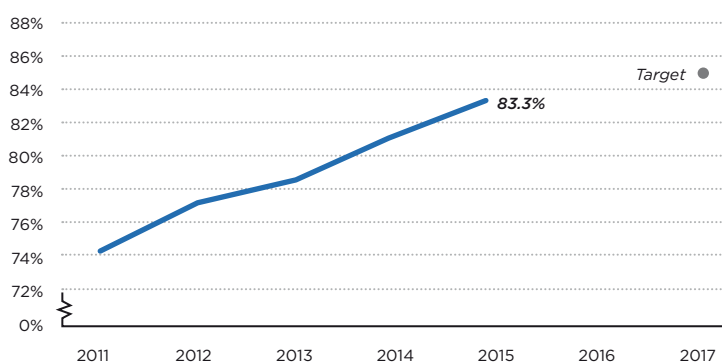
The National Certificate of Educational Achievement (NCEA) measures achievement at secondary school. NCEA Level 2 is the minimum qualification that young people need to progress to further education or training and employment. The Government has set a BPS target for 85% of 18-year-olds to have achieved NCEA Level 2 or an equivalent qualification in 2017.

The 2015 NCEA Level 2 achievement result for all 18-year-olds is 83.3%, a nine percentage point increase since 2011. We are on track to achieve the 85% target by 2017 and are increasing our support to schools and students to ensure this is met.

A challenge for the education system is to ensure that the whole population, including Māori and Pasifika, benefit from this increase. The 2015 NCEA Level 2 achievement result for Māori 18-year-olds is 71.1%, a 14% increase since 2011. For Pasifika it is 77.6%, a 12% increase since 2011. These increases may not be enough for Māori to achieve an equitable 85% target. Additional support is being directed towards these students, tailoring education and learning opportunities to ensure their achievement in NCEA and post-secondary qualifications.

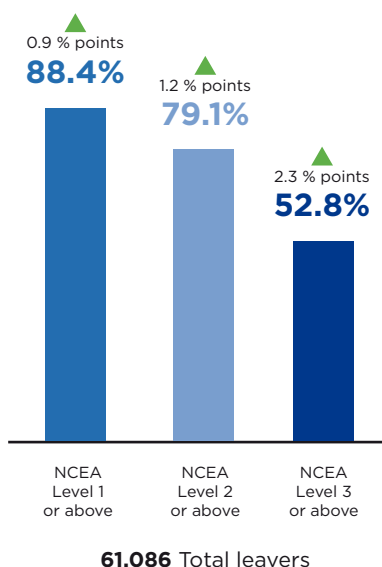
Generally, school leaver attainment has increased across the board, but at a slower rate in 2015 compared to previous years. Students are staying at school longer and gaining higher qualifications.

#### Indicator 3 Increase the proportion of 18-year-olds with NCEA Level 2 or equivalent qualification *Better Public Services: Boosting Skills and Employment, Result 5*

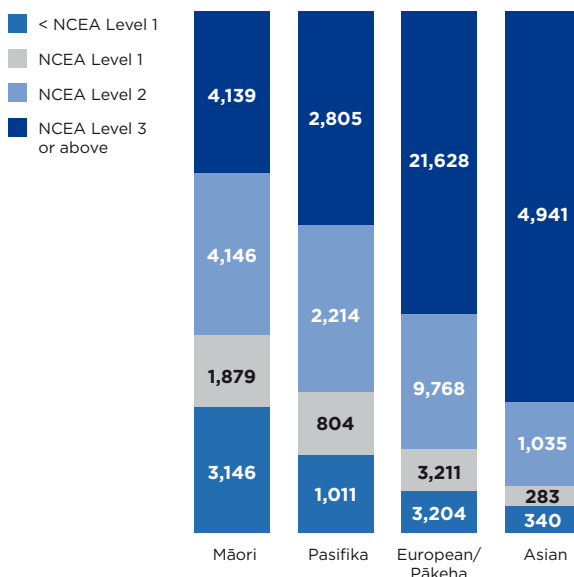


Year to December (All numbers %)	2014	2015	Change (% points)	2017 target
<b>All</b>	<b>81.2</b>	<b>83.3</b>	<b>▲ 2.1</b>	<b>85</b>
Māori	67.7	71.1	▲ 3.4	85
Pasifika	75.0	77.6	▲ 2.6	85
Decile 1-3 schools	71.6	75.0	▲ 3.4	85

### Qualified secondary leavers with NCEA qualifications 2015



### School leaver highest qualification Number of students 2015



## Implementing Communities of Learning | Kāhui Ako

Research shows that within schools the quality of teaching has the biggest influence on whether students succeed. We have some of the best teachers and leaders in the world. However, there are barriers to sharing best practice and working together.

We are in our third year of implementing Investing in Educational Success. This is a multi-year programme to further lift student achievement and share teaching and leadership practice through three broad initiatives:

- investing in quality leadership and teaching through Communities of Learning | Kāhui Ako
- supporting innovative teaching via the Teacher Led Innovation Fund
- using the Principal Recruitment Allowance (PRA) to attract high-performing principals to high needs schools.

### Establishing Communities of Learning | Kāhui Ako

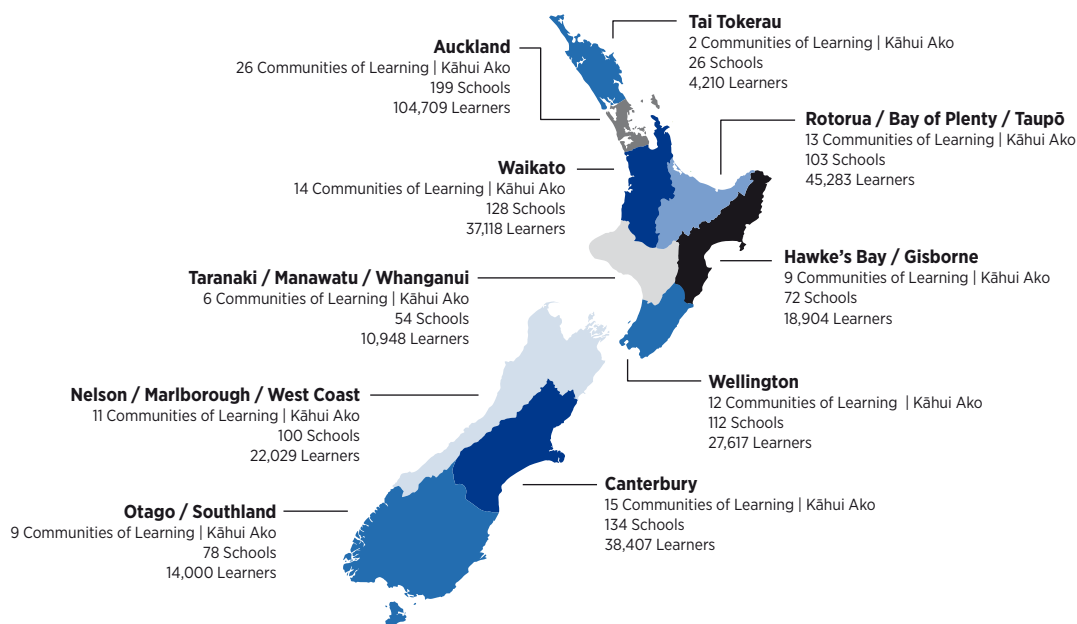
The creation of Communities of Learning | Kāhui Ako allows groups of schools, kura and early childhood services to come together to raise educational achievement and provide a pathway from ECE to tertiary education.

Boards of trustees of schools and kura in Communities of Learning | Kāhui Ako receive operational funding and staffing support for forming and maintaining their Communities of Learning | Kāhui Ako.

As at 30 June 2016, there were 117 Communities of Learning | Kāhui Ako spread throughout the country, consisting of over 1,000 schools (42% of eligible schools) and over 320,000 students. In the August 2016 tranche there were 31 new Communities of Learning | Kāhui Ako presented to the Minister for approval which will then represent a total of 52% of eligible schools.

We expect most schools will be part of a Communities of Learning | Kāhui Ako by December 2017. ECE and ngā kohanga reo services are beginning to join Communities of Learning | Kāhui Ako. We also expect to see tertiary providers joining or working closely with them over time.

Communities of Learning | Kāhui Ako are agreeing achievement challenges to describe their shared student achievement goals, the factors affecting achievement for students and how those factors will be addressed. As at 30 June 2016, 25 Communities of Learning | Kāhui Ako had finalised their achievement challenges in areas such as reading, writing, mathematics and NCEA achievement. A full list of each Community's achievement challenge is available on our website.

**Communities of Learning | Kāhui Ako 30 June 2016****Supporting Communities of Learning | Kāhui Ako**

To support Communities of Learning | Kāhui Ako to build collaborative practices, develop, then meet their achievement challenges, Professional Learning and Development (PLD) support from existing PLD funding is being tailored to their implementation needs.

To ensure that the investments in data, collaboration and PLD combine to their best effect, we are making expert partners (academics and expert practitioners) available for Communities of Learning | Kāhui Ako. This will support accurate diagnoses of the learning challenges and appropriate pedagogy to respond, set and measure the actual impact on student learning and achievement.

To optimise the new operational framework that Communities of Learning | Kāhui Ako offer, we are exploring how bundled packages of services can be developed in the areas of property management, back-office business services and ICT support and we are creating a menu of external providers. In time, support for additional areas can be added. Taking this approach will generate economies of scale and enable principals and teachers to focus more on their core business of raising student achievement.

**Investing in leadership and supporting high-quality teaching**

School boards can apply for a PRA. The allowance is designed to help attract a wider pool of experienced applicants to a vacant principal role in our struggling schools. It will help New Zealand's most high-need schools and kura attract highly effective principals who can provide the leadership needed to lift student achievement. A total of 38 schools have expressed an interest in offering the PRA and, of these, 19 had been approved to offer it by 30 June 2016 and 11 principals had been appointed with the allowance.

We expect that each Community of Learning | Kāhui Ako will have a number of teachers sharing their subject and practice expertise to get the best out of the combined strengths of their colleagues. Teachers are also provided with new career opportunities through opening their classrooms as models of learning for other teachers within schools that are part of a Community of Learning | Kāhui Ako.

There are now over 300 across-school and within-school teachers appointed to the new roles.

## No school is an island

A group of schools in West Auckland are collaborating by sharing their knowledge and ideas to help all their students to achieve.

The Waitakere Community of Learning | Kāhui Ako is made up of 12 West Auckland schools: Birdwood School, Henderson North Primary, Holy Cross School, Pomaria Primary, Ranui Primary, St Paul's School, Summerland Primary, Western Heights Primary, Henderson Intermediate, Liston College, St Dominic's College and Waitakere College.

"The process of bringing the schools together started in late 2014 and took time, but from a broad and varied place we emerged with a shared purpose and vision," Waitakere College deputy principal and Community of Learning | Kāhui Ako leader Shona Smith says. "It's important each school in the Community of Learning | Kāhui Ako maintains its uniqueness and is successful, but it's just as important for each school to work together to maximise teaching quality and lift educational achievement for every student."

By combining resources, the schools that make up the Waitakere Community of Learning | Kāhui Ako are now working to address particular areas that need positive change; that change includes raising achievement levels for Māori and Pasifika students in reading, writing and maths, increasing the percentage of Māori and Pasifika leaving school with NCEA Level 2 or higher and improving the retention of Māori students.

## Supporting innovative teaching

The Teacher-led Innovation Fund is an \$18 million pūtea/fund running to June 2020. It supports the development of innovative and effective teaching practices to improve learning outcomes and share the innovations that work across schools so that they become common practice. Improved learning outcomes are sought for Māori and Pasifika students, students with special education needs, and children and young people from low socio-economic backgrounds.

We have received 309 initial proposals and 134 full applications from schools for teacher-led research projects, of which 86 projects were successful in winning \$6.27 million of funding.

We expect the first analysis of project outcomes later in 2016. For research projects completed since the inception of the fund, so far 100% have resulted in the spread of new teaching practices.

The second tranche of 46 projects (\$3.6 million) began implementation on 1 July 2016.

## Supporting Māori students to achieve their full potential

Nearly one in four students in our total student population is Māori. We have continued to progress the strategy in *Ka Hikitia – Accelerating Success 2013-2017*, which sets out our commitment to improve outcomes for Māori students through the education system.

Despite our focus, these students still face significant inequity which increases as they go through the education system. Māori children are:

- 3%** less likely to participate in early learning before starting school
- 19%** less likely to be achieving at or above National Standards
- 22%** less likely to achieve NCEA Level 2.<sup>2</sup>

<sup>2</sup> These statistics are calculated as Māori students compared to non-Māori students.

### Targeting efforts to improve results

Our efforts are succeeding in raising Māori achievement and reducing disparities in many areas. Significant improvements have been made in early years and NCEA, but achievement in primary has not improved.

We have continued to provide a range of resources to engage, support and accelerate students' learning in both Māori and English-medium education settings. We have implemented Mauri Tū Mauri Ora, delivering literacy and numeracy programmes and tools in Māori-medium schools and kura to accelerate progress and raise achievement for ākonga identified as priority learners in Years 1 to 8.

Our targeted initiatives for students at-risk of not achieving (page 29) also support Māori, and we are seeking to boost tertiary achievement as outlined on pages 36-37.

### Engaging parents, whānau and iwi

We continued to provide information and resources, through workshops, community presentations and regional events, for parents and families to support their child's education. Through this work, we have identified consistent knowledge gaps. Our future efforts will address these to increase parents' confidence to engage with learning centres and support their children's learning.

We have relationships with a number of iwi organisations, recognising they can significantly influence and support achievement of education outcomes for Māori.

In 2015/16, we had shared outcome agreements with 29 iwi. Through these agreements, iwi developed and implemented learning support programmes and provided direct support for:

- the parents/families of 3 to 4-year-old children, to enable their participation in ECE services
- primary students (Years 1 to 8) at risk of not achieving literacy and numeracy standards (as measured through National Standards/Ngā Whanaketanga)
- 16 to 17-year-olds at risk of not achieving NCEA Level 2.

We have recently partnered with Te Wānanga o Aotearoa to establish Ka Hikitia Express to Success hubs in Northland, Auckland, Waikato, the Bay of Plenty and Tairāwhiti. Similar to the Pasifika PowerStations, these hubs provide weekly sessions which focus on enabling Māori parents/families to support their children's learning, and specific support for Māori 16 to 18-year-olds undertaking NCEA Level 2 or an equivalent qualification. While the focus is on 16 to 18-year-olds, children of all ages are welcome at the hubs, ensuring the entire whānau is benefitting from the focused support to improve education outcomes.

### Supporting Māori language and culture in education

Māori students' learning achievements are strongly linked to their wellbeing from having a clear sense of identity and foundation in Māoritanga. Achievement data shows that Māori students in Māori-medium education settings acquire NCEA qualifications at rates higher than Māori in English-medium settings.

We worked across the Ministry and with education sector agencies to improve the alignment and accountability of initiatives targeted at learners of te reo, aligning them with the priorities expressed in *Tau Mai Te Reo – The Māori Language in Education Strategy 2013-2017*.

Most Māori students (66.8%) are learning te reo in an English-medium setting. Only (9.5%) of Māori students learn te reo in Māori-medium education.

## Supporting Pasifika students to achieve their full potential

### Targeting effort to achieve improved results

The *Pasifika Education Plan 2013-2017* (PEP) sets out Ministry and education sector activities designed to accelerate and raise the educational achievement for Pasifika learners. The PEP puts Pasifika learners, with their parents, families and communities, at the centre of the education system. This is so that all initiatives respond to the identities, languages, cultures and aspirations of each Pasifika group and deliver a consistently high-quality and effective education for Pasifika success.

Our targeted initiatives for students at-risk of not achieving (page 29) also support Pasifika, and we are seeking to boost tertiary achievement as outlined on pages 36-37.

Over the past year, the educational outcomes for Pasifika students have improved with:

- increased participation in ECE
- higher levels of attainment of National Standards and NCEA Level 2.

### Engaging Pasifika parents, families and communities

A core element of implementation of the PEP is Pasifika PowerUP, an education programme which actively helps Pasifika parents and families to support their children's learning, and provides academic assistance for secondary and primary students. Delivered at 15 PowerStations in community settings, PowerUP is helping accelerate Pasifika participation in early learning, and engagement and achievement in National Standards and NCEA.

Benefits are already visible from the nationwide rollout of the PowerUP programme in 2015. Over 1,700 families were involved, with high numbers of secondary and primary students eager for extra support. Parents and families are gaining a better understanding of the education system. They are becoming more confident to support their children's education, engaging more often with their teachers and schools, and are better placed to make informed decisions to help their children's learning.

Together with our education sector partner agencies, we have established partnerships with national Pasifika organisations and church communities to leverage off their network of Pasifika parents and families and better engage parents and families in their children's education.

These partnerships seek to identify areas where we can collaborate to raise the value of education and drive actions and innovations that support Pasifika learners to become successful achievers in education.

Through our Pasifika Organisations Partnership Strategy, we have worked with the Tamariki and Youth of Manukau Trust, a social service provider handling referrals from Child, Youth and Family. This has strong connections with vulnerable families living in Otara North. The Trust has enrolled almost 40 pre-school children who were not previously engaged in ECE, as well as receiving Targeted Assistance Programme funding to build an ECE centre by December 2016.

We have also worked with each Pasifika church denomination, through our Pasifika Church Partnership Strategy, to champion our Early Learning Taskforce work, help co-construct early learning solutions and increase demand for ECE.

### PowerUP – accelerating engagement

In 2015, 15 PowerStations delivered an 18-week programme which meant participants could spend more time familiarising themselves with information and putting their newly acquired knowledge into practice.

It was noted that not only were parents and caregivers attending with their young people, but grandparents, aunts, uncles, older siblings and church youth leaders also stood in for parents when registering and bringing children to the PowerStations.

The programme achieved a number of positives on a national level including:

- a dedicated channel with Pasifika parents, students, families and communities that we can utilise when needed such as for consultation around the Education Act Update
- a presence in remote areas across New Zealand where Pasifika would normally have been excluded. For example we received positive feedback from these communities in Rotorua and Dunedin regarding their PowerStation and have seen strong community support for the PowerStation and the provider
- high engagement and participation by parents and students, particularly in the third and fourth terms.

The PowerStations were located across the country, including Christchurch, Dunedin, Rotorua, Auckland and four in the Wellington region. With 72% of all Pasifika students living in the Auckland area and almost 50% of that number living in Manakau, eight PowerStations were placed in Auckland.

### Strengthening inclusion

We want a fully inclusive education system where all children get the learning support they need to make progress and achieve to their very best throughout their education.

#### The Learning Support (previously Special Education) Update

During 2015, we engaged widely about proposed improvements to an inclusive education system for all children and young people. We held 156 engagement forums with over 3,650 people across New Zealand, including parents, families and educators. The Learning Support Update is looking at the whole education system from early childhood through to tertiary education.

The engagement findings were released in December 2015, together with the *Update Action Plan*. At the same time we began a number of local projects to start making immediate improvements to our current specialist services while building readiness for further change.

#### Implementing immediate improvements

Most local projects focus on children and young people's transitions through the system and the early identification of their support needs. We are collaborating locally with sector partners including resource teachers, special schools, early learning centres, schools and Communities of Learning | Kāhui Ako.

We are already seeing early results from these projects, including:

- better transitions from ECE to primary school
- simpler processes for parents and educators to access the support their children need
- earlier and better support for early childhood learners.

## Modernising learning support

Since the end of 2015, we have continued working with our sector partners and others to design a simpler and more inclusive education system.

We are strengthening inclusion and modernising learning support in four key ways:

- developing an outcomes framework with clear measurable goals to strengthen accountability and provide system-wide performance information
- improving investment decisions for earlier interventions that are based on understanding learners' needs and what services work for whom
- reviewing priority specialist services to improve flexibility
- more effective and simpler services that are easier to access, timely and appropriate.

We started the detailed design of a new service delivery model that is child-centred, collaborative, features learning plans for individuals and has a single point of contact and accountability. The Minister of Education released Cabinet decisions on the Ministry's next steps and we are aiming to start national implementation from 2017.

## Maintaining and improving services

During 2015/16, we have directly provided or funded specialist services and support to over 35,000 children and young people with additional learning needs.

We have reduced the average length of time children and young people have to wait for support to be provided following a referral, from almost 80 days in January 2016 to 73 days by June 2016.

We continued to fund resource teachers to work with teachers, schools and kura to support over 15,000 Year 1 to 10 students with learning and behavioural difficulties. These resource teachers have a particular focus on supporting Māori and Pasifika students, and children and young people moving into state care.

Our Intensive Wraparound Service (IWS) has supported over 320 children and young people who were struggling to stay at school and learn. These children struggle due to their highly complex and challenging educational, behavioural and social issues at school, in their families and whānau, and within their communities. The *Patterns of Student Progress in the Intensive Wraparound Service* report released in March 2016 showed that children have benefitted significantly while receiving IWS support.

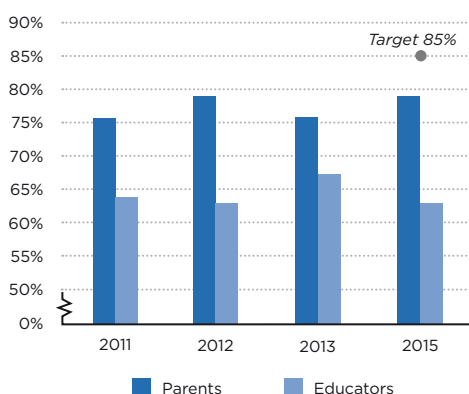
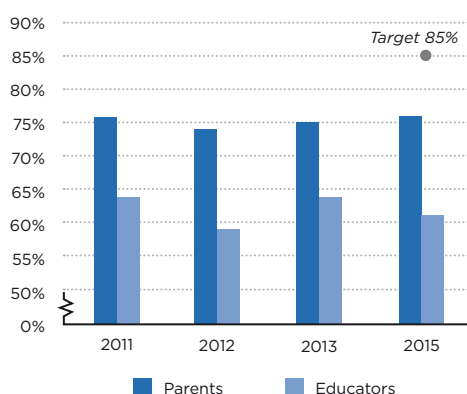
We continued to monitor the satisfaction of parents and educators of children and young people who receive a special education core service from the Ministry. The number of children receiving a special education core service continues to increase, reflecting in part the increases in both the pre-school age population and school rolls. The number of children receiving our early intervention services has further grown due to the increased participation in ECE as this is where most of our referrals for that service come from.

Our 2015 client satisfaction survey found:

- 71% of respondents (78% of parents and 63% of educators) were satisfied with the overall quality of the services provided
- 69% of respondents (76% of parents and 61% of educators) were satisfied with the child's progress after receiving the service.

Both of these results fell short of our stretch targets of 85%.

The two areas that parents and educators were most satisfied with were being treated fairly (83%) and the competence of our special education staff (80%).

**Parent and educator satisfaction with the Ministry's special education services***Satisfaction with the overall quality of service delivery**Satisfaction with child's progress*

**Note:** No annual survey was undertaken in 2014.

We have a number of initiatives underway to improve parent and educator satisfaction in the future:

- undertaking a number of service improvement projects across the country as part of the Learning Support Update
- increasing practitioners' use of an Outcome Measurement Tool, which helps quantify the progress made by each child after receiving a special education service
- ensuring more communication with parents, educators and other members of the team around the child
- targeting our staffing better to provide specialist services more quickly and reduce waiting times and waitlists
- undertaking more detailed analysis of the 2015 survey to inform medium and longer-term improvement actions.

### Strengthening capability and inclusive practice

We have developed a range of resources to improve inclusive practice in schools including:

- an inclusive education website with more than 20 'how to' guides to help teachers and school leaders meet the needs of diverse learners
- inclusive practice and the school curriculum website, which gives practical strategies to adapt teaching and learning activities

- videos from New Zealand classrooms, teachers, teacher aides and students looking at how to support learning and positive student outcomes.

We also delivered training to around 1,800 resource teachers, learning support coordinators, deputy principals and staff on these new resources and the inclusive themes within them.

### Lifting education outcomes for students at risk of not achieving

We are working to ensure that we have a more student-centric education system that supports every learner to be successful. Strong foundation skills and support for students at risk of not achieving need to be the norm and not the exception.

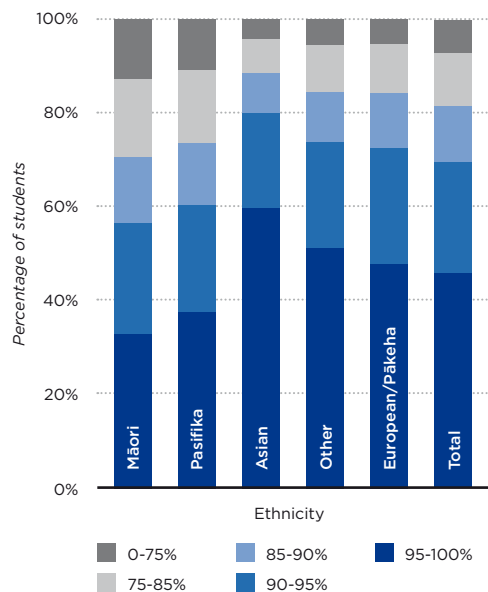
### Better monitoring and improved participation

Participation in education has a significant impact on students' achievement levels. Every day a student is not at school is a day they are not learning and we all have a part to play when it comes to keeping students in class. Schools, along with parents and guardians, are legally responsible for ensuring children are attending.

Our current measure of the national average attendance rate (see page 58) is based on a week-long national snapshot and showed an increase from 88% in 2014 to 90% for 2015.

In 2015/16, we expanded the scope of the annual attendance reporting to include measurement of attendance across the whole of Term 2, with a student who attended more than 90% of half days classified as attending school regularly. This does not mean we regard 90% as adequate for learning; it is the threshold we are using to benchmark attendance. This information should help school leaders and other education sector representatives understand patterns of attendance in New Zealand schools and how these affect achievement.

Half-day attendance in Term 2 2015 by ethnicity



In 2015, 69.4% of students attended school regularly compared to 68.7% in 2014. Māori and Pasifika students had the lowest regular attendance rates, 56.7% and 60.6% respectively. Our analysis of Years 7 to 11 students in 2015 also showed that attendance in Years 9 to 11 was the most significant predictor of achieving NCEA Level 1 in Year 11. This indicates that it is never too late to raise a student's chances of achieving by improving their attendance.

We provide a range of support for schools to address poor attendance, and in the most severe cases of non-attendance schools can request the support of the integrated Attendance Service. About 71% of schools (1,720) are signed up to use the service, up from about 60% (1,488) in 2014.

In 2015, age-standardised stand-down rates fell for the ninth consecutive year, and age-standardised stand-down, suspension and exclusion rates are at their lowest in 16 years of recorded data. Schools continue to stand-down, suspend and exclude more Māori students than any other ethnic group.

Per 1,000 students	2014	2015	Change
Stand-downs	19.8	19.4	▼ 0.4
Suspensions	3.7	3.6	▼ 0.1
Exclusions	1.4	1.4	No change
Expulsions	1.2	1.6	▲ 0.4

Male students are more than twice as likely to receive a stand-down, suspension or exclusion, and over four times more likely to be expelled than females. Expulsions can only be received by learners aged 16 and over, where there is no requirement that they stay in the schooling system.

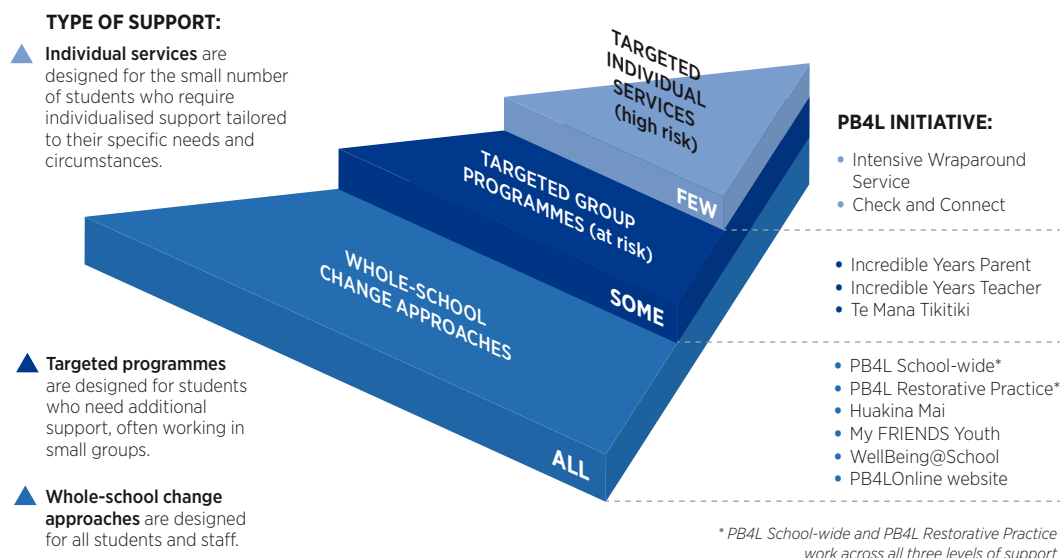
### Creating a positive environment for learning

Positive Behaviour for Learning (PB4L) is a long-term, systemic approach involving several initiatives. These include whole-school change initiatives, targeted group programmes and individual student support services. These initiatives help parents, whānau, teachers, early childhood centres and schools address problem behaviour, improve children's wellbeing and increase educational achievement.

The diagram on page 29 illustrates how PB4L initiatives work together to create a portfolio of interventions and supports.

During 2015/16, the New Zealand Council for Educational Research (NZCER) reported on the evaluations of three PB4L initiatives – PB4L School-Wide, Incredible Years Teacher (IYT) and Check and Connect.

## PB4L portfolio of interventions and supports



With more than 680 schools implementing the framework, PB4L School-Wide benefits over 270,000 students. The evaluation found the programme had several positive impacts, such as decreases in stand-down, suspension, exclusion and expulsion rates, increases in student engagement and decreases in major behavioural incidents.

To December 2015, the IYT programme had been delivered to over 12,000 teachers and early childhood educators. The evaluation completed in 2015/16 reported large positive differences in target students' engagement and learning, teachers' confidence in managing student behaviour and frequent use of new IYT teaching techniques.

Check and Connect has been piloted in 20 schools with 255 students participating. The 2015/16 NZCER evaluation of this programme showed an increase in wellbeing with the majority of participants reporting they had a clearer sense of their own strengths and better ways of dealing with things that used to upset them.

We have developed a range of resources and information for schools, parents and other organisations and launched the interagency website ([bullyingfree.nz](http://bullyingfree.nz)) during the inaugural Bullying Free Week in May 2016.

We also published the 2015 edition of *Bullying Prevention and Response: A Guide for Schools*, which was developed by the Bullying Prevention Advisory Group, chaired by the Secretary for Education. It emphasises the role of the community in preventing bullying and supports schools to create positive environments in which bullying cannot thrive.

### Targeted initiatives to provide additional support

Year 9 Plus is an initiative that tests whether we can change outcomes (for students who traditionally would not attain a Level 2 qualification) by intervening early.

Through a trial in the wider Gisborne region, approximately 100 Year 9 students have been matched with Champions from their communities to support (and learn from) their journeys. The Champions will follow this cohort through their secondary education until they leave school.

In 2015/16, we developed and implemented Count Me In which is a multi-partner 'impact' intervention, a 2-year programme ending in June 2017. This programme:

- provides targeted and tailored support to Māori and Pasifika 16 to 18-year-olds who are outside the education system to re-engage in learning and attain NCEA Level 2 or an equivalent qualification

- complements efforts by the Ministry and other education agencies to rapidly lift outcomes for Māori and Pasifika young people within the formal education system.

To monitor progress, we use case management data from reports on each young person's progress through the stages of the Count Me In intervention methodology. This also enables us to identify emerging issues, and work proactively with parents/families, providers and/or other agencies to address these.

We also developed the At-Risk of Not Achieving (ARoNA) initiative. ARoNA aims to ensure at least 85% of Māori and 85% of Pasifika 18-year-olds achieve NCEA Level 2 or equivalent in 2017. We worked with secondary schools to identify and secure additional supports for those students at risk of not achieving NCEA Level 2 or an equivalent qualification.

Twenty-eight Service Academies were supported through 2015 with the core performance measures being surpassed. Eighty-one percent of students remained with the school throughout the 2015 academic year and, of those students, 83% finished the year with NCEA Level 1 Literacy and Numeracy. A new Academy was added in Kaitaia for 2016, bringing the total to 29.

For information on Trades Academies see pages 34 and 35.

### Providing Partnership Schools as another schooling option

The Government has continued to invest in Partnership Schools to provide another option to help raise educational achievement, in particular for groups of students who have been under-served by the mainstream system.

Nine Partnership Schools/Kura Hourua Schools were operating at the beginning of 2015 in Auckland and Northland, and a third round of procurement was conducted in 2015/16 with contracts for two further schools currently being prepared. The contract for one school – Te Pūmanawa o te Wairua in Whangarei – was terminated, and the Ministry worked with the school's Trust Board, students and whānau to help the students to transition to other education options.

While it is too soon to be able to fully assess the impact Partnership Schools have had in providing positive educational outcomes, the schools appear to be achieving positive results for students. Information, including reporting by schools on performance measures, is being proactively released on the Ministry's website.

## New Zealanders have skills and knowledge for work and life

New Zealand needs an education system that provides people with the knowledge and qualifications they need to be successful in life and in an increasingly global economy.

The *Tertiary Education Strategy 2014-2019* sets the Government's priorities to improve the contribution of tertiary education to New Zealand. The Strategy contributes to the Government's ambitious goals, through the BPS targets and Business Growth Agenda, to improve economic and social outcomes for all New Zealanders. It has six strategic priorities:

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

These priorities demonstrate a shift towards a more relevant tertiary education system with strong links to industry, the community and the global economy. During 2015/16, we continued to work with the sector and other agencies to implement the Strategy and deliver more relevant, responsive tertiary education that supports all New Zealanders to succeed.

### Delivering skills for industry

All students need to know the skills and qualifications that are valued by employers, and that will enable them to build a career and achieve their goals. As well as giving students better information, we are using this information in strategic planning and investment decisions.

### Boosting workforce skills

On average, people with higher levels of qualification are more likely to participate in the labour market, face lower risks of unemployment, have greater access to further training and receive higher earnings.

The financial returns for completing high-level tertiary qualifications are strong. In 2015, the earnings of New Zealanders with a bachelors degree or higher qualification were 65% higher than for people with no qualification.<sup>3</sup> People with a tertiary qualification are also less likely to be unemployed than those with no qualifications.

As the number of young people achieving NCEA Level 2 increases, we need to focus on progressing young people into NCEA Level 3 and further education at Level 4 or above. The Government has a BPS target to increase the percentage of 25 to 34-year-olds who have a qualification at Level 4 or above. In 2012, a target of 55% for 2017 was set. In 2014, the Government revised the target to 60% as it was expected the 55% target would be met before 2017.

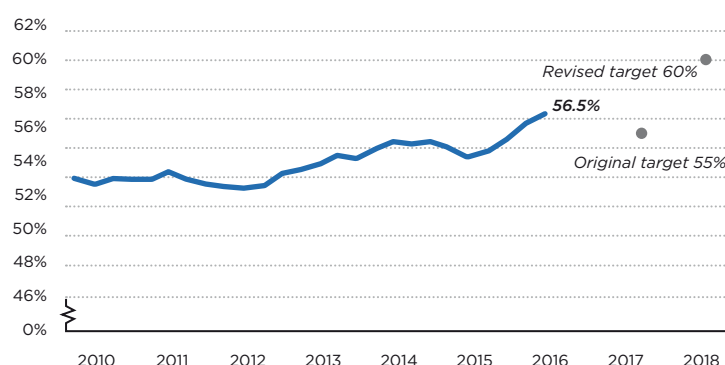
In the year to June 2016, 56.5% of 25 to 34-year-olds had a qualification at Level 4 or above, up from 53.5% in the year to June 2015.

We continue to address system issues to ensure schools and tertiary providers have progression pathways linked to industry needs, and approaches to support all young people in their transition into study at Level 4 or above, and into careers.

<sup>3</sup> Profile & Trends 2015: Tertiary Education Outcomes and Qualification Completions.

**Indicator 4** Increase the proportion of 25 to 34-year-olds with advanced trade qualifications, diplomas and degrees (at Level 4 or above)

*Better Public Services: Boosting Skills and Employment, Result 6*



(All numbers %)	Jun 2015	Jun 2016	Change (% points)	Revised target 2018
25 to 34-year-olds	53.5	56.5	▲ 3.0	60.0

**Sharing and using information more effectively**

Most students expect their tertiary study will get them a job and improve their career prospects. However, these expectations are often based on unreliable data and anecdotes. From 2017, provider-level employment outcomes information on things such as employment rates and earnings for graduates will be published to help prospective students make good decisions about what and where to study. During 2015/16, all universities, institutes of technology and polytechnics, wānanga and a large number of private training establishments consented to the release of their data. We also worked with the Industry Training Federation to determine the most appropriate data to extract to measure outcomes for industry training organisations.

The Student Loan Scheme valuation is an annual process to ensure we have strong, reliable information about the costs and performance of the scheme. This information helps us focus on improving affordability and outcomes for students and government.

During 2015/16, following monitoring of student loan borrowing limit policies, we introduced changes to increase the support available to graduate-entry students studying long professional undergraduate programmes. Graduate-entry students in medicine, dentistry, optometry and veterinary science can now access government assistance to pay their tuition fees for 1–2 years longer than previously.

**Improving employer linkages**

Through initiatives such as ICT Graduate Schools and Trades Academies, the Ministry and our partner agencies have encouraged stronger links between providers and employers. These initiatives include new approaches, such as internships, clusters and employers working directly with tertiary education providers to establish effective pathways and partnerships, to support programme development and course design.

During 2015/16, we engaged in over 45 secondary-tertiary-industry partnerships to support the development and implementation of sustainable pathways from secondary to tertiary education and employment. We also worked with regional economic development agencies to ensure education plays a central role in economic development.

### A more effective tertiary funding system

During 2015/16, we worked across the tertiary education sector to improve the effectiveness and efficiency of the funding system so it can better meet demand and promote relevance.

Following a review of appropriations, the Government has increased the flexibility of funding. This has eliminated the timing issues which previously prevented the TEC from reallocating funding across tertiary education organisations, for example, when there were changes in student demand.

In 2015/16, we used the New Zealand Benchmarking Tool (NZBT) to establish where there are imbalances between funding and costs. The NZBT provides a consistent approach to allocating income, expenditure and equivalent full-time student data to different areas of institutional activity. This analysis informed our Budget 2016 advice on tuition subsidies. This resulted in targeted tuition funding increases for science at degree-level and above (5%), agriculture and horticulture at degree level and above (16%), veterinary science at degree level and above (9%) and undergraduate medicine (6%) announced at Budget 2016.

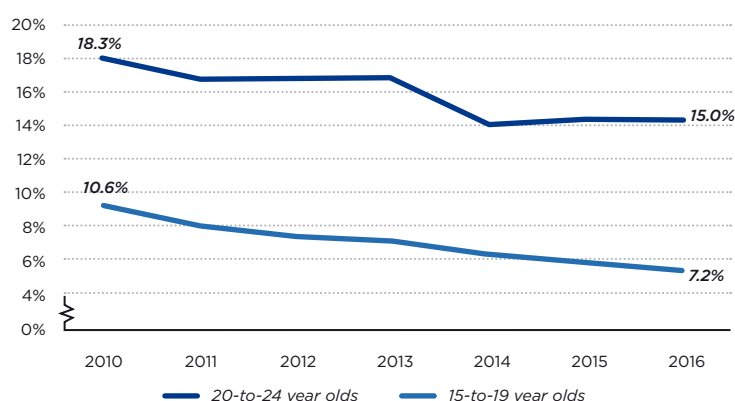
To direct investment away from low value delivery, we provided advice on the use of national-level employment outcomes data. The TEC used this to inform their investment plan negotiations with tertiary education organisations in 2015/16. We also supported the Ministry of Business, Innovation and Employment to develop advice on the use of skills and occupational demand forecasts to identify areas of potential equivalent full-time student growth. This was part of the 2017/18 Investment Plan round.

During 2015/16, we worked with the Ministry of Social Development's Youth Service to improve how it operates with education programmes (for example the Youth Guarantee programme) so that services are targeted to those young people who most need them.

### Getting at-risk young people into a career

New Zealand has a significant proportion of young people who are not in education, employment or training. To help them succeed, we are working to increase education retention and reconnect those who have already left the system.

#### Indicator 5 Decrease the proportion of the youth population not in employment, education or training



(All numbers %) <sup>4</sup>	Year to Jun 2015	Year to Jun 2016	Change (% points)
15 to 19-year-olds	7.6	7.2	▼ 0.4
20 to 24-year-olds	15.1	15.0	▼ 0.1

<sup>4</sup> Source: Revised Statistics New Zealand data following the 2013 Census.

During 2015/16, we developed a cohort-based dataset to look at the education and labour market outcomes for young people as they move from school into tertiary education and/or employment. This will improve our understanding of the risks to participation and achievement. A preliminary report was published in June 2016 and the framework and modelling will be completed by the end of 2016. This work ensures resources are well targeted to support the success of all learners in tertiary education.

We are also making it easier for sole parents to make the decision to move off benefits and into full-time study. New rates of accommodation support for sole parents were implemented from 1 July 2015, to better align the support available across the student support and benefit systems.

### Leading Youth Guarantee

Working with the TEC, we continue to lead the Youth Guarantee programme, which is intended to increase the educational achievement of 16 to 19-year-olds by making the education system more responsive to their needs. Youth Guarantee also aims to improve retention and progress young people into further learning, training or work by providing more learning opportunities, making better use of the education network and creating clear pathways from school to work and study. The Youth Guarantee programme includes Vocational Pathways, Youth Guarantee partnerships, secondary-tertiary programmes (such as Trades Academies) and fees-free places.

We published the *Youth Guarantee Monitoring Report* for 2013 in August 2015 and developed the 2014 *Monitoring Report*. They looked at the education and employment outcomes from fees-free places and Trades Academies. They also showed that both programmes were effective at retaining young people in education and increasing the achievement of NCEA Level 2. They were also effective at improving employment outcomes. However, they are not yet effective in enabling more young people to progress to higher-level tertiary education, or in reducing the proportion of young people who are long term not in employment, education or training. The extension of Vocational Pathways to Level 3 and the launch of FindMyPath (both discussed on pages 35 and 36) will assist learners to make informed choices about higher-level tertiary education and employment pathways.

### Boosting Trades Academies

Trades Academies deliver trades and technology programmes to secondary students through partnerships between schools, tertiary institutions, industry training organisations and employers. They provide students with a greater number of study options, give them clear post-school pathways by providing a head start in training for vocational qualifications, and improve the responsiveness of schools to business and economic needs.

To help improve employment outcomes, an additional 940 Trades Academy places have been funded per year from 2016, increasing the total places available to 6,190. This means there is now one Trades Academy place per 26 students (compared to one place per 31 students in 2015). The additional Trades Academy places will support achievement of the BPS Result 5 target and equity targets.

In 2015/16, the Southern Institute of Technology was recognised as a Trades Academy lead provider, with a new Trades Academy to open in Southland in 2016. This means locally-based Trades Academies are now in every region of New Zealand.

#### Learning on the job at WelTec's Trades Academy

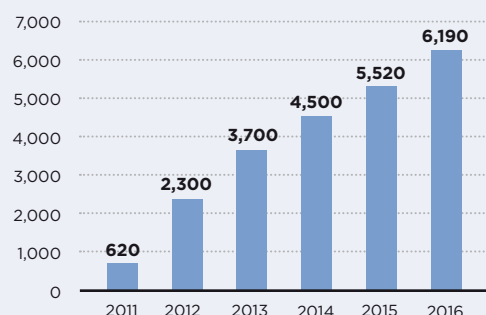
While still at school, a 19-year-old realised he had a natural ability in carpentry and excelled in it as part of his design and technology course at Wellington's Onslow College.

Signing up to WelTec's Trades Academy opened the door for him to achieve NCEA Level 2 and a Vocational Pathways Award in Construction and Infrastructure.

He is now studying towards a Level 3 Certificate in Carpentry which includes learning on the job with a qualified builder. This practical component ensures students gain the knowledge of how to operate in a real work environment and are able to learn both inside and outside the traditional classroom.

He is now on a clear pathway to his building dream and one day aims to run his own construction company.

### Trades Academies places since 2011



# 6,190

Trades Academy places for New Zealand students in 2016

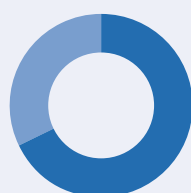
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Trades Academies place for every 26 students in 2016

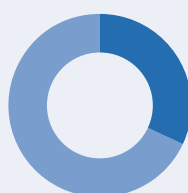
Participants in Trades Academies are more likely than a comparison group to achieve NCEA Level 2 by age 18.

COMPARISON GROUP	77%
TRADES ACADEMY PARTICIPANTS	85%

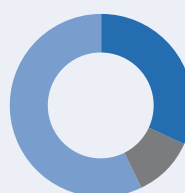
### Characteristics of 18-year-olds who had participated in Trades Academies



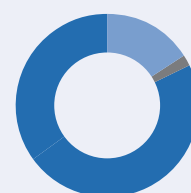
Male **68%**  
Female **32%**



Had experienced disengagement from school **32%**



Māori **32%**  
Pasifika **11%**  
Other **57%**



From low decile schools **47%**  
From medium decile **35%**  
From high decile **16%**  
Other\* **2%**

\* Mainly Te Kura Correspondence School

Our work with the TEC on Trades Academies won an IPANZ Award for Excellence in Achieving Collective Impact in July 2016. This recognises the impact Trades Academies have in motivating students to get real, hands-on experience, an NCEA Level 2 qualification and a head start in their future career.

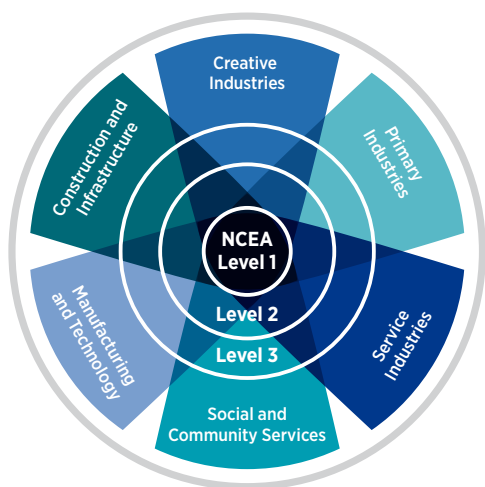
Secondary-tertiary programmes (STPs) are a partnership between schools, tertiary providers, local communities and employers to provide young people with better education and employment opportunities.

There is a growing demand for more skilled workers from New Zealand industries. Using Vocational Pathways, young people can gain the necessary foundation-level education and skills training that employers want. STPs provide more relevant learning options for them to remain in education and acquire the knowledge and skills that local communities need.

Of all the students who exited the STPs (including Trades Academies) in 2015, 77.2% (or 3,154 students) had achieved NCEA Level 2 or equivalent by the end of the calendar year. This is consistent with the 2014 result, also 77.2%, showing how STPs are able to support more at-risk students to achieve.

### Extending Vocational Pathways

During 2015/6, we refined the Vocational Pathways to ensure coherent, consistent and balanced assessment opportunities are available for learners across all six Vocational Pathways. The Vocational Pathways provide new ways to achieve NCEA Levels 1, 2 and 3 and develop pathways that progress to further study, training and employment. They align learning to the skills needed for industry, providing a framework for students to see how their learning and achievement is valued in the workplace.



The recently introduced Vocational Pathway Awards also show more students are undertaking a course of study at school that can lead to continued study, training and employment. Of the 2015 school leavers with NCEA Level 2, 29.4% had a Vocational Pathway Award. 2016 is a transition year, during which students are able to gain Vocational Pathways Awards from both the existing and refined pathways.

To improve access to tertiary education, we also extended Vocational Pathways to NCEA Level 3 in 2015/16. Level 3 is a critical bridge between school and tertiary study or training. Extending Vocational Pathways to Level 3 means students can make informed choices about study options. School-based education at Level 3 is linked with more specific vocational qualifications (at Level 3 and above) and students at NCEA Level 2 who do not intend to return to school and students at NCEA Level 3 who do not intend to go to university are supported to make decisions on their next steps.

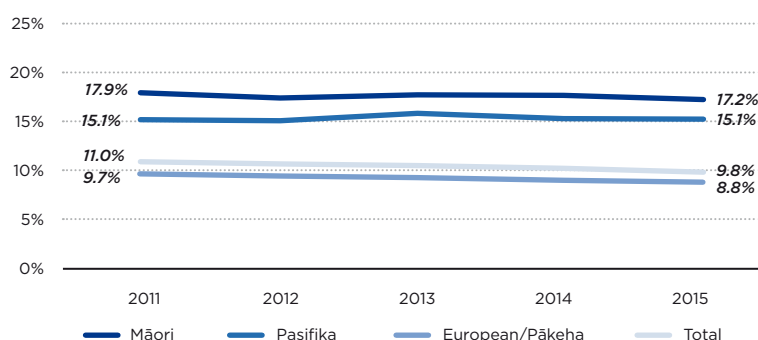
We launched the FindMyPath mapping tool from Levels 3 to 7 in June 2016. The tool provides greater understanding of the education system and supports continued learning through Vocational Pathways. FindMyPath shows that there isn't just one pathway to a career and allows students to decide which path suits them. It supports them to think about their tertiary education and future employment earlier to ensure their study options match their aspirations.

## Boosting achievement of Māori and Pasifika

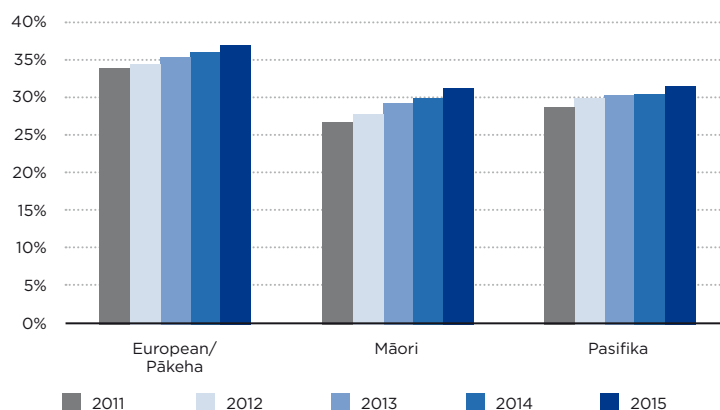
The Māori education strategy *Ka Hikitia - Accelerating Success 2013-2017* and the *Pasifika Education Plan 2013-2017* provide the context for the Government's *Tertiary Education Strategy 2014-2019*, in particular the priority to boost achievement of Māori and Pasifika. We are working to ensure the tertiary education system improves the participation and achievement of Māori and Pasifika learners through all six of the *Tertiary Education Strategy 2014-2019* priorities.

While overall rates of participation in tertiary education have been decreasing over the last five years due to factors such as improving labour market conditions and increased net migration<sup>5</sup>, Māori and Pasifika participation rates remain static. Age standardised rates of participation of Māori (14.5%) and Pasifika (11.4%) show higher participation than the rate of the general population (9.8%) and of students identifying as European (9.7%).

### Percentage of population participating in tertiary education



<sup>5</sup> The *Profile & Trends, New Zealand's Annual Tertiary Education Enrolments 2015* report provides more information on the factors driving lower participation. It is available at [www.educationcounts.govt.nz/\\_data/assets/pdf\\_file/0010/172495/Profile-and-Trends-2015-NZs-Annual-Tertiary-Education-Enrolments-Part-1-of-6.pdf](http://www.educationcounts.govt.nz/_data/assets/pdf_file/0010/172495/Profile-and-Trends-2015-NZs-Annual-Tertiary-Education-Enrolments-Part-1-of-6.pdf).

**Proportion of all bachelor's and graduate-level equivalent full-time students enrolled in STEM**

Māori and Pasifika Trades Training (MPTT) supports Māori and Pasifika to obtain practical qualifications leading to an apprenticeship and employment. It is raising awareness of trades training opportunities among young Māori and Pasifika and boosting the number of these learners achieving at higher levels. Policy changes, based on advice we provided in 2015, have contributed to MPTT growing to over 2,500 places in 2016, an increase of 63% on 2015. The Government intends to further scale up this initiative, which is already half-way to its goal of 5,000 places by 2019. Other changes included implementing a wider age range for eligibility, increased funding and introducing targets for female participation.

More Māori and Pasifika students are enrolling in science, technology, engineering and mathematics (STEM) based bachelors and postgraduate-level qualifications. The completion rates for Māori and Pasifika students are also improving at a faster rate compared with all students enrolled in these qualifications. In 2015, across New Zealand 645<sup>6</sup> full-time Māori students and 425<sup>7</sup> Pasifika students were enrolled in a STEM-focused postgraduate qualification.

Through projects such as Creating Communities of Young Engineers we are working across government to support Māori and Pasifika students to engage and achieve in STEM-related fields and increase their representation in STEM-related careers.

## Improving adult literacy and numeracy

Basic literacy and numeracy skills are essential for participating fully in New Zealand society and the economy. Further training, employment opportunities, earning potential, health outcomes, financial capability and social inclusion are all enhanced by gaining sufficient literacy and numeracy skills.

New Zealand's ranking in adult literacy has improved to fourth in the Organisation for Economic Cooperation and Development (OECD), up from 12th in 1996. This country is also amongst the world leaders in problem solving using technology, skills that are increasingly called for in today's working environments.

Although New Zealand's ranking in numeracy has not increased, we have a higher proportion of New Zealanders with high numeracy skills than the average across the OECD. However, even though we are on the right track, there is still room for improvement.

During 2015/16, we completed a policy review of literacy and numeracy funds. Employers and providers are pleased with changes introduced to the Workplace Literacy and Numeracy Fund in 2016. This included enabling employers to form a consortium to help workers gain literacy and numeracy support, lowering the minimum size of eligible employees from 50 to 20 and removing the 2-year maximum length of funding.

<sup>6</sup> Rounded to the nearest 5.

<sup>7</sup> Rounded to the nearest 5.

We are proposing further changes for 2017 to continue to improve the literacy and numeracy outcomes for learners, particularly those within the workplace. One of these changes is extending the Workplace Literacy and Numeracy Fund to include industry trainees.

In addition, from 2016, around 600 more places will be available in the Workplace Literacy and Numeracy Fund with up to 900 more available in 2017. The amount of training available to each learner through both the Workplace Literacy and Numeracy Fund and the Intensive Literacy and Numeracy Fund is also increasing. This greater flexibility supports adult learners in lifting their skills, and demonstrates our commitment to improving workplace productivity and supporting personal success.

In 2015/16, we provided advice on the funding and implementation of the final stage of the Government's commitment to make foundation education fees-free for under-25s. This enables second-chance learners to gain the basic skills they need to progress to higher study or to gain employment.

Budget 2016 provided \$2.3 million additional funding over 4 years to maintain the Refugee English Fund, which provides fees-free study for refugee background learners in English for Speakers of Other Languages courses at Level 3 and above. Around 700 places are funded per year.

## Strengthening research-based institutions

To better recognise the relevance of research to end users, during 2015/16, we supported the TEC with the implementation of the actions from the Performance-Based Research Fund (PBRF) review and the expansion of the Centres of Research Excellence (CoREs).

CoREs are inter-institutional research networks, with researchers working together on commonly agreed work programmes. They support growth in research excellence and make a strong contribution to New Zealand's development of world class researchers.

The PBRF assesses the research performance of degree-granting tertiary education organisations in New Zealand and allocates funding based on research performance. During 2015/16, the PBRF increased to \$300 million per annum. To support growth in research excellence, it has funded four additional CoREs (increasing the total to 10), including one focused solely on Māori research. We also provided ongoing input into science and innovation policy. During 2015/16, we worked alongside the Ministry of Business, Innovation and Employment to help progress the Research, Science and Innovation Statistical Domain Plan and proposals from universities that aim to improve tertiary sector-driven entrepreneurship and innovation.

## Growing international linkages

A global market for skilled workers, strong international competition in tertiary education, and the Government's ambitious goal to increase the value of international education to \$5 billion by 2025, make building the international relevance of New Zealand's education system a priority.

The benefits of international education extend beyond the economic contribution. Young New Zealanders are given the opportunity to live and learn alongside people from other countries, increasing their understanding of other cultures and boosting our links with the world.

All government agencies working in international education need to be well connected to achieve the goals of the Government's Leadership Statement for International Education. The Ministry and our partner agencies support providers to create enduring relationships with overseas partners and showcase the quality of New Zealand's tertiary education system. In 2015/16, the Chief Executives Board for International Education was established to drive a work programme, with international student wellbeing one of its first priorities.

We worked with other agencies to look at the integrity of international education in New Zealand, in response to concerns raised about the safety and wellbeing of some international students. We also worked on projects such as the regulatory levers for quality in international education and the International Student Support Framework.

The new Education (Pastoral Care for International Students) Code of Practice which came into force on 1 July 2016 makes it clear that all New Zealand tertiary providers are responsible for the activities of their agents. With a sharper focus on outcomes, it requires that international students are provided with accurate, reliable information to make informed choices before they arrive and are fully informed about the advice and services available to them while they are here.

The new Disputes Resolution Scheme (DRS) for international students also came into force on 1 July 2016. The DRS will resolve contractual and financial disputes between international students and education providers. The existing International Education Appeal Authority and Review Panel will be disestablished but will continue beyond 1 July to complete all existing cases. All complaints reported after 1 July will be addressed under the new Code of Practice and DRS rules.

New Zealand's commercial and social linkages around the Pacific Rim mean our people and businesses need to be more culturally aware and capable. We introduced policy initiatives to simplify and clarify eligibility settings for government funding for study overseas to reduce barriers to offshore study. It is expected that changes will be implemented by January 2017. To further equip New Zealanders with the capabilities required for the global economy, we led work to increase support for international cultural and language learning for New Zealand students, particularly with our key trading partners in Asia.

We represented New Zealand's education interests in international fora during 2015/16, including chairing the OECD Education Policy Committee meetings, and supporting the Chair of the New Zealand National Commission for the United Nations Educational, Scientific and Cultural Organisation (UNESCO) and our Secretary-General at the 2-yearly UNESCO General Conference.

### **International education – a growing sector**

New Zealand is known for offering high-quality learning experiences, lifestyle opportunities and qualifications that provide skills for the future. In 2015, New Zealand's international education industry grew 13% to 125,011 international student enrolments. The *International Education Snapshot Report* for 2015 shows growth in every region of New Zealand, with tuition fee income from international education topping \$1 billion for the first time. The fastest-growing markets for New Zealand education in 2015 were India, China and the Philippines. The government agencies working in international education work to ensure that student recruitment in fast-growing markets is done within our rules and regulations, and the monitoring of the sector evolves and strengthens as the sector grows.

## Effective stewardship of the education system

The Ministry of Education is the lead advisor to the Government on education – early childhood education, primary and secondary education and tertiary education. We are also the steward of the education system. Stewardship in this context means two key things:

- a focus on the long-term health and performance of the education system as a whole, and
- the provision of support to enable sector leaders to raise achievement, where needed.

Our stewardship priorities outline the ongoing support and services we provide to maintain the education system, and grow achievement and engagement across the system.

We use international engagement to inform and benchmark our system in comparison with other high-performing education systems globally, and to showcase aspects of New Zealand best practice in education internationally.

### Achieving more through effective collaboration

#### Government education agencies working collaboratively to maximise results

During 2015/16, a group of seven education agencies worked together with the State Services Commission to develop a 10-year vision and four-year excellence horizon for a learner-centric system using a Performance Improvement Framework approach.

Following this shared vision and planning process, we have committed to jointly addressing the key areas where we see the most need for, and the most potential impact of, a collaborative approach.

- We will jointly power up learners, parents, communities and employers to influence the quality of teaching and learning and lift achievement.
- We will also improve our information management and technology providing the evidence, data and knowledge to allow these groups, education professionals and government agencies to make the best possible decisions.

The education system agencies working together on these priorities are: the Ministry of Education, Careers New Zealand, the TEC, the New Zealand Qualifications Authority, the Education Review Office, Education New Zealand and the Education Council.

Through the Education System Stewardship Forum, these seven agencies and Te Aho o Te Kura Pounamu – the Correspondence School and the Network for Learning have regular dialogue identifying opportunities to improve system performance through better collaboration.

A key initiative has been developing the digital strategy which is focused on delivering a digitally-enabled education system that puts learners at the centre of our thinking.

Along with the Ministry of Business, Innovation and Employment, as the monitoring agencies for Education New Zealand, we have also actively engaged in their Performance Improvement Framework review, which was released in April 2016. As a follow-up to the review, we are helping Education New Zealand to develop its leadership role and ensure the government agencies working in the international education space are well connected. This involves using the new Chief Executives Board for International Education to develop a cross-agency strategy and coordinated work programme, supported by a more forward-focused Senior Officials Group, and capability support for Education New Zealand.

### Developing a digitally-enabled education system

The *Education System 2015-2020 Digital Strategy* was approved in October 2015 and is now driving a number of work programmes for the education system:

- a shared ICT services infrastructure for the Ministry and the education agencies
- a common approach to making information shareable and accessible across the system
- the better use of shared corporate systems by education agencies
- developing a common channel strategy which is audience-focused
- implementing Identity Management services for the education workforce
- providing a programme of work designed to assist schools to migrate to the cloud
- working with the Education Council to move teacher registration online.

### Collaborating with others to progress shared goals

For the most vulnerable families, ECE and schooling needs to be part of a coordinated package of support, alongside health and other social and community services, to ensure their children and young people can thrive and achieve. Well-targeted, early support is a sound investment with good social and economic returns.

Along with the Ministries of Health, Social Development and Justice, and the New Zealand Police, we have supported the Social Sector Trials in 16 communities around New Zealand. These are testing an alternative approach to social service delivery where communities influence how cross-agency resources are used to deliver more collaborative, directed and effective social services. We also contributed to the implementation of 10 Children's Teams, including the establishment of six new teams. These teams bring together professionals from health, education, welfare and social service agencies to work through a single integrated plan with each vulnerable child and their family.

We worked with the Social Wellbeing Governance Group in Northland to develop a proposal for one of three place-based initiatives for consideration by Cabinet. The initiative will see improvements in outcomes for an estimated 6,000 children and young people and their whānau at most risk of poor outcomes in the region over the next 5 years. The initiative is a collaborative approach across social sector agencies in the region and takes a social investment lens by using data and local knowledge to better target resources.

During 2015/16, we consulted with staff across the organisation on our Child Protection Policy (CPP) to seek their input into how we can better support children who are at risk of abuse and neglect. This is particularly an issue for our front-line staff. Our CPP goes beyond the minimum requirements set out in the Vulnerable Children Act 2014 and also sets out how we will build a culture of child protection within the Ministry. As required by the Act, our contracts require suppliers who deliver children's services to also develop a CPP.

We have also been involved in looking at the implication for the Ministry and the sector of the creation of the new Ministry for Vulnerable Children, Oranga Tamariki. We are supporting the development of the new operating model for Oranga Tamariki, which will further improve outcomes for our most vulnerable children and young people.

We continue to contribute to a number of other cross-government plans/initiatives to support children and young people:

- the *Youth Crime Action Plan 2013-2023* which aims to reduce crime by children and young people and help those who offend to turn their lives around
- providing education officers in some Youth and Rangatahi Courts, which can help decrease the risks of re-offending
- Enabling Good Lives demonstration projects, providing a new approach to disability support.

## Providing better advice to government

Our role as steward of the education system places a premium on policy analysis and advice that supports the long-term health and performance of the whole system, not just of its individual parts. We are taking a more evidence-driven, end-to-end, approach to policy design. To set ourselves progressively more ambitious goals for our policy advice, we have increased our target measure for this year.

We are currently in the process of, or have undertaken, a number of activities to build policy capability, including:

- convening a Policy Governance Board to provide senior-level oversight of major strategic policy projects
- building a robust process for quality assuring our highest profile pieces of advice, including convening a Quality Assurance Panel with members from across the Ministry and trialling a new internal method to assess the quality of our policy advice
- developing a Policy Community rotation programme in consultation with staff
- building shared understanding of talent and performance standards across the Policy Community
- delivering a monthly seminar series which invites international policy and education experts to discuss new, challenging ideas with our Policy Community
- developing a new Policy Toolkit and Cultural Competency Toolkit in consultation with internal and external policy experts.

We survey our Ministers annually on their satisfaction with the service we provide and for 2015/16 they have assessed us as 7 and 8 out of 10.

Significant service delivery for the education system is undertaken through a series of Crown entities, for which we have a monitoring and stewardship role. Our Ministers have indicated their satisfaction with our monitoring role, rating us as 7 and 9 out of 10.

Public perception of our performance has been maintained, with a February 2016 UMR Research survey reporting a 1% improvement in excellent/good ratings, following a 9% increase from 2013 to 2015.<sup>8</sup>

We supported the establishment of a Productivity Commission inquiry into new models of tertiary education. It is investigating how trends in technology, internationalisation, population, costs and demand for skills may drive changes in models of tertiary education. It is an important opportunity to bring in fresh perspectives and analysis, and new responses to emerging and enduring issues and opportunities. We are continuing to support the inquiry as it runs through 2016, with a final report due in February 2017.

## Using and sharing data and evidence to improve decision-making

Properly collected, interpreted and applied data can provide insights about how well students are achieving, and how they can be supported to do better.

During 2015/16, we have improved our evidence base by implementing the Early Learning Information (ELI) system to all eligible services and assigning National Student Numbers to children enrolled in early learning education. This enables us to collect participation information at an individual child level in ECE. This can be used to follow the educational journey of children through ECE to school and further education, and to better assess the impact of ECE. ELI also allows us to identify where additional support is needed to increase participation.

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<sup>8</sup> UMR Research, Annual Review: Mood of the Nation, February 2016.

A business case was approved by Cabinet in March 2016 to replace the Ministry's 25-year-old Education Management Information System, which determines and delivers funding and staffing entitlements to ECE services and schools.

We spend over \$6.95 billion a year, directly allocated to ECE services and schools, in the form of funding grants and school staffing entitlements. Timely and accurate determination and payment is a critical support to the day-to-day operation of more than 5,000 ECE services and over 2,500 schools. A procurement process is underway to select an information technology vendor with plans for a phased implementation in the ECE and schools sectors set for 2018-20.

We have provided support for teachers to implement and improve consistency of overall teachers' judgements on National Standards. The Progress and Consistency Tool helps to give teachers the confidence that their interim and end-of-year judgements are based on valid information, consistent with those being made by other teachers and also with their previous judgements. As at August 2016, 462 schools had signed up to use the tool and a further 337 schools had expressed interest in using it. The numbers of schools using the tool is increasing day by day and we continue to support schools in understanding what the tool can do.

During 2015/16, we progressed the Tertiary Information Enhancement project, confirming the business requirements, establishing the infrastructure environment and data warehouses structures. The project should resolve the problems of accessibility and consistency of tertiary information. Time, effort and risk will be reduced while establishing greater levels of trust and opportunities for analysis. The project deployed its initial work package relating to organisations and is approximately a third of the way through the second work package – the single data return.

On 8 June 2016, the Office of the Auditor-General released the third audit report on Māori education *Education for Māori: Using Information to Improve Māori Educational Success*. The report's findings highlight the importance of the effective use of data at a school and national level to effectively lift Māori achievement. We have taken steps to share the findings of the report with the sector. We have also accepted the recommendations and developed a plan to respond to the recommendations in the report.

We continue to participate in international projects providing comparative system performance information, including the *OECD Indicators of National Education Systems (INES)* programme, which produces the annual *Education at a Glance* indicators report. New Zealand is leading the development of several pieces of work on economic and social outcomes and we contributed a number of papers and presentations at recent meetings, and chaired a working group on education and social outcomes.

In cooperation with the Ministry of Business, Innovation and Employment, we have published three initial reports on the data gathered in the Survey of Adult Skills, undertaken in New Zealand in 2014, which is part of the OECD's *Programme for the International Assessment of Adult Competencies (PIAAC)*. This data will be used to inform policy on adult skills development, including the use of skills in employment.

To support the public sector implementation of the New Zealand Business Number (NZBN) initiative we reviewed any policy implications for providers in the education system and are investigating what would be needed to add the NZBN to our information system for provider records.

## Providing tailored services and support to raise achievement

A key task for the Ministry, with other education agencies, is to ensure our education system meets the learning needs of all New Zealanders based on their culture and identity.

Most learners are in English language settings, but the system enables learning in Māori-medium, Pasifika-language or bilingual settings that recognise and build on children's identity, language and culture.

### Supporting te reo Māori in education

We continued to invest in the education system to provide increased access to high-quality te reo teaching and learning, and in particular in the Māori-medium education pathway, through:

- partnering with iwi and national Māori groups to develop initiatives to support education success for Māori
- developing 179 new NCEA achievement standards derived from Te Marautanga o Aotearoa to help strengthen New Zealand's standing as a bicultural nation by explicitly acknowledging Māori worldviews, knowledge and values
- strengthening the quality of teaching through the provision of various initial teacher education and PLD initiatives, such as Building on Success delivering PLD to 103 secondary schools and about 6,200 teachers covering about 22,000 Māori students
- working collaboratively with Te Ataarangi Incorporated Limited to support intergenerational transmission of te Reo through a Kura Whānau Reo programme (jointly funded with Te Taura Whiri i te Reo Māori), to enable whānau to participate fully in their child's education
- developing dictionaries to ensure there is language and corpus support for all wāhanga ako of Te Marautanga o Aotearoa
- commissioning research to investigate whether the NCEA Te Reo Māori and Te Reo Rangatira tools are fit for purpose.

We have also appointed a Chief Advisor Te Ao Māori to provide advice and leadership for our initiatives to accelerate Māori educational achievement as Māori.

## Supporting Pasifika languages and culture in education

With 15 centres and over 314 children enrolled, the Achieving Through Pasifika Cultures and Languages programme supports schools and community groups to establish and operate centres that promote achievement for Pasifika learners in Years 1 to 8 (ages 5 to 12) through fostering Pasifika culture and languages.

### New suite of Pasifika dual language resources

Transitioning smoothly into English-medium schooling is the goal of a new suite of Pasifika dual language resources designed for new entrant Pasifika children, their teachers and parents. Five sets of dual language early reading books in Samoan, Tongan, Tokelauan, Cook Islands Māori and Niuean, with English, have been published to support academic success and English language literacy for Pasifika new entrants. PLD support materials have been produced for their teachers and parents. These resources were successfully piloted in 2014 and will be released to schools in Term 4 of 2016.

We provide a range of materials to support the teaching of Pasifika languages, including teaching guidelines for Cook Islands Māori, vagahau Niue, Tongan, gagana Tokelau, and revised language guidelines for gagana Sāmoa. We also provide multimedia resources in the Learning Language Series to support the guidelines and storybooks.

### Investing more effectively to raise achievement

Our stewardship role requires us to focus on the long-term sustainability of the education system. Through advice to Ministers on the Budget process and funding for Vote Education and Vote Tertiary Education, we have been seeking to ensure resources are directed where they can make the most difference. We are committed to providing policy advice to support the targeting of investment through:

- the better use of existing funding to manage the cost pressures of current and new educational initiatives
- better managing the Ministry's property portfolio, including meeting demand pressure in Auckland and the costs of the Christchurch rebuild
- designing a more student-centred education system
- providing additional learning support for those students who need it.

The Ministry is one of the agencies that is required to develop a Long Term Investment Plan for a period of at least 10 financial years and participate in Treasury reporting on asset management performance indicators. We have also contributed to the Government's 0 to 5 and Youth Funding reviews and associated Budget 2016 advice.

We have also continued to refine our approach to forecasting future demand for tertiary education, which has been crucial for understanding the relationship between future demand and funding at a national level.

We used the New Zealand Benchmarking Tool to analyse the costs of delivery in tertiary education and establish where there are imbalances between funding and costs as a basis for our advice to Ministers on tuition subsidies.

## Building capability and managing responsibly

### Aligning resources

We are continuing to improve our strategy, planning and financial management, in order to better align our resources to strategic outcomes.

Our *Four Year Plan 2015-2019* was tabled in Parliament in October 2015. It was set up as a document which staff and other stakeholders can get behind and support. We began an update of the *Four Year Plan 2016-2020* and *Long Term Investment Plan* in order to support Ministerial decision-making for Budget 2016.

During 2015/16, we began our Finance Transformation Programme which aims to reduce fiscal risk, improve financial management, reduce ongoing operating costs, and position core systems and processes to better support the policy and service delivery activities of the Ministry. This includes creating a sustainable financial position in the medium term through the financial flexibility allowed under the Public Finance Act 1989 and broader thinking about funding options, as well as building a long-term strategic view of the Ministry's 10-year financial trajectory based on current policy settings and economic projections. Improved finance information will improve the clarity of decision-making about where to prioritise funding to maximise results.

Through improved finance systems and processes we will be better supported to manage funds appropriately and reduce risk, allowing for a focus on the delivery of agreed work priorities.

We are developing an Investment Management Framework which will enable us to cost, select, manage and evaluate our investments across operating and capital expenditure so that resources are allocated to areas of highest value and benefits are tracked.

Our procurement function plays a significant role in supporting the delivery of the Ministry's key priorities. We have more than 5,000 active contracts with an annual spend of more than \$1.3 billion through third party providers covering a wide range of categories including education and social services, transport services, information and technology, and property infrastructure. Procurement and commercial expertise is provided to a wide range of stakeholders ensuring alignment with the Government's functional lead for procurement and the development of best practice guidance and support. By the end of 2016 we will have updated our systems with the implementation of purchase to pay capability. This will create self-service channels for the purchase of goods and services, improve the transparency and visibility of the Ministry spend and reduce administration costs through the automation of business processes.

#### **We have clear expectations for how we work in a set of Ministry behaviours**

We get the job done  
Ka oti i a mātou ngā mahi

We are respectful, we listen, we learn  
He rōpū manaaki, he rōpū whakarongo,  
he rōpū ako mātou

We back ourselves and others to win  
Ka manawanui ki a mātou me ētahi  
ake kia wikitoria

We work together for maximum impact  
Ka mahi ngātahi mo te tukinga nui tonu

**Great results are our bottom line**  
**Ko ngā huanga tino pai a mātou**  
**whāinga mutunga**

## Developing our people

We have developed and agreed a *People Strategy* to better support the Ministry's continued focus on building our capability. Our priorities are to:

- create a strong brand and reputation as an employer
- be recognised as a great place to work
- develop our top talent and lift our capability
- reposition and revitalise our people capability function to support the organisation.

We have developed an in-house programme on leadership which provides development for all people leaders. We enhance this programme with leadership insights for all staff who show future leadership potential. We are fully integrated with the State Services Commission Talent Management framework ensuring future leaders have access to School of Government leadership courses.

As at 30 June 2016, we have approximately 2,600 full-time equivalent (FTE) working from about 35 locations around New Zealand and in the national office. Our staff cap remains at 2,740 FTE positions.

We have made progress in filling our vacancies to ensure we have a strong and diverse workforce to deliver on our strategic outcomes. We have performed strongly in a number of equal employment opportunity areas, particularly Māori in senior management (7.8%, an increase from last year) and representation of women in management (61%).

In 2015/16, the Ministry went through significant changes, with staff leaving employment with the Ministry (14.7% unplanned turnover, 12.3% in 2014/15) remaining higher than the public sector average (10.9% in June 2015). We are continuing to use exit interviews to better understand the reasons why people leave.

We are retaining a high percentage of staff in their first 2 years of employment. As at the end of June 2016, 94.6% of new employees who started within a year, and 90.4% of those who started within 2 years, remained employed with us.

## Health and Safety at Work Act 2015

In addition to supporting the sector (see page 17), we ran a health and safety worker representative nomination process within the Ministry, which enhanced this representation across the organisation.

We also completed our internal policies and procedures update and have increased governance oversight of health and safety through the introduction of a dedicated Leadership Team sub-committee. This has positioned us to drive an enterprise-wide programme of work to address key health and safety risks.

We also strengthened the procurement, contract and project management health and safety practices for education infrastructure contractors and suppliers. We conducted independent safety audits, reviews of contractors, specific school construction sites, and the school transport arrangements which we fund. New guidance material and processes have been developed to support this.

### New ways of working

We have a new way of working in Mātauranga House and it's a first for a government department or ministry. Nearly half of our people use portable computing equipment and are working from a range of spaces, better suited to support the individual or team tasks they undertake and the way they naturally work. They don't have their own desk, just a locker. We are working to transform all Mātauranga House to this 'flexible working environment' over the next 12 months, which will enable the release of more accommodation space from elsewhere in Wellington and further reduce ongoing rental costs.

In our old building, 80 leaders and managers had their own offices. That's also completely changed – in Mātauranga House no one has an office.

We also now have a space that can be opened up into a conference facility for up to 200 people. Working with a very big sector means having an onsite facility is a much better way of doing business. It is more cost effective and means our people don't lose time travelling.

## Improving our infrastructure

### Accommodating our people

We successfully relocated the national office to Mātauranga House on Bowen Street, Wellington over the Christmas 2015/New Year 2016 break with staff settling into the new environment well. The move reduced our office space from 22,500 square metres to around 16,500 square metres, generating savings of about \$1.8 million a year in accommodation and running costs.

We have begun the roll-out of the Skype telephony functionality across the Ministry's regional offices. The roll-out is expected to be completed by the end of 2016 and will mean we can decommission the old telephony environment. Skype enables better technology connection between sites, provides greater scope for collaboration among our people and will help reduce the need for routine travel.

In Christchurch, we are developing new office accommodation as part of the wider government move back into the Christchurch CBD. We have entered into a Development Agreement with Ngai Tahu Property for the King Edward Barracks site. This is a new building in the city's West End, formerly the Christchurch Central Police Station, on the corner of Hereford Street and Cambridge Terrace. This move sees us as the lead agency in a co-location with the Ministry of Health.

As regional offices become due for refurbishment or relocation and as funding is available, we will continue to support our people to work in new ways as we implement 'flexible working environments'.

### Upgrading our asset management system

The first stage of the Helios application, which supports the cost-effective management of the school property portfolio, went live in April 2016. Work continues to expand the functionality of the application with a subsequent release to be completed by February 2017.

The completed system will enable tracking of progress on all school property works, and provide the level of information needed about the condition and performance of assets to support the early identification of issues and opportunities to achieve capital efficiencies.

### Improving our information management systems

We have a programme of work underway focused on improving our information management. We have put in place a significant data warehouse that will make available our school information and we are working to create a single tertiary data warehouse.

Our next step will be to focus on making our learner information more accessible and improving access to this information by all sector participants.

### Enhancing privacy and security

A key priority for all of our people is ensuring that our customers' sensitive information is kept safe and secure. Privacy and appropriate use of data is a key consideration in everything we do.

In 2016, the Ministry completed comprehensive self-assessments against the New Zealand Security Intelligence Service Protective Security Requirements and Government Chief Privacy Officer Privacy Standards, establishing security and privacy maturity targets. This has informed our programme of work to build our capability in the physical, information and personnel security areas. It has also positioned us to make improvements to our processes and policies, to ensure our data handling and privacy undertakings are as robust as possible.

## Nature and scope of functions

### Our purpose

We lift aspiration and raise educational achievement for every New Zealander.

### Our vision

Our vision is to see all children and students succeed personally and achieve educational success.

We want every New Zealander to:

- be strong in their national and cultural identity
- aspire for themselves and their children to achieve more
- have the choice and opportunity to be the best they can be
- be an active participant and citizen in creating a strong civil society
- be productive, valued and competitive in the world.

Our work and investment priorities are focused on activities that will help the education system flourish and make it possible for everyone to succeed.

### Our role

The Ministry of Education is the lead advisor to the Government on education: early childhood education, primary and secondary education and tertiary education. We are also the steward of the education system. As steward, we also ensure the system reflects and fulfils our responsibilities under the Treaty of Waitangi.

### What we do

We need to ensure the system works for every learner, at every stage, and as a whole, and help educational leaders deliver the best outcomes for each and every child and student. To achieve this we:

- licence early learning providers, to ensure they are set up appropriately to provide education and support to children
- support schools and teachers to raise achievement through advisory and support initiatives, as well as learning programmes for individual students and their families or whānau
- provide special education services to children and young people, and support to early learning services and schools
- deliver direct infrastructure services to help schools function – property, transport and IT
- administer the funding for early learning services and for schools, and hold responsibility for tertiary education funding which is administered by the TEC
- gather, analyse, publish and use evidence, data and knowledge across the system
- provide advice to government across the system.

## Our Ministers

The Ministry administers two Votes as shown in the following table.

Minister and Portfolio	Associates	Vote
<b>Hon Hekia Parata</b> Responsible Minister for the Ministry of Education  Minister of Education	<b>Hon Nikki Kaye</b> Associate Minister of Education (until 2 September 2016)  <b>David Seymour</b> Parliamentary Under- Secretary to the Minister of Education	Education
<b>Hon Steven Joyce</b> Minister Responsible for Novopay		Education
<b>Hon Steven Joyce</b> Minister for Tertiary Education, Skills and Employment	<b>Hon Louise Upston</b> Associate Minister for Tertiary Education, Skills and Employment	Tertiary Education

## Our education system partners

Within government, the New Zealand education sector has a large number of specialised agencies focused on delivering their part of the education system. We work with these agencies to improve and manage the performance of the education system to maximise results for New Zealand.

**Careers New Zealand** – Helps people make the best decisions about jobs, training and careers, at any age or stage of their lives.

**Education New Zealand (ENZ)** – The lead government agency for the promotion of New Zealand education internationally. ENZ works to build awareness of New Zealand as a study destination and to pave the way for exporting education institutions and businesses.

**Education Payroll Limited (EPL)** – A government-owned company managing the payroll for schools to ensure an accurate and reliable payroll service.

**Education Review Office (ERO) – Te Tari Arotake Mātauranga** – Reviews and reports publicly on the quality of education in all New Zealand schools and ECE services. The ERO also publishes national reports on current education topics.

**Network for Learning (N4L)** – A Crown-owned company providing schools with a government-funded package that includes access to a secure network, uncapped monthly data, online content filtering and security services.

**New Zealand Qualifications Authority (NZQA) – Mana Tohu Mātauranga o Aotearoa** – Ensures that New Zealand qualifications are regarded as credible and robust, nationally and internationally.

**Te Aho o Te Kura Pounamu – The Correspondence School** – Provides distance education from early childhood to Year 13.

**Tertiary Education Commission (TEC) – Te Amorangi Mātauranga Matua** – Responsible for government-funded tertiary education and training offered in New Zealand.

## The Education Council of Aotearoa New Zealand – Matatū Aotearoa

– The professional and regulatory body for registered teachers working in early childhood centres, schools and other education institutions in New Zealand, representing teachers in both English and Māori settings. The Council aims to support the professional status of teachers and high-quality teaching and learning.

## Our organisation

The **Secretary for Education (Acting, Katrina Casey)** leads the organisation which is structured to support our stewardship role and achieve the priorities set out in our *Four Year Plan 2016-2020*.

Working internally and with other agencies to get a clearer view of the longer-term education system issues and responses, the **Education System Policy Group (Deputy Secretary, Dr Andrea Schöllmann)** provides an integrated education system policy function covering the learning journey from age 0 to 18.

To support the sector and better invest our resources, the **Evidence, Data and Knowledge Group (Deputy Secretary, Dr Craig Jones)** is tasked with strengthening our ability to turn data into knowledge that the sector and the Ministry can act on to raise student achievement.

The **Early Learning and Student Achievement Group (Deputy Secretary, Lisa Rodgers)** focuses on raising the quality of teaching and leadership and system performance through setting the direction of what and how students learn, building sector capability and an effective workforce, and encouraging innovation in the development of new pedagogy and the use of digital technology.

The **Graduate Achievement, Vocations and Careers Group (Deputy Secretary, Claire Douglas)** delivers policy advice, strategy and research on tertiary education and achievement, and secondary-tertiary transitions.

The **Parents, Whānau, Communities and Employers Group (Deputy Secretary, Apryll Parata)** provides leadership and policy advice on the perspectives of parents and whānau, and boosting outcomes for learners who are least effectively served by the system, particularly Māori and Pasifika children/young people. This group is also a mechanism for deploying resources to the Minister's and Secretary's priority initiatives.

The **Sector Enablement and Support Group (Acting Deputy Secretary, Kim Shannon)** is the key sector-facing part of our organisation and provides a single point of contact for early learning providers and schools.

**Education Infrastructure Service (Acting Head of Education Infrastructure Service, Jerome Sheppard)** is responsible for managing our property, payroll, transport and school IT services together within a single integrated business group.

The **Strategy, Planning and Governance Group (Deputy Secretary, Ellen MacGregor-Reid)** is responsible for the development, coordination and oversight of organisation strategy and planning.

The **People, Capability and Resources Group (Deputy Secretary, Zoe Griffiths)** works across the Ministry and is responsible for the organisational capability to ensure the critical people, processes, systems and infrastructure are in place to achieve the business strategies of the Ministry.

## Our governance arrangements

We have various governance arrangements in place to ensure appropriate scrutiny of the Ministry's performance. We have a Risk and Assurance Board with four independent members, one of whom chairs this board. During 2015/16, an internal Performance Board, chaired by the Secretary for Education, reviewed key corporate indicators on a monthly basis. There are various other governance boards providing oversight and assurance in areas such as ICT, infrastructure and policy.

## Statement of Responsibility

I am responsible, as Chief Executive of the Ministry of Education (the Ministry), for:

- the preparation of the Ministry's financial statements, and statements of expenses and capital expenditure, and for the judgements expressed in them
- having in place a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting
- ensuring that end-of-year performance information on each appropriation administered by the Ministry is provided in accordance with sections 19A to 19C of the Public Finance Act 1989, whether or not that information is included in this Annual Report
- the accuracy of any end-of-year performance information prepared by the Ministry, whether or not that information is included in the Annual Report.

In my opinion:

- the financial statements fairly reflect the financial position of the Ministry as at 30 June 2016 and its operations for the year ended on that date
- the forecast financial statements fairly reflect the forecast financial position of the Ministry as at 30 June 2017 and its operations for the year ending on that date.

A handwritten signature in black ink, appearing to read 'Katrina Casey', with a long, sweeping underline.

**Katrina Casey**

Acting Secretary for Education  
30 September 2016



## Independent Auditor's Report

### TO THE READERS OF THE MINISTRY OF EDUCATION'S ANNUAL REPORT FOR THE YEAR ENDED 30 JUNE 2016

The Auditor-General is the auditor of the Ministry of Education (the Department). The Auditor-General has appointed me, Stuart Mutch, using the staff and resources of Ernst & Young, to carry out the audit on her behalf of:

- the financial statements of the Department on pages 84 to 119, that comprise the statement of financial position, statement of commitments, statement of contingent liabilities and contingent assets as at 30 June 2016, the statement of comprehensive revenue and expenses, statement of changes in taxpayers' 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;
- the performance information prepared by the Department for the year ended 30 June 2016 on pages 8 to 45 and 58 to 80;
- the statements of expenses and capital expenditure of the Department for the year ended 30 June 2016 on pages 129 to 133;
- the schedules of non-departmental activities which are managed by the Department on behalf of the Crown on pages 120 to 128 that comprise:
  - › the schedules of Non-departmental assets; liabilities; commitments; contingent liabilities and assets as at 30 June 2016;
  - › the schedules of Non-departmental expenses; and Non-departmental revenue for the year ended 30 June 2016;
  - › the statement of Export Education Levy Funds for the year ended 30 June 2016; and
  - › the notes to the schedules that include accounting policies and other explanatory information.

### Opinion

In our opinion:

- The financial statements of the Department:
  - › present fairly, in all material respects:
    - its financial position as at 30 June 2016; and
    - its financial performance and cash flows for the year ended on that date;
  - › comply with generally accepted accounting practice in New Zealand and have been prepared in accordance with Public Benefit Entity Reporting Standards.
- The performance information of the Department:
  - › presents fairly, in all material respects, for the year ended 30 June 2016:
    - what has been achieved with the appropriation; and
    - the actual expenses or capital expenditure incurred compared with the appropriated or forecast expenses or capital expenditure;
  - › complies with generally accepted accounting practice in New Zealand.

- The statements of expenses and capital expenditure of the Department on pages 129 to 133 are presented fairly, in all material respects, in accordance with the requirements of section 45A of the Public Finance Act 1989.
- The schedules of non-departmental activities which are managed by the Department on behalf of the Crown on pages 120 to 128 present fairly, in all material respects, in accordance with the Treasury Instructions:
  - › the assets; liabilities; commitments; contingent liabilities and assets as at 30 June 2016;
  - › expenses; and revenue for the year ended 30 June 2016; and
  - › the statement of Export Education Levy Funds for the year ended 30 June 2016.

Our audit was completed on 30 September 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 Secretary for Education and our responsibilities, and we explain our independence.

### **Basis of opinion**

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the information we audited is 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 information we audited. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the information we audited. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the information we audited, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Department's preparation of the information we audited 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 Department'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 Secretary for Education;
- the appropriateness of the reported performance information within the Department's framework for reporting performance;
- the adequacy of the disclosures in the information we audited; and
- the overall presentation of the information we audited.

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

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

## Responsibilities of the Secretary for Education

The Secretary for Education is responsible for preparing:

- financial statements that present fairly the Department's financial position, financial performance, and its cash flows, and that comply with generally accepted accounting practice in New Zealand.
- performance information that presents fairly what has been achieved with each appropriation, the expenditure incurred as compared with expenditure expected to be incurred, and that complies with generally accepted accounting practice in New Zealand.
- statements of expenses and capital expenditure of the Department, that are presented fairly, in accordance with the requirements of the Public Finance Act 1989.
- schedules of non-departmental activities, in accordance with the Treasury Instructions, that present fairly those activities managed by the Department on behalf of the Crown.

The Secretary for Education's responsibilities arise from the Public Finance Act 1989.

The Secretary for Education is responsible for such internal control as is determined is necessary to ensure that the annual report is free from material misstatement, whether due to fraud or error. The Secretary for Education is also responsible for the publication of the annual report, whether in printed or electronic form.

## Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the information we are required to audit, 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.

In addition to the audit we carried out assignments in relation to providing assurance services in relation to education payroll and school payroll reporting, other assurance services associated with the transition of a financial management information system, and advisory services in support for an employee investigation. Other than the audit and these assignments, we have no relationship with, or interest in, the Department.



**Stuart Mutch**

Ernst & Young  
On behalf of the Auditor-General  
Wellington, New Zealand



## PART 2

# Statements of service performance

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The statements of service performance set out our service objectives, our actual achievements against our targets and financial information on the costs of the activities undertaken. They are audited and provide end-of-year reporting against the departmental information in the Estimates of Appropriations 2015/16 for Vote Education and Vote Tertiary Education.

## Vote Education

### Portfolio Minister – Minister of Education

#### Interventions for Target Student Groups

##### Scope of Appropriation

Expenditure on policies and services focused on targeted student groups' or individuals' participation in education. This includes providing services to individuals with special education and developmental needs, providing additional funding for the support of students with special education needs, providing alternative education options, working with individuals and relevant stakeholders to resolve participation issues, and administering scholarships and awards for individuals.

##### What is Intended to be Achieved with this Appropriation

This appropriation is intended to achieve equitable participation and outcomes in education for targeted student groups that would otherwise be disadvantaged in the education system.

##### Output performance measures and standards

Performance Measure	Budget Standard 2015/16	Actual Performance 2015/16	Performance 2014/15	Comment
<b>Targeted Student Participation Initiatives</b>				
The national average attendance rate.	88%	90%	New measure	<b>Achieved</b>
The median numbers of school days before excluded learners are returned to schooling.	40 days or less	40 days	Revised measure	<b>Achieved</b>
Increase the percentage of children who have attended early childhood education prior to starting school.	All 97.5% Māori 96.9% Pasifika 96.2% Decile 1-3 students 96.5%	All 96.6% Māori 94.9% Pasifika 92.7% Decile 1-3 students 93.7%	All 96.2% Māori 94.0% Pasifika 91.2% Decile 1-3 students 92.5%	<b>Not achieved</b> We did not meet our June 2016 interim target but expect to see our ongoing efforts to raise participation (see pages 10-11 of Part 1) reflected in the results for 2016 and beyond.
<b>Special Education Needs Interventions</b>				
Percentage of parents and educators of children receiving a core special education service who are satisfied with the overall quality of the Ministry's service delivery (see Note 1).	85%	71%	75%	<b>Not achieved</b> We have been meeting significantly higher demand and experiencing higher expectations of our service.  We have made a number of improvements to our service delivery over the last year. (See page 27 of Part 1.)

Performance Measure	Budget Standard 2015/16	Actual Performance 2015/16	Performance 2014/15	Comment
Average number of days eligible children wait to receive a Ministry provided special education core service after referral.	75 calendar days	73 calendar days	New measure	<b>Achieved</b>
The number of children receiving special education core services (Early Intervention, Communication, Behaviour, including the Intensive Wraparound Service, and Ongoing Resourcing Scheme services) (see Note 2).	27,345 – 33,425	34,226	34,389 <sup>9</sup>	<b>Achieved</b>
Percentage of parents and educators of children receiving a core special education service who are satisfied with the child's progress after the special education service (see Note 1).	85%	69%	76%	<b>Not achieved</b> We have been meeting significantly higher demand and experiencing higher expectations of our service. We have made a number of improvements to our services over the last year. (See page 27 of Part 1.)
Increase in number of schools participating in the School-Wide Framework.	75 or more	90 schools (demand-driven)	90 schools (demand-driven)	<b>Achieved</b>
Percentage of contracted providers for the Incredible Years Parent programme that meet the agreed standards for programme delivery.	More than 95%	100%	100%	<b>Achieved</b>

**Note 1** – As measured through the annual Special Education Client Satisfaction Survey. For the purpose of this measure, 'satisfied' means all those who selected a positive response, ie, four or five on the five-point scale. The percentage of respondents not included can be either neutral (ie, selected the midpoint) or have a negative response (one or two on the five-point scale).

**Note 2** – This includes services provided by both the Ministry and funded specialist service providers and is calculated by adding the total number of children receiving each core service. Children who receive one service then later receive a different service (for example, they receive an early intervention service before school and then a behaviour service once they attend school) will be counted twice.

<sup>9</sup> The reporting count methodology for this measure was improved in November 2015 to make it more accurate, effectively eliminating counting children twice where they had received two different types of job within the same overall service. On a comparable basis, the result for 2014/15 would have been 32,320.

## Financial performance

	2014/15 Actual		2015/16 Budget	Supplementary Estimates	Actual
	\$000		\$000	\$000	\$000
<b>REVENUE</b>					
From the Crown	276,208		281,586	237,678	237,678
Other	1,778		1,700	2,700	749
<b>Total revenue</b>	<b>277,986</b>		<b>283,286</b>	<b>240,378</b>	<b>238,427</b>
<b>Total expenses</b>	<b>278,788</b>		<b>283,286</b>	<b>240,378</b>	<b>238,800</b>
<b>Net surplus/(deficit)</b>	<b>(802)</b>		<b>-</b>	<b>-</b>	<b>(373)</b>

The decrease in both the Supplementary Estimates and actual expenditure from the Budget is mainly due to the reclassification of funding for the Ongoing Resourcing Scheme (ORS) services delivered by third-party specialist providers to students in ORS fundholder schools. This funding was transferred to the non-departmental appropriation *Special Needs Support* (\$42.916 million).

## Policy Advice

### Scope of Appropriation

This appropriation is limited to the provision of advice (including second opinion advice and contributions to policy advice led by other agencies) to support decision-making by Ministers on Education related matters.

### What is Intended to be Achieved with this Appropriation

This appropriation is intended to achieve the provision of quality advice to Ministers to ensure that education policy and programmes support the performance of the education system.

### Output performance measures and standards

Performance Measure	Budget Standard 2015/16	Actual Performance 2015/16	Performance 2014/15	Comment
Independent assessment of the quality of the Ministry's policy advice (see Note 1).	75%	73%	73%	<b>Not achieved</b> After achieving our target of 70% over the last two financial years, we set ourselves a more challenging target of 75% from 2015/16 that we will continue to work towards.
The satisfaction rating given by Ministers for the quality and timeliness of policy advice (as per the Common Satisfaction Survey) (see Note 2).	7	8	7.5	<b>Achieved</b>
The total cost per hour per person of producing policy outputs (see Note 3).	\$120 – \$135	\$139	\$120	<b>Not achieved</b> The cost of policy advice increased as we strengthen our policy leadership function and overall policy capability and capacity, consistent with other agencies (see page 42).

**Note 1** – The independent assessment of the Ministry's policy advice will have a technical robustness score, using the measurement of robustness provided by the Treasury.

**Note 2** – The Common Satisfaction Survey rating measures Ministers' satisfaction with the quality, timeliness and value for money of policy advice on a scale from 1 – 10, where 1 means unsatisfied and 10 means extremely satisfied.

**Note 3** – This measure provides the total cost of an hour of professional staff time devoted to both policy advice and other policy outputs. Total cost includes the cost of labour, overheads, support staff, direct costs and outsourced work to support production.

## Financial performance

	2014/15	2015/16		
	Actual	Budget	Supplementary Estimates	Actual
	\$000	\$000	\$000	\$000
<b>REVENUE</b>				
From the Crown	14,857	11,501	16,824	16,824
Other	-	-	-	-
<b>Total revenue</b>	<b>14,857</b>	<b>11,501</b>	<b>16,824</b>	<b>16,824</b>
<b>Total expenses</b>	<b>14,052</b>	<b>11,501</b>	<b>16,824</b>	<b>16,681</b>
<b>Net surplus/(deficit)</b>	<b>805</b>	<b>-</b>	<b>-</b>	<b>143</b>

The increase in both the Supplementary Estimates and actual expenditure from the Budget is mainly due to a change in allocation of corporate costs between departmental output appropriations during the year to more accurately reflect which areas utilise corporate resources. This change had no impact on service levels and direct resources allocated to this departmental output appropriation.

## School Property Portfolio Management

### Scope of Appropriation

Expenditure on goods and services focused on providing the land, buildings and other facilities that make up the property portfolio of the State school sector. This includes purchasing and constructing new property, upgrading existing property to maintain the quality of the portfolio, disposing of surplus property, and managing teacher and caretaker housing.

### What is Intended to be Achieved with this Appropriation

This appropriation is intended to achieve a school sector property infrastructure that ensures a fit-for-purpose learning environment.

### Output performance measures and standards

Performance Measure	Budget Standard 2015/16	Actual Performance 2015/16	Performance 2014/15	Comment
The Ministry is seen as a high quality property manager and advisor to Government as measured by the Asset Management maturity index (see Note 1).	Lower Advanced	Lower Advanced (83%)	Lower Advanced (81%) attained by 30 June 2015	<b>Achieved</b>
The Ministry will upgrade schools to be ready to access ultra-fast broadband and Network for Learning content.	100% of schools upgraded	100%	93% by 30 June 2015	<b>Achieved</b>
The Ministry will update schools upgraded to access ultra-fast broadband before 2010, with wireless.	73% of schools ready	88% of schools ready	New measure	<b>Achieved</b>

**Note 1** – The Asset Management maturity index is on a scale from 40 to 50% Lower Core to 90 to 100% Upper Advanced, where Lower Advanced is 80 to 90% on the index criteria established by the Treasury. (This Treasury tool is used by agencies to self assess their asset management maturity levels or by expert reviewers to independently assess an agency's maturity. It assesses the quality of underlying asset management practices, systems and culture and helps highlight where an agency might invest to lift capability to appropriate levels of maturity.)

## Financial performance

	2014/15 Actual	Budget	2015/16 Supplementary Estimates	Actual
	\$000	\$000	\$000	\$000
<b>REVENUE</b>				
From the Crown	1,502,836	1,530,857	1,588,658	1,588,658
Other	24,386	6,929	50,500	48,926
<b>Total revenue</b>	<b>1,527,222</b>	<b>1,537,786</b>	<b>1,639,158</b>	<b>1,637,584</b>
<b>Total expenses</b>	<b>1,520,580</b>	<b>1,537,786</b>	<b>1,624,628</b>	<b>1,621,415</b>
<b>Net surplus/(deficit)</b>	<b>6,642</b>	<b>-</b>	<b>14,530</b>	<b>16,169</b>

The increase from the 2014/15 Actual to Budget is mainly due to a baseline funding increase for the operating costs of new schools and additional classrooms (\$18.653 million).

The increase in both Supplementary Estimates and actual expenditure from the Budget is mainly due to:

- baseline funding for capital charge (\$41.700 million) and depreciation (\$30 million) as a result of the revaluation of the school property portfolio at 30 June 2015
- provision for losses on disposal and demolition of school property (\$10.500 million), rationalisation of school property (\$8 million), maintenance of teacher and caretaker housing (\$4 million), and rental expenses on school property (\$2 million), all funded from revenues from sale of surplus property assets (\$37 million) in 2015/16 with unallocated revenue resulting in a net operating surplus, and legal costs associated with weather-tightness issues in schools funded from revenues from legal claims (\$4.291 million).

These were partially offset by savings in capital charge expense in 2015/16 from a deferral in drawing down capital injections from Treasury for the capital expenditure programme (\$14.852 million).

## Services to Other Agencies RDA

### Scope of Appropriation

This appropriation is limited to the provision of services by the Ministry of Education to the government departments and other agencies where those services are not within the scope of another department output expense appropriation in Vote Education.

### What is Intended to be Achieved with this Appropriation

This appropriation is intended to provide support services to government departments and other government or education agencies, on a cost recovery basis, including office accommodation and related services and information technology management and development services.

### Output performance measures and standards

Performance Measure	Budget Standard 2015/16	Actual Performance 2015/16	Performance 2014/15	Comment
The minimum percentage of service standards which are agreed as 'Achieved' with the recipient of those services (see Note 1).	95%	96%	New measure	Achieved

**Note 1** – The reported percentage is the lowest level of achievement across all service level agreements.

### Financial performance

	2014/15 Actual \$000	Budget \$000	2015/16 Supplementary Estimates \$000	Actual \$000
<b>REVENUE</b>				
From the Crown	-	-	-	-
Other	-	-	1,217	1,152
<b>Total revenue</b>	-	-	<b>1,217</b>	<b>1,152</b>
<b>Total expenses</b>	-	-	<b>1,217</b>	<b>1,152</b>
<b>Net surplus/(deficit)</b>	-	-	-	-

This appropriation was established during 2015/16 for the provision of support services to other state sector agencies on a cost recovery basis such as office accommodation and related services and ICT management and development services. It is a Revenue Dependent Appropriation (RDA) in which expenses incurred are limited to the amount of revenue earned.

## Stewardship of the Education System

### Scope of Appropriation

This appropriation is limited to services (other than policy advice) provided by the Ministry of Education in its role as steward of the education system (other than tertiary education). It includes services to support Ministers in discharging their portfolio responsibilities (other than policy decision-making).

### What is Intended to be Achieved with this Appropriation

This appropriation is intended to achieve a shared strategic direction and alignment across the education system.

### Output performance measures and standards

Performance Measure	Budget Standard 2015/16	Actual Performance 2015/16	Performance 2014/15	Comment
<b>Research and Analysis</b>				
Organisation for Economic Co-operation and Development and International Association for the Evaluation of Educational Achievement requirements are met for the implementation of international studies for data quality and timeliness.	Data quality 100% Timeliness 100%	Data quality 100% Timeliness 100%	New measure	<b>Achieved</b>
<b>Monitoring the Education System</b>				
Forecasts of enrolment numbers, and expenditure for early childhood education and primary and secondary schooling, are accurate.	Accurate within $\pm 3\%$ of actual values	Forecasts were accurate to within 1% of actual values	Forecasts were accurate to within 1% of actual values	<b>Achieved</b>
The Government's ownership and purchase interest in Crown agencies is explicitly measured and monitored through quarterly monitoring reports submitted to the Minister of Education.	100%	100%	100%	<b>Achieved</b>
<b>Supplementary Measure<sup>10</sup></b>				
The satisfaction rating given by the Minister for monitoring advice meeting needs (see Note 1).	7	9	7	<b>Achieved</b>

<sup>10</sup> To provide a better measure for our Crown entity monitoring work we collected this information in 2014/15, to provide a benchmark, and introduced it as an Output Plan measure for 2015/16.

Performance Measure	Budget Standard 2015/16	Actual Performance 2015/16	Performance 2014/15	Comment
<b>Support for the Education Minister</b>				
Ministerial correspondence replies completed within 20 working days of receipt by the Ministry, unless otherwise agreed.	95%	99%	99%	Achieved
Parliamentary question responses provided to the Minister's Office so that answers can meet the timeframe set in Parliamentary Standing Orders.	95%	97%	100%	Achieved
Ministerial Official Information Act request replies completed five days prior to the statutory time limit, unless otherwise agreed.	95%	96%	96%	Achieved

**Note 1** – The rating measures Ministers' satisfaction on a scale from 1 – 10, where 1 means unsatisfied and 10 means extremely satisfied.

## Financial performance

	2014/15 Actual	2015/16		
		Budget	Supplementary Estimates	Actual
	\$000	\$000	\$000	\$000
<b>REVENUE</b>				
From the Crown	33,995	25,662	34,827	34,827
Other	70	10	10	80
<b>Total revenue</b>	<b>34,065</b>	<b>25,672</b>	<b>34,837</b>	<b>34,907</b>
<b>Total expenses</b>	<b>33,743</b>	<b>25,672</b>	<b>34,837</b>	<b>33,282</b>
<b>Net surplus/(deficit)</b>	<b>322</b>	<b>-</b>	<b>-</b>	<b>1,625</b>

The increase in both the Supplementary Estimates and actual expenditure from the Budget is mainly due to a change in allocation of corporate costs between departmental output appropriations during the year to more accurately reflect which areas utilise corporate resources. This change had no impact on service levels and direct resources allocated to this departmental output appropriation.

## Support and Resources for Education Providers

### Scope of Appropriation

This appropriation is limited to expenditure on policies, regulations and services focused on the governance, management and operation of education providers.

### What is Intended to be Achieved with this Appropriation

This appropriation is intended to achieve effective management and monitoring of services provided to the sector that allows it to focus on educational success.

### Output performance measures and standards

Performance Measure	Budget Standard 2015/16	Actual Performance 2015/16	Performance 2014/15	Comment
All resourcing payments will be accurate and timely in respect of: payment amounts, payment to the correct providers, schedules advised to public education service providers or agreements with those providers, timeframes notified to payees, and fulfilling statutory requirements.	Accurate 100% On time 100%	Accurate 100% On time 100%	100% accurate 100% on time	Achieved
All payments to eligible payees (permanent and temporary employees) will be accurately calculated.	99.5%	99.8%	99.8%	Achieved
Percentage of payroll payments calculated and sent to financial institutions to allow payments to be processed on or before advised pay dates.	99.5%	99.99%	100%	Achieved
Percentage of decisions on proposed statutory interventions under Part 7A of the Education Act 1989 that are made within three months of the confirmed Education Review Office (ERO) report being published, or request from boards of trustees (Boards), or referral from the sector, or determination by the Ministry.	More than 95%	97%	96%	Achieved

Performance Measure	Budget Standard 2015/16	Actual Performance 2015/16	Performance 2014/15	Comment
<b>Provision of Services</b>				
100% of services eligible to participate in the Early Learning Information (ELI) project will be on the ELI system by June 2016.	100%	100%	99.77%	<b>Achieved</b>

### Financial performance

	2014/15 Actual	Budget	2015/16 Supplementary Estimates	Actual
	\$000	\$000	\$000	\$000
<b>REVENUE</b>				
From the Crown	96,032	101,379	96,145	96,145
Other	30,229	1,140	1,390	678
<b>Total revenue</b>	<b>126,261</b>	<b>102,519</b>	<b>97,535</b>	<b>96,823</b>
<b>Total expenses</b>	<b>103,202</b>	<b>102,519</b>	<b>97,535</b>	<b>96,910</b>
<b>Net surplus/(deficit)</b>	<b>23,059</b>	<b>-</b>	<b>-</b>	<b>(87)</b>

For comparative purposes the 2014/15 actual figures have been restated to include departmental output Payroll Services transferred from 1 July 2015. The Other Revenue in 2014/15 includes the \$29.400 million settlement with the previous school payroll service provider.

The decrease in both the Supplementary Estimates and actual expenditure from the Budget is mainly due to:

- a change in allocation of corporate costs between departmental output appropriations during the year to more accurately reflect which areas utilise corporate resources (\$5.530 million). This change had no impact on service levels and direct resources allocated to this departmental output appropriation.
- a transfer to 2016/17 for development of the new education funding and staffing system (\$1.400 million).

## Support and Resources for Parents and the Community

### Scope of Appropriation

This appropriation is limited to expenditure on policies and programmes focused on parents' and the community's knowledge of and participation in the education system.

### What is Intended to be Achieved with this Appropriation

This appropriation is intended to achieve delivery of programmes and services focused on supporting parents, families, whānau and iwi to participate in and with the education system.

### Output performance measures and standards

Performance Measure	Budget Standard 2015/16	Actual Performance 2015/16	Performance 2014/15	Comment
<b>Engagement of, and Provision of Information to, the Community</b>				
The Ministry establishes formal projects with iwi to jointly work with whānau and hapū to increase the number of Māori children participating in Early Childhood Education and achieving National Certificate in Education Achievement Level 2.	10 – 20 formal projects	29 formal projects	New measure	<b>Achieved</b>
Community-based engagement, information and support programmes for parents, families, whānau and/or iwi operate in education priority areas and communities (see Note 1).	85%	88%	98% of programmes were delivered in priority areas	<b>Achieved</b> Our 2015/16 measure included working with targeted groups through the Count Me In (CMI) and At Risk of Not Achieving (ARoNA) programmes. While these programmes target priority areas and communities, the people involved in them (who are in priority groups) may not belong to the targeted communities. We reduced the budget standard to 85% to accommodate for the CMI and ARoNA young people and their families, as it was expected the actual would also decrease.

Performance Measure	Budget Standard 2015/16	Actual Performance 2015/16	Performance 2014/15	Comment
Participants involved in or attending community engagement, information and support programmes report that they are more confident and better equipped to support and make informed decisions about their children's learning as a result of the programme (as measured by the percentage of participants who showed a 'positive' or higher rating in their programme completion surveys).	95% of participants	95% of participants	100%	Achieved
<b>Provision of Services to the Community</b>				
Participants receiving the parents and whānau programmes report that they are more confident and better equipped to support their children, as a result of the programmes (measured by the percentage of participants who showed a 'positive' or higher rating in their programme completion surveys).	95% of participants	98% of participants	100% of participants	Achieved
Number of child places created to meet the needs of targeted communities as a result of the Targeted Assistance Programme.	948 – 1,100	977	1,694 (demand-driven)	Achieved

**Note 1** – Includes the 'Count-Me-In' work being delivered to priority students outside of Parents, Families and Whānau Group target communities.

## Financial performance

	2014/15 Actual	2015/16 Budget	2015/16 Supplementary Estimates	2015/16 Actual
	\$000	\$000	\$000	\$000
<b>REVENUE</b>				
From the Crown	12,301	13,117	12,126	12,126
Other	-	10	10	-
<b>Total revenue</b>	<b>12,301</b>	<b>13,127</b>	<b>12,136</b>	<b>12,126</b>
<b>Total expenses</b>	<b>11,519</b>	<b>13,127</b>	<b>12,136</b>	<b>10,601</b>
<b>Net surplus/(deficit)</b>	<b>782</b>	<b>-</b>	<b>-</b>	<b>1,525</b>

## Support and Resources for Teachers

### Scope of Appropriation

Expenditure on policies and services focused on supporting the work and enhancing the capability of teachers. This includes providing curriculum and achievement standards, teaching resources, professional development, and administering scholarships and awards for teachers and principals.

### What is Intended to be Achieved with this Appropriation

This appropriation is intended to achieve a highly effective workforce and resources to enhance learning in schools.

### Output performance measures and standards

Performance Measure	Budget Standard 2015/16	Actual Performance 2015/16	Performance 2014/15	Comment
All contracts with providers for resources have requirement for alignment to the New Zealand curriculum or support curriculum delivery.	100%	100%	New measure	Achieved
All resources for teachers and learners are aligned to the New Zealand Curriculum and Te Marautanga o Aotearoa.	100%	100%	100%	Achieved
Scholarships and awards for teachers and principals are administered in accordance with set criteria.	100%	100%	New measure	Achieved

**Financial performance**

	2014/15 Actual	Budget	2015/16 Supplementary Estimates	Actual
	\$000	\$000	\$000	\$000
<b>REVENUE</b>				
From the Crown	74,758	70,205	64,563	64,563
Other	2,283	10	260	96
<b>Total revenue</b>	<b>77,041</b>	<b>70,215</b>	<b>64,823</b>	<b>64,659</b>
<b>Total expenses</b>	<b>73,733</b>	<b>70,215</b>	<b>64,823</b>	<b>61,546</b>
<b>Net surplus/(deficit)</b>	<b>3,308</b>	<b>-</b>	<b>-</b>	<b>3,113</b>

The decrease from the 2014/15 actual to Budget is mainly due to:

- review of timeframes for the work programme to strengthen the teaching profession and lift the quality of teaching including implementation of the Progress and Consistency Tool in schools (\$4.120 million), and
- provision in 2014/15 only for the implementation of achievement, retention and transition initiatives of the Youth Guarantee Networks and Vocational Pathways (\$2.200 million).

The decrease in both the Supplementary Estimates and actual expenditure from the Budget is mainly due to:

- a change in allocation of corporate costs between departmental output appropriations during the year to more accurately reflect which areas utilise corporate resources (\$7.623 million). This change had no impact on service levels and direct resources allocated to this departmental output appropriation; and
- transfers from 2014/15 to hold Education Festivals for national and international stakeholder engagement (\$950,000 increase), continue the value for money programme (\$592,000 increase) and align achievement standards to Te Marautanga o Aotearoa (the Māori-medium curriculum) (\$500,000 increase).

## Ministry of Education – Capital Expenditure PLA

### Scope of Appropriation

This appropriation is limited to the purchase or development of assets by and for the use of the Ministry of Education, as authorised by section 24(1) of the Public Finance Act 1989.

### What is Intended to be Achieved with this Appropriation

This appropriation is intended to provide strategic assets, including the renewal and replacement of life-expired assets, in support of the delivery of the Ministry of Education's services and responsibilities for schools.

### Output performance measures and standards

Performance Measure	Budget Standard 2015/16	Actual Performance 2015/16	Performance 2014/15	Comment
The School Property Capital Plan is delivered with a variance of less than 20%.	Less than 20%	9% variance, below plan	Revised measure	<b>Achieved</b>
The percentage of scheduled ten-year property plans that are signed by the end of the financial year.	80%	63%	Revised measure	<b>Not achieved</b>  The signing of ten-year property plans is a shared responsibility between schools and the Ministry. We signed a total of 374 ten-year property plans, an improvement of 60 compared with 2014/15. We did not achieve the target, however, due to internal capacity constraints, external provider training requirements and implementation of the Ministry's new property management system. Less system and organisational change in the coming financial year should allow for a stronger focus on the signing of ten-year plans.

Performance Measure	Budget Standard 2015/16	Actual Performance 2015/16	Performance 2014/15	Comment
Major redevelopment and modernisation projects delivered on or ahead of scheduled completion dates.	80%	100%	Revised measure	Achieved <sup>11</sup>
Major redevelopment and modernisation projects demonstrate Ministry standards and specification have been achieved.	95%	100%	Revised measure	Achieved <sup>11</sup>
Post - occupancy evaluations demonstrate Ministry standards and specifications have been achieved.	95%	100%	Revised measure	Achieved <sup>12</sup>

### Financial performance

	2014/15 Actual	Budget	2015/16 Supplementary Estimates	Actual
	\$000	\$000	\$000	\$000
<b>CAPITAL EXPENDITURE</b>				
Land	11,824	46,500	18,000	41,462
Property, Plant and Equipment	635,529	881,650	729,642	714,349
Intangibles	17,180	13,477	14,215	16,649
<b>Total</b>	<b>664,533</b>	<b>941,627</b>	<b>761,857</b>	<b>772,460</b>

Departmental capital expenditure funded from a department's balance sheet is authorised by a permanent legislative authority (PLA) under section 24(1) of the Public Finance Act 1989. The Budget and Supplementary Estimates are forecast amounts to be spent rather than an approved amount and, therefore, the 2015/16 actual did not breach the appropriation.

Most of the capital expenditure for the Ministry of Education is for the school property works programme which also includes expenditure on office accommodation, the School Network Upgrade Project and broadband initiatives and development of information systems.

Forecast changes provide for a reallocation of the capital expenditure to reflect changes in the timing of investment in site purchases, construction of new schools and roll growth classrooms, and redevelopment of existing schools as more detailed planning is done. The significant increase in 2015/16 is due to the work in progress for the schools that are part of Private Public Partnership (PPP2) (refer Note 10 in Part 3 - Annual financial statements).

<sup>11</sup> Note this measure includes five major redevelopment and modernisation projects that were scheduled for completion in 2015/16. Major redevelopment and modernisation projects address one or more significant property issues, such as weather-tightness, effects of deferred maintenance and/or earthquake strengthening works. They typically require advanced project management due to their scale and complexity.

<sup>12</sup> Note this measure includes three post-occupancy evaluations completed in 2015/16.

## Vote Tertiary Education

### Portfolio Minister – Minister for Tertiary Education, Skills and Employment

#### Policy Advice

##### Scope of Appropriation

This appropriation is limited to the provision of advice (including second opinion advice and contributions to policy advice led by other agencies) to support decision-making by Ministers on Tertiary Education related matters.

##### What is Intended to be Achieved with this Appropriation

This appropriation is intended to achieve the provision of quality advice to the Minister to ensure that tertiary education policy and programmes support the performance of the tertiary education system.

##### Output performance measures and standards

Performance Measure	Budget Standard 2015/16	Actual Performance 2015/16	Performance 2014/15	Comment
Independent assessment of the quality of the Ministry's policy advice (see Note 1).	75%	73%	73%	<b>Not achieved</b> After achieving our target of 70% over the last two financial years, we set ourselves a more challenging target of 75% from 2015/16 that we will continue to work towards.
The satisfaction rating given by Ministers for the quality and timeliness of policy advice (as per the Common Satisfaction Survey) (see Note 2).	7	7	7	<b>Achieved</b>
The total cost per hour per person of producing policy outputs (see Note 3).	\$120 – \$135	\$139	\$120	<b>Not achieved</b> The cost of policy advice increased as we strengthen our policy leadership function and overall policy capability and capacity, consistent with other agencies (see page 42).

**Note 1** – The independent assessment of the Ministry's policy advice will have a technical robustness score, using the measurement of robustness provided by the Treasury.

**Note 2** – The Common Satisfaction Survey rating measures Ministers' satisfaction with the quality, timeliness and value for money of policy advice on a scale from 1–10, where 1 means unsatisfied and 10 means extremely satisfied.

**Note 3** – This measure provides the total cost of an hour of professional staff time devoted to both policy advice and other policy outputs. Total cost includes the cost of labour, overheads, support staff, direct costs and outsourced work to support production.

## Financial performance

	2014/15 Actual	2015/16		
		Budget	Supplementary Estimates	Actual
	\$000	\$000	\$000	\$000
<b>REVENUE</b>				
From the Crown	5,347	5,347	4,856	4,856
Other	-	-	-	-
<b>Total revenue</b>	<b>5,347</b>	<b>5,347</b>	<b>4,856</b>	<b>4,856</b>
<b>Total expenses</b>	<b>4,923</b>	<b>5,347</b>	<b>4,856</b>	<b>4,800</b>
<b>Net surplus/(deficit)</b>	<b>424</b>	<b>-</b>	<b>-</b>	<b>56</b>

## Stewardship of the Tertiary System

### Scope of Appropriation

This appropriation is limited to services (other than policy advice) provided by the Ministry of Education in its role as steward of the tertiary education system. It includes services to support Ministers in discharging their portfolio responsibilities (other than policy decision-making).

### What is Intended to be Achieved with this Appropriation

This appropriation is intended to achieve a shared strategic direction and alignment across the education system.

### Output performance measures and standards

Performance Measure	Budget Standard 2015/16	Actual Performance 2015/16	Performance 2014/15	Comment
<b>Tertiary and International Research and Analysis</b>				
<i>Analytical reports</i>				
• Number of reports completed and published	10 – 15	21	New measure	<b>Achieved</b>
• Percentage of reports completed within agreed timeframes.	100%	100%	New measure	<b>Achieved</b>
<b>Monitoring the Tertiary System</b>				
Forecasts of student loans and allowances are accurate within an agreed average of actual values.	Accurate within +/- 3% of actual values	Forecasts were accurate to within 2.0% of actual values	Forecasts were accurate to within 2.5% of actual values	<b>Achieved</b>
The Government's ownership interest in Crown agencies is explicitly measured and monitored through performance monitoring quarterly reports that are submitted to the Minister for Tertiary Education, Skills and Employment.	100%	100%	100%	<b>Achieved</b>
<b>Supplementary Measure<sup>13</sup></b>				
The satisfaction rating given by the Minister for monitoring advice meeting needs (see Note 1).	7	7	7	<b>Achieved</b>

<sup>13</sup> To provide a better measure for our Crown entity monitoring work we collected this information in 2014/15, to provide a benchmark, and introduced it as an Output Plan measure for 2015/16.

Performance Measure	Budget Standard 2015/16	Actual Performance 2015/16	Performance 2014/15	Comment
<b>Provision of Tertiary and Other Information</b>				
The quality and range of the Ministry's analytical outputs is assessed through an independent expert review (see Note 1).	Quality is assessed as 'Good' or better	Very good	Very good	<b>Achieved</b>
<b>Support for International Education</b>				
Number of outgoing and incoming delegations supported including ministerial visits, multilateral meetings and bilateral relationships.	40 – 70	86	New measure	<b>Achieved</b>
<b>Support for the Tertiary Minister</b>				
Ministerial Correspondence replies completed within 20 working days of receipt by the Ministry, unless otherwise agreed.	95%	98%	100%	<b>Achieved</b>
Parliamentary question responses provided to the Minister's Office so that answers can meet the timeframe set in Parliamentary Standing Orders.	95%	99%	100%	<b>Achieved</b>
Ministerial Official Information Act request replies completed five days prior to the statutory time limit, unless otherwise agreed.	95%	100%	86%	<b>Achieved</b>

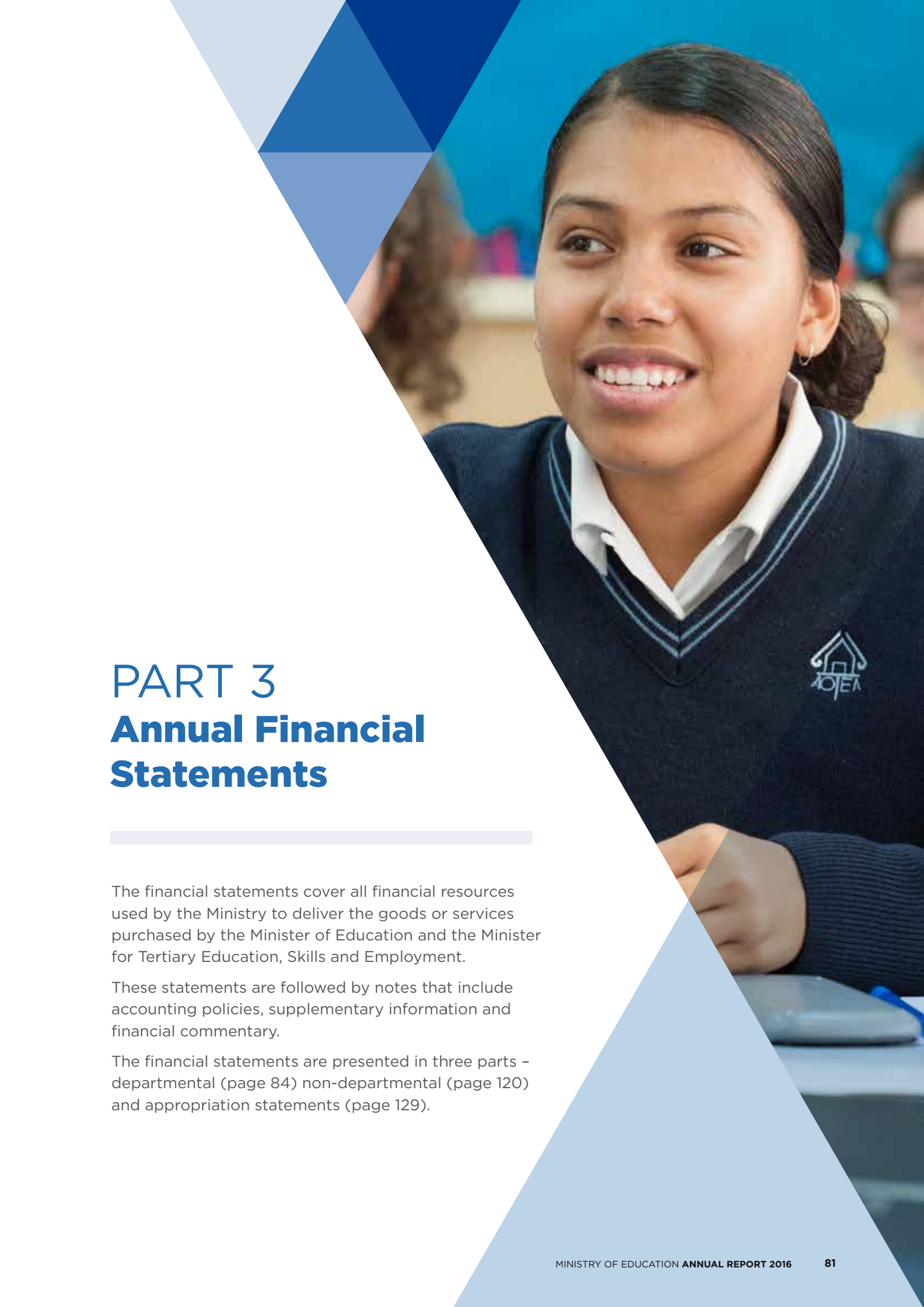
**Note 1** – Based on a five-point rating scale: 1 = Very poor; 2 = Poor; 3 = Acceptable; 4 = Good; 5 = Very good.

## Financial performance

	2014/15 Actual	Budget	2015/16 Supplementary Estimates	Actual
	\$000	\$000	\$000	\$000
<b>REVENUE</b>				
From the Crown	10,541	8,430	7,985	7,985
Other	-	-	-	-
<b>Total revenue</b>	<b>10,541</b>	<b>8,430</b>	<b>7,985</b>	<b>7,985</b>
<b>Total expenses</b>	<b>10,212</b>	<b>8,430</b>	<b>7,985</b>	<b>7,658</b>
<b>Net surplus/(deficit)</b>	<b>329</b>	<b>-</b>	<b>-</b>	<b>327</b>

The decrease from the 2014/15 actual to Budget is mainly due to planned lower levels of activity required for an international research project Programme for International Assessment of Adult Competencies (PIACC) as agreed in Budget 2012 (\$2.190 million).

The decrease in both the Supplementary Estimates and actual expenditure from the Budget is mainly due to a transfer to 2016/17 to complete the Tertiary Information Enhancement project (\$235,000).



## PART 3

# Annual Financial Statements

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The financial statements cover all financial resources used by the Ministry to deliver the goods or services purchased by the Minister of Education and the Minister for Tertiary Education, Skills and Employment.

These statements are followed by notes that include accounting policies, supplementary information and financial commentary.

The financial statements are presented in three parts – departmental (page 84) non-departmental (page 120) and appropriation statements (page 129).

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# Ministry of Education

## Departmental Financial Statements

for the year ended 30 June 2016

### Statement of Comprehensive Revenue and Expenses for the year ended 30 June 2016

The Statement of Comprehensive Revenue and Expenses reports the revenue and expenses on an accrual basis relating to all outputs (goods and services) produced by the Ministry during the financial year. Total operating expenses equals total departmental output expenses and appropriations in the *Statement of Budgeted and Actual Expenses and Capital Expenditure Incurred Against Appropriations* on page 129.

2015 Actual			2016 Actual	2016 Budget	2016 Supplementary Estimates	2017 Forecast
\$000		Notes	\$000	(unaudited) \$000	(unaudited) \$000	(unaudited) \$000
<b>Revenue</b>						
2,026,875	Revenue Crown		2,063,662	2,048,084	2,063,662	2,140,996
66,906	Other revenue	2	51,681	9,799	56,087	6,901
<b>2,093,781</b>	<b>Total operating revenue</b>		<b>2,115,343</b>	<b>2,057,883</b>	<b>2,119,749</b>	<b>2,147,897</b>
<b>Expenses</b>						
282,706	Personnel costs	3	275,502	273,894	279,451	279,451
481,395	Depreciation and amortisation	10,11	510,282	488,929	518,929	523,123
946,500	Capital charge	4	997,311	970,588	997,311	1,032,644
5,972	Finance costs	5	5,630	4,871	5,904	12,349
342,339	Other operating expenses	6	304,120	319,601	303,624	300,330
<b>2,058,912</b>	<b>Total operating expenses</b>		<b>2,092,845</b>	<b>2,057,883</b>	<b>2,105,219</b>	<b>2,147,897</b>
<b>34,869</b>	<b>Net operating surplus</b>		<b>22,498</b>	<b>-</b>	<b>14,530</b>	<b>-</b>
<b>Remeasurements<sup>14</sup></b>						
-	Net unrealised loss on derivative financial instruments	19	35,616	-	-	-
<b>34,869</b>	<b>Net surplus/(deficit)</b>		<b>(13,118)</b>	<b>-</b>	<b>14,530</b>	<b>-</b>
<b>Other comprehensive revenue</b>						
520,968	Gain on property revaluations	9,10	2,180,577	-	-	-
<b>520,968</b>	<b>Total other comprehensive revenue</b>		<b>2,180,577</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>555,837</b>	<b>Total comprehensive revenue and expense</b>		<b>2,167,459</b>	<b>-</b>	<b>14,530</b>	<b>-</b>

14 Remeasurements means revisions of prices or estimates that result from revised expectations of future economic benefits or obligations that change the carrying amounts of assets or liabilities. They are exempted from the requirement for appropriation under the Public Finance Act 1989.

The above Statement of Comprehensive Revenue and Expenses should be read in conjunction with the accompanying notes.

## Statement of Financial Position as at 30 June 2016

The Statement of Financial Position reports the total assets and liabilities of the Ministry.  
The difference between the assets and the liabilities is the taxpayers' equity.

2015 Actual			2016 Actual	2016 Budget	2016 Supplementary Estimates	2017 Forecast
\$000	Notes		\$000	(unaudited) \$000	(unaudited) \$000	(unaudited) \$000
<b>Assets</b>						
<b>Current assets</b>						
49,275	Cash and cash equivalents		54,014	55,182	41,404	39,826
353,541	Debtors and other receivables	7	439,881	345,484	360,150	417,638
31,773	Prepayments	8	20,703	26,672	28,431	28,431
32,363	Non-current assets held for sale	9	22,404	40,715	30,000	30,000
-	Derivative financial instruments	19	1,025	-	-	-
<b>466,952</b>	<b>Total current assets</b>		<b>538,027</b>	<b>468,053</b>	<b>459,985</b>	<b>515,895</b>
<b>Non-current assets</b>						
12,175,109	Property, plant and equipment	10	14,593,188	12,078,940	12,511,036	12,918,882
54,971	Intangible assets	11	56,826	32,009	58,307	68,545
-	Derivative financial instruments	19	159	-	-	-
<b>12,230,080</b>	<b>Total non-current assets</b>		<b>14,650,173</b>	<b>12,110,949</b>	<b>12,569,343</b>	<b>12,987,427</b>
<b>12,697,032</b>	<b>Total assets</b>		<b>15,188,200</b>	<b>12,579,002</b>	<b>13,029,328</b>	<b>13,503,322</b>
<b>Liabilities</b>						
<b>Current liabilities</b>						
111,579	Creditors and other payables	12	107,281	81,162	105,582	105,582
12,469	Return of operating surplus to Crown	13	7,968	-	-	-
1,500	Provisions	14	1,187	-	-	-
16,941	Employee entitlements	15	18,118	12,607	14,056	14,056
905	Service concession liability	16	1,704	-	-	-
-	Derivative financial instruments	19	9	-	-	-
<b>143,394</b>	<b>Total current liabilities</b>		<b>136,267</b>	<b>93,769</b>	<b>119,638</b>	<b>119,638</b>
<b>Non-current liabilities</b>						
4,936	Provisions	14	1,216	-	-	-
8,205	Employee entitlements	15	9,840	5,260	10,000	10,000
74,113	Service concession liability	16	170,185	62,243	190,750	285,439
-	Derivative financial instruments	19	36,791	-	-	-
<b>87,254</b>	<b>Total non-current liabilities</b>		<b>218,032</b>	<b>67,503</b>	<b>200,750</b>	<b>295,439</b>
<b>230,648</b>	<b>Total liabilities</b>		<b>354,299</b>	<b>161,272</b>	<b>320,388</b>	<b>415,077</b>
<b>12,466,384</b>	<b>Net assets</b>		<b>14,833,901</b>	<b>12,417,730</b>	<b>12,708,940</b>	<b>13,088,245</b>
<b>Taxpayers' equity</b>						
4,533,821	General funds	17	4,718,705	5,137,328	4,933,306	5,312,611
7,932,563	Property revaluation reserves	17	10,115,196	7,280,402	7,775,634	7,775,634
<b>12,466,384</b>	<b>Total taxpayers' equity</b>		<b>14,833,901</b>	<b>12,417,730</b>	<b>12,708,940</b>	<b>13,088,245</b>

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

## Statement of Changes in Taxpayers' Equity for the year ended 30 June 2016

The Statement of Changes in Taxpayers' Equity shows the increase or decrease in the Ministry's net assets between the start and end of the financial year. It is supported by a note with a breakdown of the changes in components – General Funds and Property Revaluation Reserves.

2015 Actual			2016 Actual	2016 Budget	2016 Supplementary Estimates	2017 Forecast
			(unaudited)	(unaudited)	(unaudited)	
\$000		Notes	\$000	\$000	\$000	\$000
11,831,255	Balance at 1 July		12,466,384	11,993,672	12,466,384	12,708,940
34,869	Net surplus/(deficit)		(13,118)	-	14,530	-
520,968	Gain on property revaluations		2,180,577	-	-	-
Owner transactions						
167,454	Capital injections		276,871	424,058	276,871	475,848
(75,693)	Capital withdrawals		(68,845)	-	(48,845)	(96,543)
(12,469)	Return of operating surplus to Crown	13	(7,968)	-	-	-
12,466,384	Balance at 30 June	17	14,833,901	12,417,730	12,708,940	13,088,245

The above Statement of Changes in Taxpayers' Equity should be read in conjunction with the accompanying notes.

## Statement of Cash Flows for the year ended 30 June 2016

The Statement of Cash Flows summarises the cash movements in and out of the Ministry during the financial year. It takes no account of money owed to the Ministry or owing by the Ministry and therefore differs from the *Statement of Comprehensive Revenue and Expenses* on page 84.

2015 Actual			2016 Actual	2016 Budget	2016 Supplementary Estimates	2017 Forecast
\$000	Notes		\$000	(unaudited) \$000	(unaudited) \$000	(unaudited) \$000
<b>Cash flows from operating activities</b>						
2,026,860	Receipts from Revenue Crown		1,975,450	2,056,908	1,932,485	2,083,508
13,278	Receipts from other revenue		16,565	5,584	17,321	6,901
(332,809)	Payments to suppliers		(297,583)	(321,696)	(296,158)	(302,728)
(284,461)	Payments to employees		(273,604)	(271,799)	(278,122)	(277,053)
(946,500)	Payments for capital charge		(997,311)	(970,588)	(997,310)	(1,032,644)
2,850	Goods and services tax (net)		(8,091)	-	(771)	-
<b>479,218</b>	<b>Net cash flow from operating activities</b>	<b>18</b>	<b>415,426</b>	<b>498,409</b>	<b>377,445</b>	<b>477,984</b>
<b>Cash flows from investing activities</b>						
63,837	Receipts from sale of property, plant and equipment		58,025	15,000	60,400	15,000
(642,618)	Purchase of property, plant and equipment		(641,049)	(928,150)	(639,054)	(838,300)
(17,881)	Purchase of intangible assets		(16,649)	(15,578)	(16,316)	(23,218)
<b>(596,662)</b>	<b>Net cash flow from investing activities</b>		<b>(599,673)</b>	<b>(928,728)</b>	<b>(594,970)</b>	<b>(846,518)</b>
<b>Cash flows from financing activities</b>						
167,454	Capital injections		276,871	424,058	276,871	475,848
(53,293)	Capital withdrawals		(68,845)	-	(48,845)	(96,543)
-	Return of operating surplus to Crown		(12,469)	-	(12,469)	-
(5,972)	Payment of finance charges on service concession arrangements		(5,630)	(6,942)	(5,904)	(12,349)
(830)	Repayment of service concession liability		(941)	-	-	-
<b>107,359</b>	<b>Net cash flow from financing activities</b>		<b>188,986</b>	<b>417,116</b>	<b>209,653</b>	<b>366,956</b>
<b>(10,085)</b>	<b>Net (decrease)/increase in cash</b>		<b>4,739</b>	<b>(13,203)</b>	<b>(7,872)</b>	<b>(1,578)</b>
59,360	Cash at the beginning of the year		49,275	68,385	49,276	41,404
<b>49,275</b>	<b>Cash at the end of the year</b>		<b>54,014</b>	<b>55,182</b>	<b>41,404</b>	<b>39,826</b>

The goods and services tax (GST) (net) component of operating activities reflects the net GST paid to and received from Inland Revenue. The GST components have been presented on a net basis, as the gross amounts do not provide meaningful information for financial statement purposes.

*The above Statement of Cash Flows should be read in conjunction with the accompanying notes.*

## Supplementary Information

### Statement of Commitments as at 30 June 2016

The Statement of Commitments records future expenses and liabilities to be incurred on contracts that have been entered into at balance date.

	2015 Actual \$000	2016 Actual \$000
<b>Capital commitments</b>		
<b>School property capital works programme</b>		
<b>Building</b>		
• Not later than one year	303,370	572,011
• Later than one year and not later than five years	151,137	312,089
• Later than five years	1,000	2,575
<b>Service concession arrangements</b>		
• Not later than one year	116,201	116,390
• Later than one year and not later than five years	115,419	25,605
• Later than five years	140,959	139,358
<b>Total capital commitments</b>	<b>828,086</b>	<b>1,168,028</b>
<b>Non-cancellable operating leases</b>		
The future aggregate minimum lease payments to be paid under non-cancellable operating leases are as follows:		
<b>Ministry office premises</b>		
Not later than one year	14,073	16,235
Later than one year and not later than five years	43,221	47,403
Later than five years	24,718	64,535
<b>School property</b>		
Not later than one year	5,068	9,020
Later than one year and not later than five years	19,859	31,184
Later than five years	64,610	81,763
<b>Total non-cancellable operating lease commitments</b>	<b>171,549</b>	<b>250,140</b>
<b>Total commitments</b>	<b>999,635</b>	<b>1,418,168</b>

The above Statement of Commitments should be read in conjunction with the accompanying notes.

### School property capital works programme

Building commitments are the aggregate amount of capital expenditure contracted for the acquisition or construction of buildings, which have not been paid for or not recognised as a liability at balance date.

Service concession arrangements<sup>15</sup> (also known as Public Private Partnerships) commitments represent the obligation at balance date to incur capital expenditure over the remaining life of the service concession arrangements.

The increase in the school property capital works programme reflects the increase in demand for new schools, whether by traditional procurement or under a service concession arrangement, roll growth classrooms and the continuation of the Christchurch Schools Rebuild (CSR) programme; supported by capital injections.

### Non-cancellable operating leases

The Ministry has long-term leases on office premises and school land, which are for varying terms, escalation clauses and renewal rights. The amounts disclosed above as future commitments are based on the current lease terms.

The increase in Ministry office premises commitments mainly reflects the extension of the national office accommodation lease through to 2030.

The increase in school property commitments is due to renewals and additional leases through the Treaty of Waitangi settlement process.

There are no restrictions placed on the Ministry by any of its leasing arrangements.

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<sup>15</sup> A service concession arrangement is an arrangement between the Government and a private sector partner in which the private sector partner uses specified assets to supply a public service on behalf of the Government for a specified period of time and is compensated for its services over the period of the arrangement.

*The above Statement of Commitments should be read in conjunction with the accompanying notes.*

## Statement of Contingent Liabilities and Contingent Assets as at 30 June 2016

The Statement of Contingent Liabilities and Contingent Assets discloses situations that exist at year end, the ultimate outcome of which is uncertain and will be confirmed only on the occurrence of one or more future events after the date of approval of the financial statements.

### Quantifiable contingent liabilities

	2015 Actual \$000	2016 Actual \$000
<b>Legal proceedings and disputes</b>		
Contractual disputes	20	35,670
Historical negligence claims of abuse in government institutions such as special schools	2,529	3,884
<b>Total quantifiable contingent liabilities</b>	<b>2,549</b>	<b>39,554</b>

Legal proceedings and disputes represent the amounts claimed by plaintiffs in relation to the performance of the Ministry's statutory role.

### Unquantifiable contingent liabilities

The Ministry has no unquantifiable contingent liabilities (2015: Nil).

### Unquantifiable contingent assets

As at 30 June 2016 (and 2015) the Ministry has various unquantified contingent assets in relation to potential (but as yet unquantified) revenue resulting from prospective weather-tightness related legal settlements.

Settlement payments have been received on various legal claims through the 2015/16 financial year (refer Note 2 to the financial statements), and the Supreme Court has recently permitted a claim against a cladding manufacturer to proceed to trial, but due to the complexity of the cases it is unknown at this time when subsequent payments (if any) may be made.

### Quantifiable contingent assets

The Ministry has no quantifiable contingent assets (2015: \$Nil).

*The above Statement of Contingent Liabilities should be read in conjunction with the accompanying notes.*

## Notes to the Departmental Financial Statements

for the year ended 30 June 2016

### Note 1 – Statement of Accounting Policies

#### Reporting entity

The Ministry of Education is a New Zealand government department, as defined by section 2 of the Public Finance Act 1989 (PFA).

In addition, the Ministry has reported separately on the non-departmental schedules which present financial information on public funds managed by the Ministry.

The primary objective of the Ministry is to provide services to the public. The Ministry is the lead advisor to the Government on education: early childhood education (ECE), primary and secondary education and tertiary education. The Ministry is also the steward of the education system. The Ministry does not operate to make a financial return. Accordingly, the Ministry has designated itself as a Public Benefit Entity (PBE) for financial reporting purposes.

The financial statements of the Ministry are for the year ended 30 June 2016. The financial statements were authorised for issue by the Secretary for Education on 30 September 2016.

#### Basis of preparation

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

#### Statement of compliance

The financial statements of the Ministry have been prepared in accordance with the requirements of the PFA, which includes the requirement to comply with New Zealand generally accepted accounting practice (NZ GAAP) and Treasury Instructions.

These financial statements have been prepared in accordance, and comply, with Tier 1 Public Benefit Entity accounting standards (PBE Standards).

#### Measurement base

The financial statements have been prepared on a historical cost basis, modified by the revaluation of land, buildings, derivatives and service concession assets, actuarial valuations of certain liabilities, and the fair value of certain financial instruments.

#### 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 of the Ministry is New Zealand dollars.

#### Comparatives

There have been a number of prior period comparatives which have been reclassified to make disclosure consistent with the current year.

#### Significant accounting policies

The following particular accounting policies, which materially affect the measurement of financial results and financial position, have been applied.

## Revenue

The Ministry funds its operations through exchange and non-exchange transactions, distinguished by whether there is a direct exchange of approximately equal value with another party or not. Exchange revenue covers goods and services supplied on a commercial basis including on a cost recovery basis as prevalent in the public sector. Non-exchange revenues are funds that do not require an exchange of equal value.

### *Revenue from the Crown*

This is the primary source of funding for the Ministry. Revenue from the Crown (Revenue Crown) is measured based on the Ministry's funding entitlement for the reporting period. Revenue Crown is a non-exchange transaction because the Crown does not directly receive equal value from the Ministry in return for the funding. The funding entitlement is established by Parliament when it passes the Appropriation Acts for the financial year. There are no conditions attached to the funding from the Crown. However, the Ministry can incur expenses only within the scope and limits of its appropriations. The fair value of Revenue Crown has been determined to be equivalent to the funding entitlement.

## Capital charge

The capital charge is recognised as an expense in the financial year to which the charge relates. The capital charge, as applied to departments, is not a borrowing cost in accordance with PBE IPSAS 5 (Borrowing Costs).

## Leases

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Lease incentives received are recognised in the surplus or deficit as a reduction of rental expense over the lease term.

The Ministry does not have any finance leases.

## Financial instruments

Financial assets and financial liabilities are initially measured at fair value plus transaction costs unless they are carried at fair value through surplus or deficit, in which case the transaction costs are recognised in net surplus or deficit.

## Cash and cash equivalents

Cash and cash equivalents are cash on hand and funds held at call with Westpac, a registered bank, that form part of the day-to-day cash management of the Ministry. No interest is payable to the Ministry on its bank accounts.

The Ministry is only permitted to spend the cash and cash equivalents within the scope of its appropriations.

## Debtors and other receivables

Debtors and other receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest rate, less impairment changes.

Impairment of a receivable is established when there is objective evidence that the Ministry will not be able to collect amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy, and default in payments are considered indicators that the debtor is impaired. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate. The carrying amount of the asset is reduced through the use of a doubtful debts provision, and the amount of the loss is recognised in the net surplus or deficit. Overdue receivables that are renegotiated are reclassified as current (ie, not past due).

### Derivative financial instruments

The Ministry uses derivative financial instruments in the form of forward foreign exchange contracts to manage exposure to foreign exchange and interest rate swaps to manage its exposure to fluctuating market interest rates as a result of its service concession arrangements.

The Ministry does not hold or issue derivatives financial instruments for trading purposes and has not adopted hedge accounting.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value at each balance date. Movements in the fair value of derivative financial instruments are recognised in the net surplus or deficit.

Foreign currency transactions (including those for which forward exchange contracts are held) are translated into New Zealand dollars using the exchange rates prevailing at the dates of the transactions.

### Non-current assets held for sale

Non-current assets held for sale are classified as held for sale when they are identified as surplus to requirements and approval has been obtained to dispose of these assets.

Immediately prior to being classified as held for sale, the asset is either tested for impairment (if it was measured using the cost model), or revalued upwards/downwards (if it was measured using the revaluation model), and the impairment/revaluation goes through other comprehensive revenue to the extent that a revaluation reserve balance exists for that class of asset. Assets held for sale are tested for impairment at each subsequent balance date and any further impairment is recognised in net surplus or deficit.

Any increases in fair value (less costs to sell) are recognised up to the level of any impairment losses that have been previously recognised.

Non-current assets held for sale (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale.

Due to legal and procedural matters, the length of time required to finalise disposal may extend beyond 1 year but the Ministry has no intention to realise the benefits of these assets other than through their sale.

### Property, plant and equipment

Property, plant and equipment consist of the following asset classes: land, buildings, service concession assets, leasehold improvements, ICT, office furniture and equipment, and motor vehicles.

Land is measured at fair value, and buildings including those financed under a service concession arrangement are measured at fair value less accumulated depreciation. All other assets classes are measured at cost, less accumulated depreciation and impairment losses.

#### *Additions*

Individual assets, or groups of assets, are capitalised if their cost is greater than \$2,500. The value of an individual asset that is less than \$2,500 and is part of a group of similar assets is capitalised.

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

The initial cost of property, plant and equipment is the value of the consideration given to acquire or create the asset and any directly attributable costs of bringing the asset to working condition for its intended use. Where an asset is acquired at no cost, or for a nominal cost through a non-exchange transaction, it is recognised at fair value as at the date of acquisition.

### *Disposals*

Realised gains and losses arising from disposal of property, plant and equipment are recognised in the net surplus or deficit. When revalued assets are sold or derecognised, the amounts included in asset revaluation reserves in respect of those assets are transferred to general funds.

### *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 Ministry 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 net surplus or deficit as they are incurred.

### *Service concession arrangements*

Schools and other assets financed under a service concession arrangement (also known as Public Private Partnerships) are recognised as work in progress during construction. A corresponding financial liability is also recognised, representing the Ministry's obligation to pay capital and financing charges to the contractor in respect of the assets once they become operational.

On inception of the service concession arrangement, the financial liability is recognised at its fair value. Subsequently, it is carried at amortised cost using the effective interest rate method. The work in progress assets are remeasured at inception to be consistent with the fair value of the financial liability. Subsequently, the assets are accounted for at fair value.

Payments made to the contractor for the provision of services are recognised as an expense as incurred. Payments relating to the capital component reduce the financial liability when they are made. Finance costs are incurred in relation to the repayment of the service concession over the contract term and are recognised as an expense in the period in which they are incurred.

### *Revaluations*

School buildings and site improvements are stated at fair value as determined by an internal valuation process on an annual basis. Fair value is determined using depreciated replacement cost. Depreciated replacement cost is used for buildings because of the specialised nature of the assets. An independent registered valuer reviews the valuation for school buildings and improvements.

ECE service buildings (playcentres and kindergartens) are valued by an independent registered valuer based on depreciated replacement cost. Valuations are conducted on an annual basis.

School land, ECE land, house land and houses are recorded at market value as assessed by an independent registered valuer. Valuations are conducted on an annual basis.

The service concession assets are revalued at least triennially using a valuation prepared by an independent valuer. Fair value is determined consistent with other school land and buildings.

Additions between valuations are recorded at cost.

The Ministry accounts for revaluations of property, plant and equipment on a class of asset basis.

The results of revaluing are credited or debited to other comprehensive revenue and expense and are accumulated to an asset revaluation reserve in taxpayers' equity for that class. Where this results in a debit balance in the asset revaluation reserve, this balance is expensed in net surplus or deficit. Any subsequent increase on revaluation, that offsets a previous decrease in value recognised in net surplus or deficit, will be recognised first in net surplus or deficit up to the amount previously expensed, and then credited to the revaluation reserve for that class of asset.

### Depreciation

Depreciation is provided on a straight-line basis on all property, plant and equipment, other than land, at rates that will write-off the cost (or valuation) of the assets to their estimated residual values over their useful lives. The useful lives of major classes of property, plant and equipment have been estimated as follows:

Useful lives:	Years
Buildings including those financed under a service concession arrangement	
• Permanent school building roof, services, fit outs, lifts and boilers	15 – 45
• Ancillary buildings, covered ways, houses, kindergartens, playcentres, site improvements, swimming pools	30 – 50
• Permanent school building fabric	75
Motor vehicles	4
Office furniture, equipment and ICT	2 – 8

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 are reviewed, and adjusted if applicable, at each financial year end.

### Intangible assets

Intangible assets consist of the following asset classes: acquired computer software and developed computer software.

Individual assets, or groups of assets, are capitalised if their cost is greater than \$2,500. The value of an individual asset that is less than \$2,500 and is part of a group of similar assets is capitalised.

#### 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 Ministry are recognised as an intangible asset. Direct costs include the costs of materials and services, employee costs, and any directly attributable overheads.

Staff training costs and costs associated with the development and maintenance of the Ministry's website are recognised as an expense when incurred.

Costs of software updates or upgrades are only capitalised when they increase the usefulness or value of the software.

#### 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 period is recognised in net surplus or deficit.

The useful lives of intangible assets have been estimated as follows:

Useful lives:	Years
Acquired or developed computer software	3 – 10

### Impairment of property, plant and equipment, and intangible assets

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

Additionally, intangible assets in the course of development are tested annually for impairment.

### Creditors and other payables

Creditors and other payables are generally settled within 30 days so are recorded at their face value.

### Employee entitlements

#### *Short-term employee entitlements*

Employee entitlements expected to be settled within 12 months of balance date are measured at nominal values based on accrued entitlements at current rates of pay. These include salaries and wages accrued up to balance date, annual leave earned but not yet taken at balance date, long service leave and retirement gratuities expected to be settled within 12 months.

#### *Long-term employee entitlements*

Employee benefits that are due to be settled beyond 12 months after the end of the reporting period in which the employee renders the related service, such as long service leave and retiring leave, are calculated on an actuarial basis.

Expected future payments are discounted using market yields on government bonds at balance date with terms to maturity that match, as closely as possible, the estimated future cash outflows for entitlements. The inflation factor is based on the expected long-term increase in remuneration for employees.

### Provisions

The Ministry recognises a provision for future expenditure when there is a present obligation, either legal or constructive, as a result of a past event but the timing or the amount of the obligation is uncertain.

A provision for restructuring is recognised when an approved formal plan for the restructuring has been announced publicly to those affected, or for which implementation has already commenced.

A provision for reinstatement of leased premises is recognised if the Ministry is required to remove any fixtures and fittings installed by the Ministry at the expiry of the lease.

### Taxpayers' equity

Taxpayers' equity is the Crown's investment in the Ministry and is measured as the difference between total assets and total liabilities. Taxpayers' equity is disaggregated and classified as general funds and property revaluation reserves.

### Commitments

Commitments are future expenses and liabilities to be incurred on contracts that have been entered into at balance date.

Information on non-cancellable capital and lease commitments is reported in the *Statement of Commitments*.

Cancellable capital commitments that have penalty or exit costs explicit in the agreement on exercising that option to cancel are reported in the *Statement of Commitments* at the lower of the remaining contractual commitment and the values of those penalty or exit costs (ie, the minimum future payments).

### Contingent liabilities and assets

Contingent liabilities and assets are recorded in the *Statement of Contingent Liabilities and Contingent Assets* at the point at which the contingency is evident. Contingent liabilities are disclosed if the possibility that they will crystallise is not remote. Contingent assets are disclosed if it is probable that the benefits will be realised. Insurance claim proceeds are disclosed as a contingent asset if the receipt of the insurance proceeds is probable.

### Goods and Services Tax (GST)

All items in the financial statements, including appropriation statements, are stated exclusive of GST, except for Debtor Crown, Trade debtors and creditors, which are stated on a GST-inclusive basis. Where GST is not recoverable as input tax, then it is recognised as part of the related asset or expense.

The net amount of GST payable to, or recoverable from, the Inland Revenue Department at balance date is included as part of Creditors and other payables or Trade debtors and other receivables in the *Statement of Financial Position*.

The net GST paid to, or received from, the Inland Revenue Department, including the GST relating to investing and financing activities, is classified as an operating cash flow in the *Statement of Cash Flows*.

Commitments and contingencies are disclosed exclusive of GST.

### Income tax

Government departments are exempt from income tax as public authorities. Accordingly, no charge for income tax has been provided for.

### Statement of cost accounting policies

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

All costs are charged to activities or projects. Direct costs are charged directly to non-overhead activities or projects. Indirect costs are charged to overhead activities. Costs in the overhead activities are then ascribed to non-overhead activities based on cost drivers.

#### *Criteria for direct and indirect costs*

Direct costs are those costs charged directly to a non-overhead activity. Indirect costs are those overhead costs that cannot be identified with a specific output in an economically feasible manner, and are charged to an overhead activity.

#### *Direct costs assigned to outputs*

Non-overhead activities are mapped directly to outputs. Costs in these activities are therefore assigned directly to the relevant outputs. This includes costs related to the provision of school sector property.

#### *Basis for assigning indirect and corporate costs to outputs*

Indirect costs are assigned to non-overhead activities, and thereby to outputs, on the basis of direct salaries costs captured within the non-overhead activity.

There have been no material changes in cost accounting policies since the date of the last audited financial statements.

## Critical accounting estimates and assumptions

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

### *Long service leave and retirement gratuities*

Entitlements that are payable beyond 12 months, such as long service leave and retiring leave, have been calculated on an actuarial basis. The calculations are based on:

- likely future entitlements based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement, and contractual entitlements information
- the present value of the estimated future cash flows. The discount rates prescribed by the Treasury as at 30 June 2016 and a salary inflation factor of 2.5% (2015: 3%) were used for retiring and long service leave.

An analysis of the exposure in relation to estimates and uncertainties surrounding long service leave and retirement gratuities liabilities is disclosed in Note 15.

### *Land valuation*

Land fair values have been determined from market-based evidence. Land has been valued as if vacant and incorporates the influences of size, contour, quality, location, zoning, designation and current and potential usage and an open market 'willing buyer willing seller' scenario. For schools with a designation or other restriction against the land the values are adjusted accordingly.

### *School buildings and site improvements valuation*

School buildings and site improvements are stated at fair value as determined by an internal valuation process on an annual basis. Fair value is determined using depreciated replacement cost. Depreciated replacement cost is used because of the specialised nature of the assets. An independent registered valuer reviews the valuation for school buildings and site improvements.

For the 2016 valuation, a new revaluation methodology has been introduced for Site Improvements. This has been developed in consultation with Quotable Value Asset and Advisory. Asset lives are not automatically reset at the end of their standard life as in previous years. In 2016, asset lives have been reset if there has been significant investment made to the infrastructure of the school. Given the complex nature of the site improvements revaluation calculation, it is difficult to establish the individual impact of the above changes.

The construction rates applied for calculating the depreciated replacement costs have been sourced from 'QV Costbuilder' with an effective date of 1 June 2016.

The following table provides component rates applied for calculating the depreciated replacement cost for each component of buildings by the Ministry in Auckland. Rates for other regions and provinces are determined by applying provincial indices to these rates.

Component	2015 unit rate	2016 unit rate
Classroom – fit out	\$639 m <sup>2</sup>	\$659 m <sup>2</sup>
Classroom – services	\$702 m <sup>2</sup>	\$696 m <sup>2</sup>
Classroom – roof	\$277 m <sup>2</sup>	\$285 m <sup>2</sup>
Classroom fabric – single storey	\$954 m <sup>2</sup>	\$967 m <sup>2</sup>
Classroom fabric – per storey	\$381 m <sup>2</sup>	\$392 m <sup>2</sup>
Ancillary buildings	\$736 m <sup>2</sup>	\$743 m <sup>2</sup>
Covered way	\$389 m <sup>2</sup>	\$401 m <sup>2</sup>
Swimming pools	\$3,160 m <sup>2</sup>	\$3,217 m <sup>2</sup>
Boilers	\$59,573 each	\$59,149 each
Lifts – standard (3 floors)	\$111,067 each	\$120,304 each
Lifts – additional floor	\$6,058 each	\$6,316 each

### *School buildings and site improvements useful life*

The useful life of school buildings and site improvements are re-assessed annually based on their age and the level of capital expenditure incurred over the last 10 years compared to their replacement cost.

The remaining useful life assumption for the following categories of buildings and site improvements has been assessed and decreased to reflect their most likely remaining useful life:

- those identified as likely to be demolished as part of the Buildings Improvement Programme (weather-tightness), the Redevelopment Programme and the Greater Christchurch Education Renewal Programme
- those identified as being surplus to future requirements and where rationalisation is a likely outcome.

### *Service concession rate*

The discount rate for the service concession is based on the best information available taking into consideration the length of time of the agreement, asset lifecycles, swap arrangements and information from Treasury and the Reserve Bank.

## **Budget and forecast figures**

The budget figures in the financial statements are for the year ended 30 June 2016 and were published in the 2014/15 Annual Report. They are consistent with the Ministry's best estimate financial forecast information submitted to Treasury for the 2015 Budget Economic and Fiscal Update (BEFU) for the 2015/16 year. In addition, the financial statements also present the updated budget information from the Supplementary Estimates.

The forecast financial statement figures are for the year ending 30 June 2017, and are consistent with the best estimate financial forecast information submitted to Treasury for the BEFU 2016 for the 2016/17 financial year. They have been prepared as required by the PFA to communicate forecast financial information for accountability purposes and in accordance with PBE Standards.

The budget and forecast figures are unaudited and have been prepared using the accounting policies adopted in preparing these financial statements. These figures do not provide for the annual revaluation of school property assets as it is Crown accounting policy not to budget for annual revaluation movements.

The forecast financial statements were approved for issue by the Chief Executive of the Ministry of Education on 18 April 2016. The Chief Executive is responsible for the forecast financial statements, including the appropriateness of the assumptions underlying them and all other required disclosures.

The actual financial results achieved for 30 June 2017 are likely to vary from the forecast information presented, and the variation may be material.

### *Significant assumptions used in preparing the forecast financials*

The forecast figures contained in these financial statements reflect the Ministry's purpose and activities and are based on a number of assumptions about what may occur during the 2016/17 year. They have been compiled on the basis of existing government policies and ministerial expectations at the date the information was prepared. The main assumptions were as follows:

- the Ministry's activities and output expectations will remain substantially the same as the previous year focusing on the Government's priorities
- personnel costs were based on current wages and salary costs and full-time equivalent (FTE) levels and staff turnover, adjusted for anticipated remuneration changes, and
- operating costs were based on historical experience and other factors that are believed to be reasonable in the circumstances and are the Ministry's best estimate of future costs that will be incurred.

Additional factors that could lead to material differences between the forecast and the actual results include changes to the baseline budget through new initiatives, transfer of funding across financial years or technical adjustments.

While the Ministry regularly updates its forecasts, updated forecast financial statements for the year ending 30 June 2017 will not be published.

## **Note 2 – Other Revenue**

	2015 Actual \$000	2016 Actual \$000
<i>Non-exchange</i>		
Negotiated settlement with former school payroll provider	29,400	-
Weather-tightness settlements	7,108	3,586
Third party contributions to development of school building assets	-	2,341
<i>Exchange</i>		
Gain on disposal of property, plant and equipment	24,901	37,268
School house rentals	3,503	3,807
Support services to other public entities	-	1,152
Miscellaneous revenue	1,994	3,527
<b>Total other revenue</b>	<b>66,906</b>	<b>51,681</b>

### Note 3 – Personnel Costs

	2015 Actual \$000	2016 Actual \$000
Salaries and wages	273,681	260,729
Superannuation contributions to defined contribution plans	6,779	6,916
Training and development	3,077	3,894
Increase/(decrease) in employee entitlements	(4,355)	2,812
Increase/(decrease) in restructuring provision	1,500	(813)
Other personnel costs	2,024	1,964
<b>Total personnel costs</b>	<b>282,706</b>	<b>275,502</b>

Superannuation contributions to defined contribution plans include contributions to the State Sector Retirement Savings Scheme, KiwiSaver and the Government Superannuation Fund.

### Note 4 – Capital Charge

The Ministry pays a capital charge to the Treasury on its taxpayers' equity as at 30 June and 31 December each year. The capital charge rate for the year ended 30 June 2016 was 8.0% (2015: 8.0%).

### Note 5 – Finance Costs

	2015 Actual \$000	2016 Actual \$000
Finance charges on service concession arrangements	5,972	5,630
<b>Total finance costs</b>	<b>5,972</b>	<b>5,630</b>

## Note 6 – Other Operating Expenses

	2015 Actual \$000	2016 Actual \$000
Fees to auditors		
• Audit fees for audit of the financial statements	407	498
• Other assurance services	-	55
• Advisory services	39	2
Contracts for services	106,985	111,645
Special education payments	106,713	58,208
Maintenance of school land and buildings	57,451	62,532
Operating lease rentals	16,870	17,577
ICT costs	13,066	15,400
Loss on disposal of property, plant and equipment	8,160	11,838
Legal fees and litigation costs	6,812	7,051
Write-off of software under development	303	139
Increase/(decrease) in lease reinstatement provision	2,487	(3,220)
Increase/(decrease) in provision for impairment of trade debtors (Note 7)	724	(330)
Other	22,322	22,725
<b>Total other operating expenses</b>	<b>342,339</b>	<b>304,120</b>

Fees to the auditors for other assurance services relate to the transition to a new accounting system by the Ministry. There is a \$551,000 fee included in the Schedule of Non-departmental Expenses which was paid to the auditors for assurance services in relation to the delivery of education payroll services to school employees (2015: \$543,000).

**Note 7 – Debtors and Other Receivables**

	2015 Actual \$000	2016 Actual \$000
<i>Non-exchange</i>		
<b>Debtor Crown</b>	<b>345,219</b>	<b>433,431</b>
<i>Exchange</i>		
Trade debtors (net)	3,731	4,469
Accrued revenue and other receivables	4,591	1,981
<b>Total trade debtors and other receivables</b>	<b>8,322</b>	<b>6,450</b>
<b>Total debtors and other receivables</b>	<b>353,541</b>	<b>439,881</b>

Debtor Crown represents cash which has been appropriated but yet to be drawn down from the New Zealand Debt Management Office (NZDMO). The Ministry classifies Debtor Crown as current because it can be realised in cash within three working days.

The carrying value of trade debtors and other receivables approximates their fair value. The Ministry classifies total trade debtors and other receivables as current because it is expected to be realised within 12 months.

As at 30 June all trade debtors have been assessed for impairment and appropriate provisions applied, as detailed below:

	2015			2016		
	Gross \$000	Impairment \$000	Net \$000	Gross \$000	Impairment \$000	Net \$000
Not past due	2,856	-	2,856	982	-	982
Past due 31 - 60 days	81	-	81	1,496	-	1,496
Past due 61 - 90 days	189	-	189	554	-	554
Past due > 91 days	1,244	(639)	605	1,696	(259)	1,437
<b>Total</b>	<b>4,370</b>	<b>(639)</b>	<b>3,731</b>	<b>4,728</b>	<b>(259)</b>	<b>4,469</b>

No other receivables are past due or impaired.

The provision for impairment has been calculated based on a review of specific overdue debtors and a collective assessment based on past collection history and debt write-offs.

Movements in the provision for impairment of trade debtors are as follows:

	2015 Actual \$000	2016 Actual \$000
<b>Balance at 1 July</b>	<b>795</b>	<b>639</b>
Increase/(decrease) in provisions made during the year	724	(330)
Debtors written off during period	(880)	(50)
<b>Balance at 30 June</b>	<b>639</b>	<b>259</b>

## Note 8 – Prepayments

	2015 Actual \$000	2016 Actual \$000
School property capital expenditure programme	22,038	11,220
Operating expenses	9,735	9,483
<b>Total prepayments</b>	<b>31,773</b>	<b>20,703</b>

## Note 9 – Non-Current Assets Held for Sale

A range of school land and buildings has been classified as held for sale following the approval to dispose of these assets, as they will provide no future use to the Ministry.

Non-current assets held for sale comprise:

	2015			2016		
	Land \$000	Buildings \$000	Total \$000	Land \$000	Buildings \$000	Total \$000
<b>Balance at 1 July</b>	<b>69,147</b>	<b>6,797</b>	<b>75,944</b>	<b>28,023</b>	<b>4,340</b>	<b>32,363</b>
Revaluation decrements recognised in other comprehensive revenue	(5,174)	(339)	(5,513)	(2,056)	(848)	(2,904)
Disposals	(26,730)	(3,133)	(29,863)	(15,386)	(1,364)	(16,750)
Transfers from/(to) Property, plant and equipment	(9,220)	1,015	(8,205)	5,123	4,572	9,695
<b>Balance at 30 June</b>	<b>28,023</b>	<b>4,340</b>	<b>32,363</b>	<b>15,704</b>	<b>6,700</b>	<b>22,404</b>

The accumulated revaluation reserve balance associated with non-current assets held for sale at 30 June 2016 is \$19.392 million (2015: \$23.607 million).

An active programme is in place to progress these sales as quickly as possible. Non-current assets held for sale are recognised as current assets as their value is expected, in the majority of instances, to be realised in the 12-month period after balance date. The completion date for these sales is difficult to predict owing to legal and procedural matters.

## Note 10 – Property, Plant and Equipment

The Ministry is responsible for, and has ownership of, a significant portion of the institutional land and buildings in use by primary, intermediate and secondary schools on behalf of the Government. The Ministry does not own the land and buildings of integrated schools and therefore they are not included in the Ministry's financial statements.

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

	Land Valuation \$000	Buildings Valuation \$000	Service Concession Assets Valuation \$000	Office Furniture, Fittings, Equipment and ICT Cost \$000	Motor Vehicles Cost \$000	Total \$000
<b>Cost or valuation</b>						
Balance at 1 July 2014	3,068,890	8,322,661	75,429	70,933	12,930	11,550,843
Additions	11,826	617,524	8,179	7,598	-	645,127
Revaluation increase/(decrease)	223,132	(168,756)	7,203	-	-	61,579
Reclassified from/(to) assets held for sale	9,220	(1,015)	-	-	-	8,205
Reclassified to intangible assets	-	-	-	(424)	-	(424)
Disposals	(7,320)	(10,070)	-	(2,465)	(29)	(19,884)
<b>Balance at 30 June 2015</b>	<b>3,305,748</b>	<b>8,760,344</b>	<b>90,811</b>	<b>75,642</b>	<b>12,901</b>	<b>12,245,446</b>
Additions	41,462	590,482	99,219	24,239	409	755,811
Revaluation increase/(decrease)	1,330,973	364,178	-	-	-	1,695,151
Reclassified from/(to)/assets held for sale	(5,123)	(4,572)	-	-	-	(9,695)
Reclassification of land to service concession (PPP2)	(23,158)	-	23,158	-	-	-
Disposals	(4,900)	(9,297)	-	(29,718)	(124)	(44,039)
<b>Balance at 30 June 2016</b>	<b>4,645,002</b>	<b>9,701,135</b>	<b>213,188</b>	<b>70,163</b>	<b>13,186</b>	<b>14,642,674</b>
<b>Accumulated depreciation and impairment losses</b>						
Balance at 1 July 2014	-	1,409	-	58,651	5,507	65,567
Depreciation expense	-	461,532	3,214	6,115	1,481	472,342
Reclassified to intangible assets	-	-	-	(8)	-	(8)
Eliminate on disposal	-	(198)	-	(2,445)	(19)	(2,662)
Eliminate on revaluation	-	(461,688)	(3,214)	-	-	(464,902)
<b>Balance at 30 June 2015</b>	<b>-</b>	<b>1,055</b>	<b>-</b>	<b>62,313</b>	<b>6,969</b>	<b>70,337</b>
Depreciation expense	-	487,450	2,989	5,912	844	497,195
Reclassified to intangible assets	-	-	-	(9)	-	(9)
Eliminate on disposal	-	(175)	-	(29,459)	(73)	(29,707)
Eliminate on revaluation	-	(488,330)	-	-	-	(488,330)
<b>Balance at 30 June 2016</b>	<b>-</b>	<b>-</b>	<b>2,989</b>	<b>38,757</b>	<b>7,740</b>	<b>49,486</b>
<b>Carrying amounts</b>						
At 1 July 2014	3,068,890	8,321,252	75,429	12,282	7,423	11,485,276
<b>At 30 June 2015</b>	<b>3,305,748</b>	<b>8,759,289</b>	<b>90,811</b>	<b>13,329</b>	<b>5,932</b>	<b>12,175,109</b>
<b>At 30 June 2016</b>	<b>4,645,002</b>	<b>9,701,135</b>	<b>210,199</b>	<b>31,406</b>	<b>5,446</b>	<b>14,593,188</b>

The total amount of property, plant and equipment in the course of construction is \$492.468 million including \$100.812 million under service concession arrangements (2015: \$541.558 million and \$1.594 million, respectively). Work in progress is included in the figures on the previous page at cost, less impairment, and is not depreciated.

## Service Concession Arrangements

### *PPP Hobsonville*

The Ministry entered into a Public Private Partnership (PPP) agreement with Learning Infrastructure Partners in 2011. Under this agreement, the contractor undertook to:

- finance, design and construct a primary and a secondary school at Hobsonville Point; and
- provide the operational services, which comprise building maintenance, landscaping, cleaning and other types of services.

Under the agreement, the Ministry provided two existing land parcels to the contractor to use for the construction of the schools valued at \$6.860 million (2015: \$6.860 million).

The Hobsonville Point Primary School opened in January 2013 and the Hobsonville Point Secondary School opened in February 2014.

The agreement runs for a period of 25 years, after which responsibility for ongoing maintenance will revert to the Ministry along with ownership of the schools.

The boards of trustees remain at all times responsible for the delivery of education to students.

Under this agreement the Ministry pays a unitary charge to the contractor from the point at which the schools become operational. This charge covers and is allocated between:

- construction of the schools – these costs are not repriced
- finance costs – finance costs are repriced every 5 years and the amount the Ministry pays to the contractor is adjusted
- service costs – these costs cover routine repairs and maintenance required to keep the school running and in good condition. A portion of these costs is indexed to the Consumer Price Index and the Labour Cost Index. This portion can be reset at Year 5 and Year 15 of the agreement. Any change in these service costs will result in a change in the amount the Ministry pays to the contractor
- lifecycle additions – this is additional to routine repairs and maintenance carried out during the contract lifetime which is agreed upfront.

### *PPP2*

The Ministry entered into a Public Private Partnership (PPP2) agreement with Future Schools Partners in 2015. Under this agreement, the contractor has undertaken to:

- finance, design and construct four schools in Auckland, Christchurch and Queenstown; and
- provide the operational services, which comprise building maintenance, landscaping, cleaning and other types of services.

Under the agreement, Future Schools Partners constructs the schools on four land parcels owned by the Ministry, valued at \$23.158 million, which have been reclassified as service concession assets. The construction of the four schools is not due to be completed until 2017 and 2018. The value of work in progress as at 30 June 2016 is included in the service concession assets. The agreement runs for 25 years from handover, after which responsibility for ongoing maintenance will revert to the Ministry along with ownership of the schools. Under this agreement, the Ministry pays a unitary charge to the contractor from the point at which the schools become operational. The basis for the unitary charge covering construction, finance costs, service costs and lifecycle additions is similar to the Hobsonville PPP.

## Revaluations

The annual revaluation of school land, ECE land and houses was conducted by Quotable Value Limited, led by Andrew Parkyn (SPINZ, ANZIV). The valuation had an effective date of 30 June 2016. School buildings and improvements are valued internally by experienced Ministry staff, and the internal valuation is reviewed by Quotable Value Limited, also led by Andrew Parkyn.

For the 2016 valuation, a new revaluation methodology was introduced for Site Improvements and consequently the valuation increased by \$384.637 million on equivalent 2015 values.

Also refer to the Critical Accounting Estimates and Assumptions section of Note 1 which discloses information about revaluation methods and assumptions.

	Land \$000	Buildings \$000	Total \$000
Quotable Value Limited	4,645,002	135,957	4,780,959
Internal assessment by experienced Ministry staff	-	9,565,178	9,565,178
<b>Total</b>	<b>4,645,002</b>	<b>9,701,135</b>	<b>14,346,137</b>

The service concession assets are revalued at least triennially using a valuation prepared by an independent valuer. The last valuation was conducted as at 30 June 2015 by Quotable Value Limited. The valuation determined as at 30 June 2015 continues to be deemed fair and reasonable as at 30 June 2016.

There are no restrictions over the title of the Ministry's school land, buildings and chattels, nor are any school land, buildings and chattels pledged as security for liabilities.

In addition to the figures above, there is surplus property valued at \$22.404 million (\$32.363 million for the year ended 30 June 2015) net realisable value, which the Ministry intends to dispose of.

All Crown property has to follow a specific disposal process that can result in delays in achieving a final sale. This does not have a material impact on the expected net proceeds.

The Ministry adopted a three-tier approach to the risk management of property, plant and equipment for the 2015/16 year:

- the first tier concentrated on upgrading fire protection and security systems in order to minimise arson and vandalism losses
- the second tier is a policy of self-insurance, up to \$12.5 million in the aggregate
- the third tier, relating to losses beyond the above annual limits, is covered by an insurance policy placed with the international insurance market, which provides cover for the following:
  - › \$260 million for any one loss
  - › one reinstatement to \$520 million in the aggregate
  - › fire limit of \$60 million for any one loss in the aggregate
  - › the deductible amount for non-catastrophic losses is \$12.5 million in the aggregate
  - › the deductible amount for catastrophic losses is \$25 million each and every loss.

Catastrophe is defined as an earthquake, tsunami, volcanic eruption, hydrothermal activity, flood and cyclone.

## Note 11 – Intangible Assets

Intangible assets consist of developed and acquired computer software

	<b>Total</b>
	<b>\$000</b>
<b>Cost</b>	
Balance at 1 July 2014	124,223
Additions	17,881
Disposals	(562)
Reclassified from property, plant and equipment	424
Write-off of software under development	(303)
<b>Balance at 30 June 2015</b>	<b>141,663</b>
Additions	16,649
Disposals	(18,452)
Write-off of software under development	(139)
<b>Balance at 30 June 2016</b>	<b>139,721</b>
<b>Accumulated amortisation and impairment losses</b>	
Balance at 1 July 2014	78,182
Amortisation expense	9,053
Disposals	(551)
Reclassified from property, plant and equipment	8
<b>Balance at 30 June 2015</b>	<b>86,692</b>
Amortisation expense	13,087
Disposals	(16,893)
Reclassified from property, plant and equipment	9
<b>Balance at 30 June 2016</b>	<b>82,895</b>
<b>Carrying amounts</b>	
At 1 July 2014	46,041
<b>Balance at 30 June 2015</b>	<b>54,971</b>
<b>Balance at 30 June 2016</b>	<b>56,826</b>

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

There are software assets valued at \$68.9 million that are fully amortised but that are still in use (2015: \$68.6 million).

The total amount of software assets in the course of development is \$6.394 million (2015: \$23.786 million). Work in progress is included in the above figures at cost, less impairment, and is not amortised.

**Note 12 – Creditors and Other Payables**

	2015 Actual \$000	2016 Actual \$000
<i>Exchange</i>		
Creditors	16,031	13,978
Accrued expenses	78,670	84,549
<i>Non-exchange</i>		
Taxes payable	16,878	8,754
<b>Total creditors and other payables</b>	<b>111,579</b>	<b>107,281</b>

Creditors and other payables are non-interest bearing and are normally settled within 30 days. Therefore, they are recorded at their face value and classified as current liabilities.

**Note 13 – Return of Operating Surplus to Crown**

	2015 Actual \$000	2016 Actual \$000
Net surplus/(deficit)	34,869	(13,118)
Less non-cash settlement assets from former school payroll provider	(22,400)	-
Add net unrealised loss on derivative financial instruments recognised in the net surplus/(deficit)	-	35,616
Less retained earnings for the school property works programme	-	(14,530)
<b>Total return of operating surplus to Crown</b>	<b>12,469</b>	<b>7,968</b>

The return of operating surplus to the Crown is required to be paid by 31 October of each year.

## Note 14 – Provisions

	2015 Actual \$000	2016 Actual \$000
<b>Current portion</b>		
Restructuring	1,500	687
Reinstatement of leased premises	-	500
<b>Total current portion</b>	<b>1,500</b>	<b>1,187</b>
<b>Non-current portion</b>		
Reinstatement of leased premises	4,936	1,216
<b>Total provisions</b>	<b>6,436</b>	<b>2,403</b>

Movements for each class of provision are as follows:

	Lease Reinstatement \$000	Restructuring \$000
Balance at 1 July 2014	2,449	-
Additional provisions made	2,494	2,009
Amounts used	(7)	(509)
<b>Balance at 30 June 2015</b>	<b>4,936</b>	<b>1,500</b>
Additional provisions made	-	687
Amounts used	-	(1,088)
Unused amounts reversed	(3,220)	(412)
<b>Balance at 30 June 2016</b>	<b>1,716</b>	<b>687</b>

**Note 15 – Employee Entitlements**

	<b>2015</b>	<b>2016</b>
	<b>Actual</b>	<b>Actual</b>
	\$000	\$000
<b>Current portion</b>		
Annual leave	14,308	14,752
Retirement gratuities	1,864	2,055
Long service leave	442	327
Other short-term employee entitlements	327	984
<b>Total current portion</b>	<b>16,941</b>	<b>18,118</b>
<b>Non-current portion</b>		
Retirement gratuities	6,669	7,782
Long service leave	1,536	2,058
<b>Total non-current portion</b>	<b>8,205</b>	<b>9,840</b>
<b>Total employee entitlements</b>	<b>25,146</b>	<b>27,958</b>

The calculations for long service leave and retirement gratuities were determined by an independent actuary, where the main economic assumptions applied were discount rates and the salary inflation factor prescribed by the Treasury and resignation rates. Further information is provided in Note 1 under Critical Accounting Estimates and Assumptions.

The actuary who provided the assessment was Jonathan Eriksen FNZSA FIA FIAA ASA.

If the salary inflation factor were to differ by 1% from the estimate, with all other factors held constant, the carrying amount of the combined liability for long service leave and retirement gratuities and the surplus/deficit would be estimated \$983,000 higher/lower.

If the resignation rates were to differ by 50% from the estimate, with all other factors held constant, the carrying amount of the combined liability for long service leave and retirement gratuities and the surplus/deficit would be estimated \$170,000 higher/lower.

## Note 16 – Service Concession Liability

	2015 Actual \$000	2016 Actual \$000
Balance at 1 July	69,422	75,018
Additions	6,426	97,812
Repayments	(830)	(941)
<b>Balance at 30 June</b>	<b>75,018</b>	<b>171,889</b>
Current portion	905	1,704
Non-current portion	74,113	170,185
<b>Balance at 30 June</b>	<b>75,018</b>	<b>171,889</b>

The Ministry's service concession liability is interest bearing at the effective interest rate of 1.94% per quarter, 7.75% per annum (2015: 1.98%, 7.92%, respectively). The effective interest rate is subject to change at any point of refinancing, which requires the Ministry's consent.

## Note 17 – Taxpayers' Equity

	2015			2016		
	General Funds \$000	Revaluation Reserves \$000	Total Taxpayers' Equity \$000	General Funds \$000	Revaluation Reserves \$000	Total Taxpayers' Equity \$000
<b>Balance at 1 July</b>	<b>4,380,228</b>	<b>7,451,027</b>	<b>11,831,255</b>	<b>4,533,821</b>	<b>7,932,563</b>	<b>12,466,384</b>
Net surplus/(Deficit)	34,869	-	34,869	(13,118)	-	(13,118)
Revaluation gains/(losses)	-	520,968	520,968	-	2,180,577	2,180,577
Transfers on disposal of property	39,432	(39,432)	-	(2,056)	2,056	-
Capital injections	167,454	-	167,454	276,871	-	276,871
Capital withdrawals	(75,693)	-	(75,693)	(68,845)	-	(68,845)
Return of operating surplus to the Crown	(12,469)	-	(12,469)	(7,968)	-	(7,968)
<b>Balance at 30 June</b>	<b>4,533,821</b>	<b>7,932,563</b>	<b>12,466,384</b>	<b>4,718,705</b>	<b>10,115,196</b>	<b>14,833,901</b>
<b>Property revaluation reserves consist of:</b>						
Land		2,789,800			4,109,592	
Buildings		5,131,440			5,994,351	
Service concession assets		11,323			11,253	
<b>Total property revaluation reserves</b>		<b>7,932,563</b>			<b>10,115,196</b>	

## Note 18 – Reconciliation of Net Surplus with Cash Flow from Operating Activities

The following reconciles the net surplus in the *Statement of Comprehensive Revenue and Expenses* with the cash flow from operating activities in the *Statement of Cash Flows* by making adjustments to remove non-cash items (such as depreciation), and remove items classified as investing or financing activities, and also for the effects of changes in working capital (ie, the changes in current assets and liabilities such as debtors and creditors).

	2015 Actual \$000	2016 Actual \$000
<b>Net surplus/(deficit)</b>	<b>34,869</b>	<b>(13,118)</b>
<b>Add/(less) non-cash items</b>		
Depreciation, impairment and write-off on property, plant and equipment	472,342	497,195
Amortisation, impairment and write-off on intangible assets	9,356	13,226
Net loss on derivative financial instruments	-	35,616
(Decrease)/increase in non-current employee entitlements	2,076	1,635
(Decrease)/increase in non-current provisions	(949)	(313)
Negotiated settlement with former school payroll provider	(22,400)	-
<b>Total non-cash items</b>	<b>460,425</b>	<b>547,359</b>
<b>Add/(less) items classified as investing or financing activities</b>		
Net loss/(gain) on sale of property, plant and equipment	(16,752)	(26,989)
Net loss/(gain) on sale of intangible assets	11	1,559
Finance charges on service concession arrangements	5,972	5,630
<b>Total investing or financing activities</b>	<b>(10,769)</b>	<b>(19,800)</b>
<b>Add/(less) movements in working capital items</b>		
(Increase)/decrease in debtors and other receivables	(5,341)	(86,294)
(Increase)/decrease in prepayments	(4,236)	252
(Decrease)/increase in creditors and other payables	5,765	(10,430)
(Decrease)/increase in current employee entitlements	(6,431)	1,177
(Decrease)/increase in current provisions	4,936	(3,720)
<b>Total net movement in working capital items</b>	<b>(5,307)</b>	<b>(99,015)</b>
<b>Net cash flow from operating activities</b>	<b>479,218</b>	<b>415,426</b>

## Note 19 – Financial Instruments

### Categories

The carrying amounts of financial assets and financial liabilities in each of the financial instrument categories are as follows

	2015 Actual \$000	2016 Actual \$000
<b>Loans and receivables</b>		
Cash and cash equivalents	49,275	54,014
Trade debtors and other receivables	8,322	6,450
<b>Total loans and receivables</b>	<b>57,597</b>	<b>60,464</b>
<b>Fair value through surplus and deficit – held for trading</b>		
Derivative financial instrument assets	-	1,184
Derivative financial instrument liabilities	-	36,800
<b>Financial liabilities measured at amortised cost</b>		
Creditors and other payables	111,579	107,281
Service concession liability	75,018	171,889
<b>Total financial liabilities measured at amortised cost</b>	<b>186,597</b>	<b>279,170</b>

The liability for the repayment of surplus to the Crown is not a financial liability as defined by PBE IPSAS 28 (Financial Instruments: Presentation), as the obligation to pay arises from statute. Similarly, Debtor Crown does not meet the definition of a financial asset as the funding entitlement is established by Parliament when it passes the Appropriation Acts for the financial year.

The Ministry's derivative financial instruments relate to the interest rate swaps entered into with the NZDMO. These relate to its service concession arrangements which are interest bearing. At 30 June 2016, the total notional principal amount was \$347.983 million. The maturity dates for the derivatives range from September 2016 to December 2041 and are fixed at rates of 4.43% and 4.33% per annum. The Ministry is paying a fixed rate of interest over a 25-year period and as result of the lower interest rate environment, the present value of these payments has increased. Consequently, derivatives in loss (liabilities) exceed derivatives in gain (assets) by \$35.616 million. This unrealised loss is recognised in the net surplus or deficit in the *Statement of Comprehensive Revenue and Expenses*.

## Fair value hierarchy

For those instruments recognised at fair value in the *Statement of Financial Position*, fair values are determined according to the following hierarchy:

- Quoted market price (level 1) – Financial instruments with quoted prices for identical instruments in active markets.
- Valuation technique using observable inputs (level 2) – Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.
- Valuation techniques with significant non-observable inputs (level 3) – Financial instruments valued using models where one or more significant inputs are not observable.

The following table analyses the basis of the valuation of classes of financial instruments measured at fair value in the *Statement of Financial Position*.

	Valuation technique			Total
	Quoted Market	Observable Onputs	Significant Non-observable Inputs	
	\$000	\$000	\$000	\$000
<b>30 June 2016 (2015: Nil)</b>				
<b>Financial assets</b>				
Interest rate swaps	-	1,184	-	1,184
<b>Financial liabilities</b>				
Interest rate swaps	-	36,800	-	36,800

These derivatives are measured at fair value using a discounted cash flow model, which uses the New Zealand dollar (NZD) swap curve made up of official cash rate (OCR), bank bill rates (BBR), and swap rates.

There were no transfers between the different levels of the fair value hierarchy.

## Risks

The Ministry's activities expose it to a variety of financial instrument risks, including market risk, credit risk and liquidity risk. The Ministry has a series of policies to manage the risks associated with financial instruments and seeks to minimise exposure from financial instruments. These policies do not allow any transactions that are speculative in nature to be entered into.

### Market risk

#### Currency risk

The Ministry engages in few overseas transactions and has no assets or liabilities that are denominated in foreign currency and no outstanding forward exchange contracts, used to manage currency risk, at year end.

#### Interest rate risk

Fair value interest rate risk is the risk that the value of a financial instrument, or the cash flows from a financial instrument, will fluctuate, due to changes in market interest rates.

The Ministry's service concession liability is interest bearing at the effective interest rate of 7.75% per annum (2015: 7.92%). The Ministry has entered into derivative financial instruments in the form of interest rate swaps with the New Zealand Debt Management Office to limit its exposure to fluctuations in interest rates, arising from the re-pricing of interest on the service concession liability.

The Ministry has obtained ministerial approval for borrowing in relation to its service concession arrangements.

## Credit risk

Credit risk is the risk that a third party will default on its obligations to the Ministry, causing the Ministry to incur a loss. The Ministry is exposed to credit risk in relation to its trade debtors and other receivables and bank balances.

The Ministry is permitted to deposit funds only with Westpac (a registered bank with a high credit rating (Standard and Poor's credit rating of AA-). For its other financial instruments, the Ministry does not have significant concentrations of credit risk.

The Ministry's maximum credit exposure for each class of financial instrument is represented by the total carrying amount of cash and cash equivalents and trade debtors and other receivables (refer to Note 7). There is no collateral held as security against these financial instruments, including those instruments that are overdue or impaired.

## Liquidity risk

Liquidity risk is the risk that the Ministry will encounter difficulty raising liquid funds to meet commitments as they fall due.

In meeting our liquidity requirements, the Ministry closely monitors its forecast cash requirements with expected cash draw-downs from the NZDMO. The Ministry maintains a targeted level of available cash to meet liquidity requirements.

## Contractual maturity analysis of financial liabilities

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

	Less than 6 Months	Between 6 Months and 1 Year	Between 1 and 5 years	Over 5 Years	Total
	\$000	\$000	\$000	\$000	\$000
<b>2015</b>					
Creditors and other payables	111,579	-	-	-	111,579
Service concession liability	447	458	4,018	70,095	75,018
<b>Total financial liabilities</b>	<b>112,026</b>	<b>458</b>	<b>4,018</b>	<b>70,095</b>	<b>186,597</b>
<b>2016</b>					
Creditors and other payables	107,281	-	-	-	107,281
Service concession liability	505	1,199	15,474	154,711	171,889
Derivative financial instruments	-	9	669	36,122	36,800
<b>Total financial liabilities</b>	<b>107,786</b>	<b>1,208</b>	<b>16,143</b>	<b>190,833</b>	<b>315,970</b>

## Note 20 – Capital Management

The Ministry's capital is its taxpayers' equity, which comprises general funds and property revaluation reserves. Taxpayers' equity is represented by net assets.

The Ministry manages its revenues, expenses, assets, liabilities and general financial dealings prudently. The Ministry's taxpayers' equity is largely managed as a by-product of managing revenue, expenses, assets, liabilities and compliance with the Government Budget processes, Treasury Instructions and the Public Finance Act 1989.

The objective of managing the Ministry's taxpayers' equity is to ensure the Ministry effectively achieves its goals and objectives for which it has been established, while remaining a going concern.

## Note 21 – Related Party Transactions and Key Management Personnel

### Related party transactions

The Ministry is a wholly owned entity of the Crown. The Government significantly influences the role of the Ministry as well as being its major source of revenue.

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 that the Ministry 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 Ministry has no related party transactions that are required to be disclosed at year end (2015: \$Nil).

### Key management personnel compensation disclosure

	2015 Actual	2016 Actual
Remuneration and other benefits	\$4,242,000	\$4,607,000
Full-time equivalent staff	15	16

Key management personnel compensation includes the remuneration for the senior management team which consists of the Secretary for Education and 15 Deputy Secretaries (2015: 14 Deputy Secretaries). One of the Deputy Secretaries is related to the current Minister of Education.

The above key management personnel compensation disclosure excludes the remuneration and other benefits the Minister of Education and the Minister for Tertiary Education, Skills and Employment receive for their roles as Ministers of the Crown. The Ministers' remuneration and other benefits are set by the Remuneration Authority under the Civil List Act 1979 and are paid under Permanent Legislative Authority, and are not paid by the Ministry.

## Note 22 – Events after the Balance Date

No events have occurred between the balance date and date of signing these financial statements that materially affect the actual results within these financial statements.

## Note 23 – Explanation of Major Variances against Budget

Explanations for major variances from the Ministry's 2015/16 budget figures are as set out below.

### Statement of Comprehensive Revenue and Expenses

The decrease in funding from the 2014/15 actual to Budget is mainly due to one-off other revenue in 2014/15 from gain on sale of school property, settlement with former school payroll provider and school buildings weather-tightness related legal settlements partially offset by a baseline funding increase in 2015/16 funded from Revenue Crown to meet the operating costs of new schools and additional classrooms.

The increase in both Supplementary Estimates and actual operating expenditure from the Budget is mainly due to a combination of:

- baseline funding increase for increased capital charge (\$41.700 million) and depreciation (\$30 million) for revaluation gain on school property portfolio at 30 June 2015
- increased provision for losses on disposal and demolition of school property (\$10.500 million), rationalisation of school property (\$8 million), maintenance of teacher and caretaker housing following a review of the housing portfolio by Land Information New Zealand (\$4 million), and increased rental expenses on school property (\$2 million), all funded from revenues from gains on the sale of surplus property assets in 2015/16 with unallocated revenue contributing to the net operating surplus
- additional legal costs associated with weather-tightness issues in schools funded from revenues from legal claims (\$4.291 million).

These were partially offset by:

- reclassification of funding for the ORS delivered by third-party specialist providers (Fundholder schools) to non-departmental other expense appropriation Special Needs Support (\$42.916 million)
- savings in capital charge expense in 2015/16 resulting from delays to the capital expenditure programme and the consequential delays in drawing down capital injections from Treasury (\$14.852 million decrease), and
- underspend in 2015/16 of \$12.374 million against Supplementary Estimates for which approval has been obtained in-principle for expense transfers to 2016/17 and retention of underspends.

## Statement of Financial Position

The major variances are:

- Debtors and other receivables through Debtor Crown are higher than budget due to capital expenditure being lower than expected. Debtor Crown represents operating funding yet to be drawn down from the NZDMO. The Ministry maintains a healthy cash balance and reduces the level of Debtor Crown as required to meet both its operating and investing activities. The lower level of capital expenditure than forecast also led to the decision to defer draw-down of capital injections from the NZDMO until 2016/17.
- Non-current assets rose principally due to an increase in the value of school properties.
- There was an increase in the amount of unpaid invoices for creditors that had to be accrued. The budget had expected them to be paid by year end.
- The Ministry uses derivative financial instruments, in the form of interest rate swaps, to manage its exposure to fluctuating market interest rates as a result of its Public Private Partnership arrangements. The Ministry is paying a fixed rate of interest over a 25-year period and as result of the lower interest rate environment, the present value of these payments has increased. Consequently, derivatives in loss (liabilities) exceed derivatives in gain (assets) by \$35.616 million. This unrealised loss is recognised in the *Statement of Comprehensive Revenue and Expenses*.
- Service concession liability increase reflects inclusion of the PPP2 arrangement.
- Provision for employee entitlements increase reflects the addition of staff eligible for the entitlements.

## Ministry of Education Non-Departmental Statements and Schedules

for the year ended 30 June 2016

The following non-departmental schedules record the revenue, expenses, assets, liabilities, contingent liabilities and contingent assets that the Ministry manages on behalf of the Crown.

### Schedule of Non-Departmental Revenue for the year ended 30 June 2016

2015 Actual		2016 Actual	2016 Budget (unaudited)
\$000		\$000	\$000
14,736	Tertiary recoveries	5,574	-
3,356	Export education levies	4,370	3,521
2,656	Overseas student fees	2,600	3,757
634	Tertiary investments – interest	510	122
2,695	Miscellaneous revenue	8,210	485
<b>24,077</b>	<b>Total non-departmental revenue</b>	<b>21,264</b>	<b>7,885</b>

### Schedule of Non-Departmental Expenses for the year ended 30 June 2016

2015 Actual		Notes	2016 Actual	2016 Budget (unaudited)
\$000			\$000	\$000
1,805,859	Grant expenditure		1,875,851	1,826,862
124,124	Teachers superannuation contributions		131,986	132,773
33,658	Social assistance benefits		33,853	60,165
-	Loss on sale of property	2	5,500	-
3,554	Debt impairment		6,000	-
543	Fees to auditors for assurance services		551	-
8,446,021	Operating	7	8,768,020	8,712,644
1,520,490	GST input expense		1,596,420	1,597,077
<b>11,934,249</b>	<b>Total non-departmental expenses</b>		<b>12,418,181</b>	<b>12,329,521</b>

The fees to auditors for assurance services relate to the delivery of education payroll services to school employees.

Further details of non-departmental expenditure and appropriations by Vote are provided in the *Appropriations Statements* on pages 129 to 132. The *Appropriation Statements* cover both operating (above) and capital expenditure.

*The above schedules should be read in conjunction with the accompanying notes.*

## Schedule of Non-Departmental Assets as at 30 June 2016

2015 Actual		Notes	2016 Actual	2016 Budget (unaudited)
\$000			\$000	\$000
<b>Current assets</b>				
248,490	Cash and cash equivalents		259,239	144,869
32,814	Debtors and other receivables	3	8,171	8,550
17,698	Prepayments		4,648	4,528
11,000	Property intended for sale	2	-	11,000
(429)	School Contents Risk Management Scheme		2,279	623
<b>Non-current assets</b>				
2,598	Debtors and other receivables	3	1,478	4758
<b>312,171</b>	<b>Total non-departmental assets</b>		<b>275,815</b>	<b>174,328</b>

In addition, the Ministry monitors several Crown entities. These are Careers New Zealand, the New Zealand Qualifications Authority (NZQA), the TEC and ENZ. The investment in those entities is consolidated in the financial statements of the Government. The investment in those entities is not included in this schedule.

## Schedule of Non-Departmental Liabilities as at 30 June 2016

2015 Actual		Notes	2016 Actual	2016 Budget (unaudited)
\$000			\$000	\$000
<b>Current liabilities</b>				
1,008,768	Creditors and other payables	5,7	1,046,673	479,309
150,997	Teacher entitlements		204,371	153,820
<b>1,159,765</b>	<b>Total non-departmental liabilities</b>		<b>1,251,044</b>	<b>633,129</b>

## Schedule of Non-Departmental Commitments as at 30 June 2016

The Ministry, on behalf of the Crown, has no non-cancellable capital or lease commitments (2015: \$Nil).

## Schedule of Non-Departmental Contingent Liabilities as at 30 June 2016

The Ministry, on behalf of the Crown, has no contingent liabilities (2015: \$Nil).

*The above schedules should be read in conjunction with the accompanying notes.*

## Schedule of Non-Departmental Contingent Assets as at 30 June 2016

2015 Actual \$000	2016 Actual \$000
25,258	Suspensory loans – private and integrated schools 19,921
<b>25,258</b>	<b>Total non-departmental contingent assets 19,921</b>

These suspensory loans are generally for 25 years and are progressively written off over that period based on the recipient achieving particular results or milestones.

## Statement of Export Education Levy Funds for the year ended 30 June 2016

The Ministry operates a bank account for Export Education Levy Funds. The transactions through this account and its balance are not included in the Ministry's own financial statements.

Providers that enrol international students are required to pay a levy for the purpose of the development, promotion and quality assurance of the export education sector, including the administration of the Code of Practice for the Pastoral Care of International Students.

2015 Actual \$000	2016 Actual \$000
3,426	Balance at 1 July 4,832
4,409	Contributions 5,019
(2,799)	Distributions (2,466)
84	Revenue 149
(288)	Expenses (423)
<b>4,832</b>	<b>Balance at 30 June 7,111</b>

*The above schedules should be read in conjunction with the accompanying notes.*

## Notes to the Non-Departmental Statements and Schedules

for the year ended 30 June 2016

### Note 1 – Statement of Accounting Policies

#### Reporting entity

These non-departmental schedules present financial information on public funds managed by the Ministry on behalf of the Crown.

These non-departmental balances are consolidated into the financial statements of the Government. For a full understanding of the Crown's financial position, and results of its operations for the year, reference should be made to the financial statements of the Government.

#### Basis of preparation

The non-departmental schedules have been prepared in accordance with the Government's accounting policies as set out in the financial statements of the Government, and in accordance with relevant Treasury Instructions and Treasury Circulars.

Measurement and recognition rules applied in the preparation of these non-departmental schedules are consistent with New Zealand generally accepted accounting practice (Tier 1 Public Sector Public Benefit Entity Accounting Standards) as appropriate for public benefit entities.

The following particular accounting policies have been applied.

#### Revenue

Revenue is derived through levies charged to education institutions offering education services to foreign students, fees paid by foreign students attending New Zealand primary and secondary schools (excluding integrated schools), Interest paid by tertiary education institutions on loans and advances, recoveries of grants and other funding paid to tertiary Crown entities and education providers in previous financial years, and other miscellaneous Crown receipts that are not separately identified. The revenue from levies and recoveries is non-exchange revenue.

#### Grant expenditure

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

Discretionary grants are those grants where the Ministry or entity administering the grant has no obligation to award the grant on receipt of the application and are recognised as expenditure when approved and the approval has been communicated to the applicant. Approvals are determined by the Minister, the board of the administering entity, a specifically convened panel or committee or a delegated official.

## Debtors and other receivables

Debtors and other receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest rate, less any provision for impairment.

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

## Commitments

Commitments are future expenses and liabilities to be incurred on contracts that have been entered into at balance date. Information on non-cancellable capital and lease commitments are reported in the *Schedule of Non-Departmental Commitments*.

Cancellable capital commitments that have penalty or exit costs explicit in the agreement on exercising that option to cancel are reported in the *Schedule of Non-Departmental Commitments* at the lower of the remaining contractual commitment and the values of those penalty or exit costs (ie, the minimum future payments).

## Goods and Services Tax

All items in the non-departmental schedules are stated exclusive of GST, except for debtors and creditors, which are stated on a GST-inclusive basis. GST is returned on revenue received on behalf of the Crown, where applicable. However, an input tax deduction is not claimed on non-departmental expenditure. Instead, the amount of GST applicable to non-departmental expenditure is recognised as a separate expense (in the schedule of expenses) and eliminated against GST revenue on consolidation of the financial statements of the government.

## Budget figures

The 2016 budget figures are for the year ending 30 June 2016, which are consistent with the best estimate financial information submitted to Treasury for the 2015 Budget Economic and Fiscal Update (BEFU) for the year ending 2015/16.

## Note 2 – Property Intended for Sale

The site of the former Central Institute of Technology campus at Heretaunga with a carrying value of \$11 million was sold resulting in the recognition of a \$5.5 million loss on sale.

**Note 3 – Debtors and Other Receivables**

	<b>2015</b>	<b>2016</b>
	<b>Actual</b>	<b>Actual</b>
	\$000	\$000
Debtors	15,145	7,899
Less provision for impairment	(2,213)	(4,612)
Accrued revenue and other receivables	22,480	6,362
<b>Total debtors and other receivables</b>	<b>35,412</b>	<b>9,649</b>
<b>Represented by:</b>		
Current	32,814	8,171
Non-current	2,598	1,478

The carrying value of accrued revenue and other receivables approximates their fair value.

The aging profile of debtors and impairment at year end is detailed below:

	<b>2015</b>			<b>2016</b>		
	<b>Gross</b>	<b>Impairment</b>	<b>Net</b>	<b>Gross</b>	<b>Impairment</b>	<b>Net</b>
	\$000	\$000	\$000	\$000	\$000	\$000
Not past due	1,270	-	1,270	1,376	-	1,376
Past due 1 - 90 days	1,237	-	1,237	1,370	-	1,370
Past due 90 - 180 days	1,311	-	1,311	490	490	-
Past due 180 - 360 days	1,473	-	1,473	953	953	-
Past due > 360 days	9,854	2,213	7,641	3,710	3,169	541
<b>Total</b>	<b>15,145</b>	<b>2,213</b>	<b>12,932</b>	<b>7,899</b>	<b>4,612</b>	<b>3,287</b>

The provision for impairment has been calculated based on a review of specific overdue debtors and an assessment of past collection history and debt write-offs.

Movements in the provision for impairment are as follows:

	<b>2015</b>	<b>2016</b>
	<b>Actual</b>	<b>Actual</b>
	\$000	\$000
Balance at 1 July	2,709	2,213
Increase/(release) of provisions during the year	(496)	5,654
Debts written off during the year	-	(3,255)
<b>Balance at 30 June</b>	<b>2,213</b>	<b>4,612</b>

## Note 4 – School Contents Risk Management Scheme

The Ministry's Risk Management Scheme for Schools (the scheme) provides protection both for school contents (board of trustees property) and for legal liability issues (including public liability). The scheme was set up in the early 1990s in response to the private insurance market deeming some schools to be an unattractive risk, which resulted in a number of schools being uninsurable. Due to the continued high risk level of some schools, the Ministry has chosen to retain the scheme as an alternative option for state and state-integrated schools to the private insurance market.

The cost of membership to the scheme is based on a school's risk management funding allowance in its operations grant. This per student cost per annum is levied according to a school's roll and deductions are made quarterly.

The outstanding claims liability for existing claims was taken as the total claims estimate. The Incurred But Not Reported (IBNR) reserve was \$169,216 (2015: \$167,281) and was calculated as the claim rate (0.68 claims per day) times the average delay (49 days) times the average claims cost (\$5,052).

The valuation was undertaken as at 30 June 2016 applying revised assumptions to the 30 June 2014 model prepared by independent actuary Jonathan Eriksen FNZSA FIA FIAA ASA.

The Ministry acts as insurer for contents insurance in schools, and contracts the services of Crawford & Company New Zealand for loss adjustment of contents claims. Cover is described by a 'Deed' for school contents and the Education (Risk Management Scheme) Regulations 2003 and includes replacement value of contents, refrigerated property, earthquake, subsidence, self-ignition, works of art and money. The excess deductible is \$500 per claim.

Liability insurance is provided by AIG Insurance New Zealand through the scheme's contracted insurance broker, Jardine Lloyd Thompson Ltd, and includes public liability, punitive and exemplary damages, trustees' cover, employers' liability, statutory liability, fidelity guarantee, legal expenses and specific cover for principals and international students.

	2015 Actual \$000	2016 Actual \$000
Opening claims liability	1,676	1,765
Plus premiums received	2,984	(1,053)
(Less) re-insurance premiums paid	(1,248)	(995)
(Less) claims paid	(1,180)	(1,252)
(Less) claims liability adjustment from valuation	(467)	2,877
Insurance surplus/(deficit)	89	(423)
<b>Closing claims liability</b>	<b>1,765</b>	<b>1,342</b>

## Note 5 – Creditors and Other Payables

	2015 Actual \$000	2016 Actual \$000
Creditors	60,995	10,393
Taxes payable (GST and ECST)	56,715	59,168
Accrued expenses	891,058	977,112
<b>Total creditors and other payables</b>	<b>1,008,768</b>	<b>1,046,673</b>

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

## Note 6 – Explanation of Major Variances against Budget

Explanations for major variances from the Ministry's non-departmental budget figures are as follows:

### Vote Education

#### Non-departmental output expenses

**Curriculum Support** was \$2.2 million (3%) under budget. A number of programmes had lower than anticipated costs. These included Science Services in Schools where some work programmes were delayed into 2016/17 and laptops for teachers where small unit price savings were achieved. Smaller savings were also made in a number of other programmes.

**Professional Development & Support** was \$4.8 million (5%) under budget mainly due to delays in several programmes of work, including Māori-Medium Teacher Retention, Principals' Development and Support, Numeracy, and Early Childhood Education Service Performance.

**Secondary-Tertiary Interface** was \$3.2 million (5%) under budget due to lower than expected full time teacher equivalent reporting by schools, resulting in lower funding to schools.

#### Benefits or related expenses

**Boarding Allowances** was \$2.5 million (22%) under budget mainly due to the new boarding allowance structure which was initiated in the 2013/14 financial year. As students who receive grants are a 5-year commitment, a staggered approach to phasing in the Boarding Allowances is being taken. This is resulting in underspends for the first few years of the programme including 2015/16.

**National Study Awards** was \$2.9 million (16%) under budget due to fewer study awards being allocated than originally budgeted.

#### Non-departmental other expenses

**Integrated Schools Property** was \$3.9 million (6%) under budget mainly due to funding being withdrawn for a school.

**Primary Education** was \$16.2 million (1%) under budget mainly due to lower salary rates and/or full time teacher equivalents being lower than originally forecast.

**Support for Early Childhood Education Providers** was \$3.1 million (24%) due to demand being lower than expected. The appropriation largely relates to building improvements, maintenance and enlargements in order to increase the number of places available in early childhood establishments.

### Vote Tertiary Education

#### Non-departmental output expense

**Tertiary Education Grants and Other Funding** was \$2.3 million (7%) under budget mainly due to delays associated with Information Communication and Technology Graduate Schools and Engineering to Employment initiatives.

#### Benefits or related expenses

**Study Abroad Awards** was \$1 million (73%) under budget mainly due to under-subscription of awards.

**Support to Apprentices** was \$2.6 million (99%) under budget mainly due to lower claims from eligible New Zealand Apprentices for the Maori and Pasifika Trades Training tools grant programme.

## Note 7 – Prior Period Adjustment for transition to the new Public Benefit Entity Accounting Standards (PBE IPSAS 23)

The Ministry has adjusted the comparative year non-departmental schedules for the year ended 30 June 2015 due to an adjustment arising from transition to the new PBE accounting standards. The adjustment is shown in the table below:

### *Schedule of Non-Departmental Liabilities*

	As at 1/7/2014 as Previously Reported	Adjustment to Recognise Obligation to TEC	As at 1/7/2014 as Restated	As at 30/6/2015 as Previously Reported	Adjustment to Recognise Obligation to TEC	As at 30/6/2015 as Restated
	\$000	\$000	\$000	\$000	\$000	\$000
Accrued expenses	351,848	500,700	852,548	379,723	511,335	891,058

### *Schedule of Non-Departmental Expenses*

	Year End 30/06/2015 as Previously Reported	Impact of TEC Obligations	Year End 30/06/2015 as Restated
	\$000	\$000	\$000
Operating expenditure	8,435,421	10,600	8,446,021

The adjustment arises from the impact of the application of PBE Standard (PBE IPSAS 23) in relation to operating expenditure incurred by the TEC to fund tertiary institutions in accordance with Investment Plans. In 2016, the TEC has applied PBE Standards appropriately, giving rise to a prior period adjustment for both the TEC and the Ministry as the Ministry has agreed to fund the TEC to the extent to which appropriations are available.

The application of PBE Standards to operating expenditure has resulted in the TEC and the Ministry recognising a liability for their respective obligation to the tertiary sector at the balance sheet date as at 1 July 2014. An additional \$10.600 million of expense has also been incurred in 2014/15.

## Appropriation Statements

for the year ended 30 June 2016

The following statements report information about the expenses and capital expenditure incurred against each appropriation under Vote Education and Vote Tertiary Education administered by the Ministry for the year ended 30 June 2016, in compliance with section 45A of the Public Finance Act.

Total departmental output expenses and appropriations equal total operating expenses in the *Statement of Comprehensive Revenue and Expenses* on page 84. All performance information for these outputs is included in Part 2 of this Annual Report.

### Statement of Budgeted and Actual Expenses and Capital Expenditure incurred against Appropriations for the year ended 30 June 2016

#### Annual and permanent appropriations for Vote Education

Expenditure Actual 2015	Appropriation Title	Expenditure Actual 2016	Approved Appropriation <sup>16</sup> 2016	Location of End-of-year Performance Information <sup>17</sup>
\$000		\$000	\$000	
<b>Departmental output expenses</b>				
278,788	Interventions for Target Student Groups	238,800	240,378	1
14,052	Policy Advice	16,681	16,824	1
1,520,580	School Property Portfolio Management	1,621,415	1,624,628	1
-	Services to Other Agencies RDA	1,152	1,217	1
33,743	Stewardship of the Education System	33,282	34,837	1
103,202	Support and Resources for Education Providers	96,910	97,535	1
11,519	Support and Resources for Parents and the Community	10,601	12,136	1
73,733	Support and Resources for Teachers	61,546	64,823	1
<b>2,035,617</b>	<b>Total departmental output expenses</b>	<b>2,080,387</b>	<b>2,092,378</b>	
<b>Departmental capital expenditure</b>				
<b>664,533</b>	Ministry of Education – Capital Expenditure PLA	<b>772,460</b>	<b>761,857</b>	1
<b>Non-departmental output expenses</b>				
-	Contribution to the Education Council of Aotearoa New Zealand	4,636	4,638	2
60,094	Curriculum Support	61,749	63,900	2
3,008	Education Research Initiatives	3,008	3,008	3
98,112	Professional Development and Support	95,645	100,392	2
23,137	Provision of Information and Advisory Services	24,126	24,532	2
6,049	Qualifications Support Structures	6,129	6,129	4
4,774	Quality Assurance	4,774	4,774	4
17,500	School Managed Network Funding	28,677	28,750	5
185,157	School Transport	184,828	184,972	2
26,730	Secondary School Assessments	26,480	26,480	4
59,818	Secondary-Tertiary Interface	66,425	69,615	2
3,419	Service Academies	3,621	3,640	2
5,700	Supporting Parenting	4,503	4,861	2
<b>493,498</b>	<b>Total non-departmental output expenses</b>	<b>514,601</b>	<b>525,691</b>	

<sup>16</sup> These are the appropriations from the Supplementary Estimates, adjusted for any transfers under section 26A of the Public Finance Act.

<sup>17</sup> The key for the numbers in this column is located on page 132.

Expenditure Actual 2015	Appropriation Title	Expenditure Actual 2016	Approved Appropriation <sup>16</sup> 2016	Location of End-of-year Performance Information <sup>17</sup>
\$000		\$000	\$000	
<b>Benefits or related expenses</b>				
8,904	Boarding Allowances	8,799	11,319	3
4,553	Home Schooling Allowances	4,128	5,128	3
14,487	National Study Awards	15,517	18,448	3
1,083	Puawaitanga Scholarships	1,087	1,152	3
3,837	Scholarships for Students to Attend Private Schools	3,822	4,126	3
744	Teacher Trainee Scholarships	449	1,147	3
50	United World Scholarships	50	50	3
<b>33,658</b>	<b>Total benefits or related expenses</b>	<b>33,852</b>	<b>41,370</b>	
<b>Non-departmental other expenses</b>				
1,646,764	Early Childhood Education	1,720,518	1,723,008	2
3,554	Impairment of Debts and Assets and Debt Write-Offs	11,500	11,500	3
63,790	Integrated Schools Property	57,744	61,600	2
64	Interest Subsidy for Schools	69	119	3
178	New Zealand Teachers Council	-	-	
2,846,768	Primary Education	2,963,049	2,979,343	2
1,288	Remission of Fees	1,288	1,288	4
412	School Transport Bus Controllers	264	530	3
4,085	Schooling Improvement	5,168	5,253	2
2,061,746	Secondary Education	2,146,492	2,147,440	2
336,131	Special Needs Support	395,657	397,276	2
14,739	Support for Early Childhood Education Providers	9,903	13,026	2
1,579	UNESCO	1,753	2,083	3
<b>6,981,098</b>	<b>Total non-departmental other expenses</b>	<b>7,313,405</b>	<b>7,342,466</b>	
<b>Non-departmental capital expenditure</b>				
28,400	Education Payroll Ltd Capital	-	-	
1,032	Property Disposal Incentives Scheme	-	-	
348	School Support Project	175	500	2
26,124	Schools Furniture and Equipment	25,711	26,011	2
3,000	The Network for Learning Limited	-	-	
<b>58,904</b>	<b>Total non-departmental capital expenditure</b>	<b>25,886</b>	<b>26,511</b>	
<b>10,267,308</b>	<b>Total annual and permanent appropriations for Vote Education</b>	<b>10,740,591</b>	<b>10,790,273</b>	

### Multi-year appropriation for Vote Education

The Ministry has a multi-year appropriation for non-departmental output expense Teacher-Led Innovation Fund. This appropriation started on 1 July 2015 and expires on 30 June 2020.

Expenditure Actual 2015	Appropriation Title	Expenditure Actual 2016	Approved Appropriation <sup>16</sup> 2016	Location of End-of-year Performance Information <sup>17</sup>
\$000		\$000	\$000	
	<b>Appropriation for non-departmental output expense: Teacher-Led Innovation Fund</b>			
-	Cumulative expenses to 1 July	-	-	
-	Current year expenses	1,915	2,000	2
-	Cumulative expenses to 30 June	1,915	2,000	
-	Remaining appropriation	16,085	16,000	
-	<b>Total appropriation</b>	<b>18,000</b>	<b>18,000</b>	

## Annual and permanent appropriations for Vote Tertiary Education

Expenditure Actual 2015	Appropriation Title	Expenditure Actual 2016	Approved Appropriation <sup>16</sup> 2016	Location of End-of-year Performance Information <sup>17</sup>
\$000		\$000	\$000	
<b>Departmental output expenses</b>				
4,923	Policy Advice	4,800	4,856	1
10,212	Stewardship of the Tertiary System	7,658	7,985	1
<b>15,135</b>	<b>Total departmental output expenses</b>	<b>12,458</b>	<b>12,841</b>	
<b>Non-departmental output expenses</b>				
55,834	Centres of Research Excellence	50,705	50,705	6
68,057	Community Education	75,133	75,133	6
31,122	International Education Programmes	31,638	31,638	7
42,367	Managing the Government's Investment in the Tertiary Education Sector	40,362	40,362	6
2,567	Ownership Monitoring of Tertiary Education Institutions	2,567	2,567	6
287,953	Performance-Based Research Fund	293,750	293,750	6
3,837	Tertiary Education and Training Advice	3,837	3,837	6
23,906	Tertiary Education Grants and Other Funding	28,832	31,083	6
2,005,705	Tertiary Education: Student Achievement Component	2,074,030	2,074,916	6
320,417	Training for Designated Groups	314,233	314,929	6
<b>2,841,765</b>	<b>Total non-departmental output expenses</b>	<b>2,915,087</b>	<b>2,918,920</b>	
<b>Benefits or related expenses</b>				
800	International Student Scholarship Scheme	800	800	3
1,290	Study Abroad Awards	344	1,290	3
20,140	Support to Apprentices	30	2,595	3
11,763	Tertiary Scholarships and Awards	15,016	15,943	3
<b>33,993</b>	<b>Total benefits or related expenses</b>	<b>16,190</b>	<b>20,628</b>	
<b>Non-departmental other expenses</b>				
<b>1,377</b>	Auckland University Starpath Project	-	-	
<b>Non-departmental capital expenditure</b>				
920	Literacy and Numeracy Assessment Tool	825	825	6
7,500	Support for Lincoln University	-	-	
100,000	Support for the University of Canterbury	85,000	85,000	8
9,450	Support for Trades Training	-	-	
<b>117,870</b>	<b>Total non-departmental capital expenditure</b>	<b>85,825</b>	<b>85,825</b>	
<b>3,010,140</b>	<b>Total annual and permanent appropriations for Vote Tertiary Education</b>	<b>3,029,560</b>	<b>3,038,214</b>	

The numbers in the last column represent where end-of-year performance information has been reported for each appropriation administered by the Ministry, as detailed below.

1. The Ministry's Annual Report in Part 2.
2. In the Ministerial Vote Education report in relation to Non-Departmental Appropriations for the year ending 30 June 2016, appended to the Ministry's Annual Report.
3. No reporting due to an exemption obtained under section 15D of the Public Finance Act.
4. The New Zealand Qualifications Authority Annual Report.
5. The Network for Learning Limited Annual Report.
6. The Tertiary Education Commission Annual Report.
7. The Education New Zealand Annual Report.
8. The University of Canterbury Annual Report.

## Statement of Unappropriated Expenditure for the year ended 30 June 2016

There is no unappropriated expenditure for the year ended 30 June 2016.

The Early Childhood Education appropriation was overspent in 2014/15 as disclosed in the 2015 Annual Report. During 2015/16, further expenditure of \$23.391 million was identified as being incurred in the 30 June 2015 period due to the incorrect classification of a GST element within the end of year accrual of Early Childhood Education expenditure. For financial reporting purposes, this has resulted in a reclassification of expenses recorded in the 2014/15 financial year between grant expenditure and GST input expense totalling \$23.391 million, bringing total unappropriated expenditure for Early Childhood Education in 2014/15 to \$39.422 million.

Vote and Appropriation Title	Unappropriated Expenditure Actual 2015 \$000	Unappropriated Expenditure as Restated 2015 \$000	Total Expenditure as Restated 2015 \$000	Unappropriated Expenditure Actual 2016 \$000
<b>Vote Education</b>				
<b>Non-departmental other expense</b>				
Early Childhood Education	16,031	39,422	1,646,764	Nil

The restated unappropriated expenditure for Early Childhood Education in 2014/15 will be included in the Appropriation (Confirmation and Validation) Act for validation in compliance with Section 26C of the Public Finance Act.

## Statement of Departmental Capital Injections for the year ended 30 June 2016

Actual Capital Injections 2015 \$000	Appropriation Title	Actual Capital Injections 2016 \$000	Approved Appropriation <sup>16</sup>
	<b>Vote Education</b>		
167,454	Ministry of Education - Capital Injection	276,871	276,871



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